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'THE POLITICS OF ANGLO-AMERICAN INTERNATIONAL
ECONOMIC RELATIONSHIPS 1941 - 45'

A Thesis Submitted For The Degree of
Doctor of Philosophy in The University of
Durham, 1978, by Alan Peter Dobson,
from the Politics Department.

Alan Peter Dobson

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Signed:

A. P. Dobson

Acknowledgements

I would like to express my gratitude to the S.S.R.C. for financing my studies for two years and also to the Durham Graduate Society who also contributed financially, though more indirectly, to this work.

My intellectual debts are too numerous to do justice to, however, of the people in the Durham Politics Department who have assisted me, I must single out my supervisor Charles Reynolds and thank him for his initial encouragement, his later criticisms and his hard work in wading through the various drafts of this thesis.

Finally, I would like to thank my wife, Beverly, for her patience and help especially with compiling a comprehensive dramatis personae which, though not included in the work, was of great help to me.

A B S T R A C T

The thesis is an attempt to give a detailed historical narrative of a series of negotiations between the U.S. and the U.K. during the period 1941 - 1945. It is an analysis of the political controversies which arose between the two countries over economic issues. There are three main aims to the story. One is to elucidate the reasons for the economic policies pursued by the two countries, the second is the explanation of the modification of such policies and the third is to account for the subtle shifts in bargaining tactics.

The account is divided into six chapters. The first chapter deals with a number of issues in an attempt to indicate some of the difference between the two countries over economic policies. The chapter includes brief descriptions of the introduction, by Britain, of economic controls and her early attempts to finance the war effort, the Atlantic Conference of 1941 and U.S.-U.K. talks on a supplement to the 1938 trade agreement. The second chapter covers the consideration for Lend-Lease talks, and chapters three and four the negotiations to establish the I.M.F. The fifth chapter deals with Anglo-American commercial talks and British attempts to have The Export White Paper of 1941 superseded. The final chapter deals with a wide range of economic talks and culminates in a detailed analysis of the talks which resulted in the U.S.-U.K. Financial Agreement of 1946.

The narrative has been constructed primarily on the basis of diplomatic correspondence, cabinet and departmental papers from the P.R.O. I have also used 'The Foreign Relations of the U.S.', Hansard, the Congressional Record, both U.S. and U.K. government papers, and an extensive range of autobiographies.

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INTRODUCTION

The following is an attempt to give an account of what happened with regard to the politico-economic relations between the U.S. and the U.K. during the period 1941-45. The approach I have adopted was chosen after careful consideration, for other accounts have been written about this period and subject matter, though in a different manner and with somewhat different results. Thus two questions arise: what does this account purport to explain? and what claims to truth does it have?

Before embarking upon this work I had read a number of accounts purporting to explain the politics and the nature of international economic relationships. Many of them left me puzzled and with the nagging feeling that the past events referred to had not been explained, but that a particular type of significance had been placed upon them. This is not the place to go into a detailed epistemological argument concerning the nature of the explanation of past events and how the logic of such an explanation undermines many of the methods currently used. However, my claim that many writers are more concerned with conferring significance rather than explaining or giving an account of something does require some justification before I discuss the substantial part of the account. (1)

(1) For example, compare 'The Politics of War-Allied Diplomacy and The World Crisis of 1943-45', Gabriel Kolko, Weidenfeld and Nicolson, London 1969, with 'Post-war Foreign Policy Preparation 1939-45', Notter, H.A. and associates, Department of State Pub.3580, 1950, and 'Roosevelt and Hopkins - An Intimate History', Sherwood, R.E., Harper Bros., U.S.A., 1948.

It would be inappropriate and it would take too long to illustrate fully the general applications of my claim. Instead I shall try to indicate what I mean by reference to accounts of international economic relations by neo-Marxists.

A neo-Marxist 'explanation' is similar to any other ideological account, and in many respects to the deployment of conceptual schemes, in that the ideologue brings to the corpus of historical "evidence" preconceived notions of significance which are independent of any particular evidence. In this specific case the assumptions are: the primacy of economic forces in human affairs, the need for capitalism to expand, the need to invest excess capital to the detriment of lesser developed or non-capitalist countries, the exploitative nature of such capital and finally, the inevitability of political rivalry leading to violence. Such rivalry occurs between the capitalist powers if one adheres to Lenin's 'Imperialism: The Highest Stage of Capitalism',⁽²⁾ or between the developed and non-developed countries in accordance with more recent neo-Marxist views.

The ideologue is concerned with a notion of truth which consists of asserting atemporal criteria in order to interpret experience and events as significant or irrelevant. Such an evaluation is based not on an historical understanding in terms of evidence of the past, but by the values and assumptions inherent in the ideology to which he adheres. Consequently, only past "evidence" which illustrates and "substantiates" the

(2) International Publishers, N.Y., 1939.

values and notions of significance of the ideology is relevant. There is no reference to criterion which is external to the assumptions of the argument to test its truth. Establishing significance becomes a circular argument; it is no longer in any way dependent upon evidence. In this context truth is not a testable notion. One is required to accept the assumptions of the ideologue as 'true', again without reference to any independent criterion, before one can accept the "truth" of any ideological proposition. This appears to be a dependence on the private language of a closed conceptual system, and, as such, is not conducive to the generation of knowledge.

This notion of the conferment of significance is central to ideological thought. This stems from the belief in the truth of certain assumptions that are made about the development of society and the nature of man. Such assumptions are used in ideological claims to profess a knowledge of an essentialist reality. For example, the Marxist claim that the 'real' causes of war are economic and the 'real' history of man is the history of class warfare. More specifically Gabriel Kolko's claims that economic considerations were the major deciding factors in American war-time decision-making, and his reification of the American nation as a ruthless expansionist capitalist with a will of its own, which even dictated the decisions of policy makers to further such ends, without conscious knowledge of what they were really doing.

For example, Kolko makes the following claims:-

"... the United States did not simply wish to repair the pre-war world economy, but to reconstruct it anew. There was a remarkable unanimity in Washington on this objective, ..."

and:-

"... throughout the war Hull shared the basic responsibility for the formulation of economic peace aims, on which everyone in Washington agreed in principle, and of political objectives, on which there was more dispute and therefore many counter-pressures to Hull's advice." (3)

Such assertions of unanimity and the agreement of everyone in principle are remarkable claims in themselves, but even more remarkable is the fact that Kolko nowhere demonstrates such claims by detailed reference to evidence. A clue to understanding why this is so lies in the second quotation where Kolko makes a distinction between the economic and the political. Political objectives are seen as incidental nuisances which cause minor hiccups in the execution of America's grand economic strategy. 'Politics' has to be relegated to such a secondary position because of the theoretical explanation Kolko has adopted. The U.S. as a capitalist nation has certain needs which are met by government decision makers. They have to act in accordance with the nature of the state. Thus politics in terms of reasons people give for their actions and policies, and conflicts between such stated points of view only have the semblance of reality. For the ideologically initiated it is possible to see through this to the real nature and the real forces at work in America. Thus Kolko can assert the unanimity of aim and the universal agreement in principle of

(3) See Kolko, Op.Cit. pp.245 and 244.

American decision makers to an expansionist and capitalist economic policy. Such an explanation is entailed by the method of explanation he had adopted. His claims are not based on evidence but on an assumption concerning the all-pervading importance and effectiveness of economic forces. A liberal might appeal to other factors but these, in a sense, are irrelevant because they have no place in the chosen code of significance. They do not have a place in the interpretation of events which is imposed by the Marxist ideology.

In brief my main objection to Kolko is that he uses extreme rationalisations. Extreme because he imposes upon the individual actors a sub-conscious rationale for their actions derived from his beliefs concerning the essential nature of the American state, i.e. that it is an aggressively expansionist capitalist state. Such assumptions further subsume causal relationships between the nature of the state and the actions of individual actors within the state. This is an application of the Marxist theory that actions are primarily determined by economic forces. The problem which arises in Kolko's argument is, how does one establish or test the truth of what he says, i.e. that members of the American Government acted, with or without full realisation, in accordance with the essential capitalistic nature of the U.S. State? There is no problem for Kolko because the explanation is causal in nature; by this I mean given that the nature of the U.S. was as Kolko claims it to have been, then there was no other way in which those responsible for policy decisions could have acted. This is a theoretical, atemporal explanation, more concerned with the nature of relationships or certain categories of events, rather than with explaining any particular event.

The "explanation" deals in generalities, with the actions of the actors being explained through rationalisations. There is no appeal to specific evidence of reasoning to discover why people acted the way they did.

Kolko is not really concerned with the specifics of what happened. He is concerned with answering more general questions, for example, why the Americans tried to undermine Britain's monetary and trade position. But the general or high level questions are themselves answered in general terms - witness the use of the rationalisation that American officials acted in accordance with the capitalist nature of American society, whether they were aware of it or not. This, in Kolko's terms, allows one to avoid investigating whatever reasons an individual might claim he has for his actions. The rationalisation renders such reasons vacuous; they are not "real reasons". "Real reasons" have to be in accordance with the nature of the state's economic system. Thus there is nothing independent of Kolko's theoretical argument to which reference might be made to test the truth of his claims. As I suggested above, this is a case of bringing to the corpus of evidence of the past preconceived notions of significance. This exercise is not concerned with what actually happened because the notions of significance render much of this irrelevant. It is concerned to confer or reinforce the significance of the nature of certain past events.

Kolko's work, and similar works which employ conceptual schemes or theories, ground their ideas of interpretive significance not upon what happened in terms of the reasons proffered by actors within time and space dimensions. They base such ideas upon an introspective, intuitive claim to

understand the essential nature of types of political systems or orders of society. This understanding allows a causal explanation to be offered of why things and actions occur as they do. For the actors, irrespective of their understanding of the situation, must act in accordance with certain all-pervasive factors. All-pervasive that is within the bounds of what is deemed to be significant by the theoretical assumptions of the argument. Reasons which do not conform with such assumptions are rendered irrelevant by rationalisations. These conform to the theoretical precepts. Consequently, appeals to evidence of what happened can also be dismissed as irrelevant, unless they illustrate the argument put forward. In short, evidence does not constitute an integral part of the explanation. It may be used to illustrate the explanation put forward, but it in no sense demonstrates it.

The present work does not address itself to the same kind of questions that Kolko has concerned himself with. I am primarily concerned with answering the questions what happened? and how particular states of affairs came about in terms of evidence of reasons people gave for their actions. This explanation is not causal in nature. It is not an attempt to establish necessary and sufficient conditions, to explain why things happened as they did. A reason giving account cannot do this. For example, if a son killed his father and was asked why he did this, he might offer the reasons that his father had unfairly taken money off him, cruelly beat him, etc. However, this could not be regarded as a causal explanation of why he killed his father as we can imagine boys undergoing similar experiences without the outcome being the murder of their fathers.

A Freudian psychologist might offer a different explanation by saying the murder was caused by an extreme Oedipus Complex, a concept which purports to explain a state of mind. Furthermore, as the son suffered from such an extreme case of Oedipus Complex the only possible course of action was the murder of the father by the son. Thus the reasons the boy gives are not "real reasons", his subconscious hatred brought about by the father and son's rivalry for the mother's affection was the "real cause". I am not too concerned here with establishing the appropriateness of such causal explanations, I simply wish to indicate that the why question, when used in this causal manner, is not a question with which I have concerned myself. Answers to the question, why did x act in such a manner? is only answered in terms of adducing evidence of reasons for actions offered by the actors at the time particular actions and events occurred. Though as we shall see in the concluding part of the introduction, when I come to discuss the problem concerning sources of evidence, this has to be modified somewhat.

What I have tried to do is to construct a narrative account in accordance with evidence of the past. There is no claim to an understanding of the essential nature of the relationships between the U.S. and the U.K. In works like Kolko's there appears to be a lacunae in the type of explanation put forward. How can one justify the imposition of a criterion of significance on past events without knowing or addressing oneself to the problem of what happened? As I hope I have shown, this depends on a claim to an essentialist understanding of the past, within which a large part of the corpus of historical evidence becomes irrelevant. Thus authors like Kolko may give the impression

that they have told us what happened, but this strictly speaking is not their primary concern. My primary concern is to tell what happened. I would like to consider briefly the way I have attempted to do this and how it differs from the exercise described above.

I have characterised Kolko's work in terms of essentialism anachronisms and rationalisations within a quasi-Marxist theory. The present account might be characterised as the antithesis of this. The account is non-theoretical and consists of adducing evidence both of reasoning and of events and actions to construct a coherent story of what happened. My concern is with detailed evidence of reasoning in order to present an explanation in these terms. Thus statements made in the account are testable by reference to evidence. In Kolko's work, as I have indicated, it is impossible to test the thesis that American diplomats acted in accordance with certain forces which were present in American society during the war. There is nothing independent of the argument to which reference may be made. The only courses open to one are either to challenge or accept the premises of the argument. In the type of account I have produced one can refer to evidence to test, modify and correct statements.

An example of the ability to test and correct the type of statements I am offering occurs in chapter five. The example concerns the Cairo Conference and the date on which Churchill and Roosevelt discussed Britain's monetary reserve position. On March 9, 1944, Churchill, in a letter to Roosevelt, refers to December 8, 1943, as the date on which he and Roosevelt discussed the reserve problem. Wheeler Bennett has pointed out

that it was impossible for the talks to have taken place on that date as Roosevelt left Cairo on December 7. Wheeler Bennett does not go on to explain what had happened to bring this obvious error about. If we want to know what happened, what avenues are open to us?

If we scrutinise documentary evidence we discover that John Anderson received a letter from Churchill in December 1943, dated December 8, which concerned the talks with F.D.R. on Britain's reserve position. The March 1944 letter to Roosevelt was in fact drafted by Anderson and he simply assumed that as Churchill's account of the talks was dated December 8, that this was also the day on which the talks had taken place. As the letter was written three months after the event Churchill did not notice the inaccurate date and so it was sent off uncorrected. It is fairly obvious that neither an essentialist knowledge of reality nor the deployment of causal notions concerning the force of economic factors could answer such a specific question.

One might argue, and perhaps rightly so, that this appears a trivial example. However, the example may indeed be trivial in substance but not in its implications. It may be pointed out that the evidence presented does not conclusively substantiate my account of what happened. There is a certain degree of speculation; for example, the suggestion that the time lapse between the original talks and the March letter was the reason why Churchill did not notice that December 8 was an inaccurate time reference. Nevertheless, the investigation of particular source materials has introduced Anderson as a necessary factor to take into consideration when trying to discern 'what happened' to bring about the error. This, and evidence of what he did, i.e. drafting the letter, is surely

of crucial significance if we are to present a plausible account of what happened. Furthermore, we may see that the possible criticism of an historian addressing himself to the question 'what' rather than 'why' is not so clear cut. By giving an account of what happened, the question why was there a mistake as to the date of the original talks? becomes redundant. The problem has been resolved by giving an account of what happened. I do not claim that this is always the case by any means, but do want to emphasise the significance of some the general points raised by the example. What happened can be ascertained by reference to the evidence, though 'what happened' may always be part of an incomplete picture which has to be made into a coherent story by resorting to inferences from the evidence. This is not a resort to a methodological sleight of hand. Inferences must be plausible and not made in avoidance of evidence. It is extremely difficult to define a 'plausible inference' and indeed it is perhaps one of those notions that does not lend itself to more precise definition. However, a plausible inference is something which I believe is readily recognisable, for example, the one referred to above concerning Churchill's failure to notice the incorrect time reference. If an inference is not readily recognisable as plausible, then the intellectual rigour of the historical account must be placed in question.

Thus the point of the example is to illustrate how the truth of what happened can be established - how we can formulate statements about past events and substantiate by reference to evidence, and how plausible inferences may be drawn from evidence to help construct a coherent story. This is not a further criticism of the work of Kolko, for this is

not the sort of explanation Kolko is seeking to give. It is in no sense a further challenge to his work, but an illustration that his explanation and my account differ radically.

Thus the account offered is not dependent upon anachronistic rationalisations but is referable to evidence of reasons for actions offered at the time. Consequently, it is particularistic in nature and does not rely on theory nor on generalisations apart from those of a descriptive nature. The accusation that an account of this nature is 'theory laden' and uses 'generalisations' of necessity, is not well founded. The use of terms such as government, Foreign Office, bargaining situation, are simply used in a descriptive sense. They refer to a detailed account of particular situations. 'A bargaining situation' for example, is simply used as a shorthand way of referring to a whole series of events and negotiations which have been described and accounted for previously. The words are used descriptively as we understand them in intelligent everyday conversation. There is no claim that the terms government or institution refer to anything other than what actually goes on within a particular government or institution within time and space.

Thus what I have tried to do is to give a true account of the politico-economic negotiations between the U.S. and the U.K. in terms of evidence which is available to indicate what reasons views and ideas were actually held at the time by the actors involved. As will be seen, this involves a very detailed study of large amounts of documentary evidence. This raises some further problems of a more practical nature with regard to judgements about conflicting evidence and primary and secondary source material. However, I shall say more on this

in the last section of the introduction. For the time being I would like to turn to the substantial nature of the thesis and the problems I have tried to answer.

A major contention of the account is that the international agreements concerned with economic issues, during the war, were primarily determined by political criteria. The imposition of controls entailed the need to choose what type of controls were best. Choices were made concerning the nature of the economic system which was to be developed. Such choices were made on the basis of perceived short or long term self-interest, and as no universally acceptable or neutral economic system existed, the choice of policies inevitably discriminated to a lesser or greater degree between the participants. The nature of such choices, as we shall see, was thus necessarily political. The concern was not simply to establish an international economic system based on 'purely economic criteria', disregarding momentarily the problem of the nature of such criteria. There were obvious political advantages to be gained, dependent upon the nature of any new institution and the manner in which it functioned. Perhaps the clearest example of this occurs in chapters three and four in the sense that the monetary talks produced two different clear cut sets of proposals, the Stabilisation Fund and the Clearing Union.

Such a view of the political nature of the war-time international economic planning is somewhat at variance with ideas put forward by Professor F. Hirsch.⁽⁴⁾

(4) For example, see 'Politicisation of the World Economy and Necessary Conditions for an International Economic Order', Hirsch and M.W.Doyle, Discussion Paper presented at B.I.S.A. annual conference, Warwick University, December 1976.

Hirsch has given a very illuminating analysis and characterisation of post-war developments in international economic relationships. Part of his thesis involves a comparison between the international economic structure, formulated primarily by the U.K. and the U.S. for the post-war world and more recent developments, such as the relaxation of the Bretton Woods' controls over exchange rates and the political implications of oil as a world commodity.⁽⁵⁾ Such comparisons are intended to indicate how political considerations have begun to affect the world economy more in recent years. The claim is based largely on the assertion that there is no longer an internationally accepted super-structure of rules and controls in existence, outside the political system. Now, to part of this thesis I have no objections whatsoever. But I do have reservations about the characterisation, intentional or not, of the post-war superstructure as being in some sense apolitical. I think it is somewhat misleading to conceive of the post-war structure in these terms. It was constructed in accordance with explicitly stated political goals, to establish a free market world economy compatible with American free enterprise. Furthermore, the infrequency of challenges to this structure, during the forties and fifties, does not invalidate the claim that, basically, the working system was political in nature. By this I mean that the post-war economic superstructure did not embody disinterested rules to facilitate the workings of purely economic forces. The structure itself was formulated with the specific economic interests of the U.S. primarily in mind, and

(5) See also 'The Evolution of the International Monetary System 1945-77', Brian Tew, Hutchinson, London 1977.

to a much lesser extent those of Britain. Rules were laid down to control certain types of "harmful behaviour", but such rules did not eliminate political activity to further a country's perceived economic interests within such rules. This is not, of course, to deny that in recent years international economic relations have become more controversial and more overtly political. Though this should be seen as a quantitative rather than a qualitative change.

The main substance of the story then is the politics of the various negotiations between the U.S. and the U.K. on economic issues. The primary emphasis is upon British policy making and how it was affected by interactions with the U.S. It is difficult to characterise the thesis in a brief introduction as it is based on the detailed exposition of complex negotiations and the tracing of subtle shifts in policy. The aim has been to elucidate the political reasons for Britain's international economic position, the character of the I.M.F. and the status of commercial planning at the end of 1945. In doing this an attempt has been made to analyse the substantive conflict of interests between the U.S. and the U.K. over economic issues. By this I mean that I have analysed in detail the evidence of how the negotiators perceived of their respective interests, how these changed with time and in bargaining, and how they attempted to realise their goals. This is intended to add to our understanding of the character of the overall relationship of the U.S. to the U.K. during the war and of the reasons why the post-war economic structure was formulated as it was.

The story is not told strictly in chronological order. After the opening chapters which deal with attempts to agree to a supplement to the 1938 Anglo-U.S. Trade Agreement and early Lend-Lease matters, chapters three and four give an account of the monetary talks up to their formal conclusion at Bretton Woods in 1944. After this, chapter five returns to the earlier part of the war and tells a very complex story relating to commercial policy, Lend-Lease and Britain's reserve position, all with the simultaneous monetary talks in mind. In the final chapter Britain's increasing concern with the need for financial assistance from the U.S. is explained in the light of Britain's rapidly deteriorating political influence and economic power. An attempt is made to bring together the various strands of conflicting interest between the U.S. and the U.K. They are presented in terms of how the negotiators perceived these conflicts and these perceptions are used to explain why American actions and policies were as they were and how they severely undermined the international monetary, trade and commercial standing of the U.K.

To produce such an account I have relied heavily on diplomatic correspondence both British and American, and government documents and publications. In addition to these sources, I have attempted to fill in gaps in the record and to breathe some life into it by the extensive use of diaries and biographical information. Obviously the quality of such sources varies greatly and pose a number of practical problems concerning how the historian uses such information and the types of judgement he has to pass on them. Furthermore, of course, not all of the 344 persons who appear in this historical account have kept their own record of events nor have historians in their turn constructed coherent biographical accounts of

their views and actions. The forty eight auto/biographical works that I have consulted do contribute greatly to the coherence of the work, but, as I suggested above, pose problems of their own, which I shall discuss shortly. However, the 'incompleteness' of the information implied by what I have said above must be conceived of in relative terms. By this I mean that there are in fact certain periods of the past which are so deficient in information that the exercise of constructing a coherent historical account becomes impossible. On the other hand, to put forward 'incompleteness' as a criticism of all historical narratives is not always justifiable. Thus we are not concerned to give an all-encompassing definitive account, but with adducing enough or adequate evidence from which we can construct a plausible coherent account. We recognise a limit beyond which further information is deemed unnecessary for an understanding of the situation and the relationships under study.

The problems of evidence, as suggested above, are indeed very complex. However, as I have stated before, this is not a philosophical thesis, and it would be inappropriate to delve into theoretical discussions concerning the nature and standing of evidence within an historical narrative. What comments I would like to make are more of a practical nature and have to do with the skills of an historian. A major practical precept for all historians must be the construction of a coherent narrative from, certainly in my case, the immense amount of information available. Information, and here is the rub, which is not uniform in nature. Thus, by analogy with a jig-saw puzzle, although there is only one jig-saw picture, which he finally produces, it is made up of pieces from more than one puzzle. He has to treat information from different sources

in different ways to make up his final coherent picture. It is fairly obvious that the information a civil servant might wish to communicate in a departmental memorandum will be more objective than a politician writing his memoirs. First of all most memoirs, unless scrupulously based on comprehensive diaries kept at the time, contain rationalisations of the actions of the person concerned and sometimes fairly obvious attempts to twist the information to justify or construct an apologia for past actions. A number of such points arise in chapter one in the account of the Placentia Bay meeting between Roosevelt and Churchill. However, detailed consideration of this would be rather lengthy. A more succinct example can be drawn from the final chapter.

The case to be considered basically concerns Hugh Dalton's perceptions of the negotiating position of the British vis-a-vis the Americans in Washington in October 1945. The example indicates two possible problems connected with memoirs. One interpretation might simply state that the time lapse between October 1945 and the date Dalton wrote his memoirs (published 1960) caused some confusion in Dalton's mind such that he made a mistake. A mistake we will consider in a moment. This also indicates the more general problem concerning the relative reliability between views and opinions recorded ex post facto and policy statements and views recorded at the time as an integral part of the developing situation. The second view is that it could be suggested Dalton was trying to cover up his own misunderstanding of the negotiation-situation in Washington by laying the blame for confusion on Maynard Keynes.

Basically the problem was this. On October 28, 1945, Dalton wrote to advise Keynes in Washington⁽⁶⁾. In this letter he set out policy alternatives 'A' and 'B'. Part two of alternative 'A' was the request for a \$2B interest free loan to liberalise Sterling Area dollar purchases. Alternative 'B' was the request for a purely commercial loan of \$2½B at 2% interest with no commitments other than repayment. Keynes replied to this, and an accompanying letter of explanation which Dalton had sent, on the same day.⁽⁷⁾ Keynes simply stated that Alternative 'B' was out of the question, among other reasons, because the only mechanisms for such a loan were either a 3c agreement under Lend-Lease legislation, which Britain had not negotiated, or a loan via the Export-Import Bank where interest would initially be 8%. Dalton in his memoirs⁽⁸⁾ confuses part two of Alternative 'A' with Alternative 'B'. Dalton claims that Keynes' criticisms and worries concerning government views in London, were the result of his confusion for there was nothing unreasonable about Alternative 'B', i.e. part 2, of Alternative 'A'. In actual fact, even part 2, of Alternative 'A' was unreasonable enough, but the idea that Britain could evade commitments to American economic policies simply by asking the U.S. government to facilitate a commercial loan really was absurd. Dalton has in effect misrepresented the nature and the grounds of Keynes'

(6) Chancellor of the Exchequer to J.S.M. Washington, Oct. 27, 1945, Baboon 155, UE5024/1094/53.

(7) J.M.K. to Dalton, Oct. 27, 1945, UE5169/1094/53.

(8) See 'High Tide and After - Memoirs 1945-60', Dalton, H. Frederick Muller Ltd., London, 1960, pp.76-78.

criticisms by referring them to the wrong part of 'Baboon 155'. In actual fact, as we shall see in chapter six, Dalton was to revise rapidly his assessment of the situation in Washington. But the questions still remain. Did Dalton simply make a mistake in his memoirs? Or, was he possibly trying to cover up the original mistake he made in misjudging the situation in Washington? Fortunately for us the answers to such questions are not of crucial importance, for we know what happened in October 1945, as opposed to what Dalton subsequently claimed to have happened. What is of importance is to convey the significance a historian must attach to his evidence, how he uses it and presents it as an accurate account of what happened. To do this, as I hope I have illustrated, he must constantly bear in mind the variety of natures which his sources have.

Finally, there are two major themes of controversy which run through the story. The first one is the American attempt to persuade the British to dismantle the Imperial Preference System and to collaborate with the U.S. in establishing a liberalised world trading system. The second main theme of controversy is that of American attempts to undermine the position of sterling and replace it with the dollar as the main medium of international exchange. Obviously this is a great simplification. Such American policies caused violent reactions in Britain and the development of counter policies which could equally be described as major themes of controversy. Furthermore, the nature of this enquiry has led to the development of a number of sub-themes which could not have been envisaged at the beginning of the investigation. For example, the discovery of the depth of the feud between the American

Treasury and State Department, and the poor liaison in general within the U.S. government. In addition to this, information which I have brought to light, necessarily changes certain previous historical interpretations and of course the understanding of certain individual roles during the period 1941-45. (9)

This is not to say that the nature of this work has been determined by a series of serendipities. I have addressed myself to specific problems; at the same time the possibility of serendipity perhaps reinforces the claim that this is not simply an exercise in ideological or pre-determined judgements but is truly investigative in nature, is referable to evidence to tests its veracity and does produce knowledge of the politico-economic relations which existed between the U.S. and the U.K. between 1941 and 1945.

- (9) For example, the narrative indicates that although Churchill avoided the details of economic policies he was certainly not blind to their political implications and acted, usually decisively, accordingly. Compare this with the introductory comments in 'Roosevelt and Churchill - Their Secret Wartime Correspondence', Ed. Lowenstein, Langley and Jonas, Barrie and Jenkins, London 1975; also as regards interpretation compare R.N.Gardner's and my own in Chapter 5, Gardner, R.N. 'Sterling Dollar Diplomacy, Anglo-American Collaboration In The Reconstruction of Multilateral Trade', Oxford, Clarendon Press, 1956.

CHAPTER I

THE EMERGENCE OF PROBLEMS

It is platitudinous to state that the Great War was a world disaster. It would be difficult in this day and age to find many people who do not regard all wars in such a vein. However a new disastrous perspective was introduced to the world by that terrible war. This is not a reference to the unparalleled carnage of those dreadful years but to the debilitating cost of the war and the inappropriate planning and execution of post-war economic policies. By the 1930's the situation was complicated with the development of political extremism and it is difficult to assess whether the move toward national economic autarky was a symptom or a cause of the political climate. One thing that is clear, is that both America and Britain came to regard protectionism and economic nationalism as inimical to their own interests and that of the international system. When war eventually broke out in Europe, the governments of these two countries both placed a high order of significance upon economic causes.

During the Second World War more effort was directed towards planning for the period after the end of hostilities than ever before. There was a common Anglo-American conviction that a prosperous and well ordered world economic system was in their own interests, and a necessary pre-requisite, if the disasters of the inter-war years were to be avoided. Indeed, there was even a general Anglo-American consensus on what the nature of the post-war international economic system should be.

Unfortunately the status of the two countries' economies was to diverge increasingly as the war progressed. So, although the

general goal for the future remained the same, British policies to attain that goal began to deviate from American ones. Even in the early months of the war, the necessities of the situation began to dictate the adoption of certain types of economic policies for the British, which were to prove gravely problematical in the future.

Britain and the U.S. were by no means guiltless in so far as the development of economic nationalism was concerned. The U.S. had introduced protectionist tariff measures in 1922 and in 1930, the latter consisting of the high-duty measures proposed by Hawley and Smoot. Britain, who had been traditionally in favour of laissez-faire, had gradually reintroduced protection from the First World War onwards, mainly on the basis of imperial preference. This policy reached its climax in 1932 with the Ottawa Agreements. However, before the war, both countries attempted to ameliorate the situation. First of all Britain at the World Monetary and Economic Conference in London in 1933. But this was aborted by Roosevelt's peremptory recall of Hull with his telegram of July 3rd. Still, in 1934, Hull's internationalism did have some effect with the initiation of the Reciprocal Trade Agreements Act (R.T.A.A.), which empowered the President to reduce tariffs selectively by bilateral negotiation. Despite the impotence of these two countries to bring about any significant liberalisation of the world economy, this should not be taken as indicative of a lack of real conviction. This certainly was not the case with the U.K., where many people held reservations about preferences and which was only reluctantly pushed, by contingencies beyond its control, to implement a comprehensive system of economic controls. Ironically, some of this pressure came from the U.S., whose aims by 1940, were set

quite rigidly in terms of an open post-war world economy.

In Britain, as early as 1937-38, controversy had arisen over the policies that should be adopted if the international situation deteriorated to a crisis point. Despite estimates of the strain such a crisis would place upon the British economy, the government was reluctant to resort to policies of economic control, which had been advocated by the Bank of England. The Treasury would countenance neither a regulated release of sterling balances, nor a freezing of them. Unfortunately the course of events was soon to cause a reappraisal of the situation. As the international situation continued to deteriorate, confidence in sterling declined. From April 1st to September 30, 1938, £150m of gold was withdrawn, from London. No noticeable amelioration was brought about by the Munich Agreement, and in fact in December £350m of gold had to be transferred, at market price, to the Exchange Equalisation Fund to strengthen the pound. In the face of such developments the realism of the Bank of England was finally acknowledged and the government began to take measures to control the availability of sterling. In July, the Chancellor asked for minimum control measures to be drafted and for prohibitions to be imposed on withdrawals of non-resident held sterling balances. This was the beginning. Soon, the government restricted all withdrawals of sterling from London to alleviate the depreciatory pressures on the pound. Secondly, the government decided to control Sterling Area demands for hard currencies, particularly dollars. (1)

(1) For a detailed account of those measures see:-
'History of the Second World War', U.K. Civil Series,
'Financial Policy', by R.S.Sayers, H.M.S.O. and
Longman Green and Co. 1956. pp. 228-235, 242-251.

Nevertheless, regardless of the controls which had been imposed, Britain's economic position continued to decline seriously. American policies at this stage did little to help. The Johnson Act of April 13, 1934, debarred Britain from negotiating loans or other forms of financial aid from the U.S. as she was technically in default on repayments for loans received during the First World War. The repeal of the U.S. Neutrality Legislation on November 4, 1939, although it benefited Britain's war effort, it was of little help economically. War materials had to be purchased on a dollar cash and carry basis. Furthermore, the U.S. administration was urging Britain to accelerate the sales of her overseas assets as a pre-requisite for any possibility of future aid. Such factors greatly weakened the standing of sterling and by the Spring of 1940 the rate for sterling abroad was 20% below the official price. Unfortunately the Chancellor of the Exchequer, John Simon, was in somewhat of a dilemma. He had, in the early months of 1940, described sterling as, 'good to hold'. Now, he was faced with the facts of sterling's de facto depreciation and had to take drastic measures to stabilise its purchasing power. Simon decided on a policy which would make the use of sterling bilateral by means of payments agreements. Eventually this would reduce the supply of free sterling. (2)

- (2) See Sayers, Op.Cit. p.246, for details of measures see SR and O (1940) No.708 May 12, and No.1732 September 27. Under these provisions special accounts were established into which sterling was paid and was convertible to a degree decided on in the individual agreement. For hard currencies, i.e. U.S. dollars, Swiss francs, Registered Accounts were set up into which all current earnings of sterling were paid and guaranteed convertible into gold by the British Government.

The introduction, by the government, of such measures soon created a comprehensive structure of controls over sterling. The function and character of sterling was no longer primarily determined by free market forces but by political decisions that had been taken in Whitehall. Furthermore such developments were not solely germane to monetary policy. Britain's commercial policy was suffering a similar reorganisation.

As the war progressed the government's view of the economy and how it should function changed. Soon, the paramount concern was the efficient use of materials to maximise war production. Britain's paucity of raw materials meant a massive increase in imports of materials. Such imports, of course, did not provide any returns in the form of re-export revenue or domestic sales. They were a net burden on the balance of payments. This soon led to financial difficulties, to which there were three possible solutions. The first of these was to increase exports, but this was no longer feasible as a total solution because most of Britain's industrial capacity was busy with war production. Secondly, Britain could have imported goods on credit or with borrowed money. However, in her precarious position, countries were demanding forward payments rather than offering loans or credits. America, the only possible major source of financial help, was not yet prepared to give it. So the only really effective course of action was the third and this entailed rigid controls of imports with preference being given to soft currency trading, in an effort to conserve dollars for the purchase of American arms, munitions and machinery. Dollars were of vital importance because the U.S. was the only possible source of armaments of the quantity and quality Britain required.

Faced with the monetary and commercial problems the war had created, Britain began to introduce controls in the commercial field, in September 1939, under the authority of the 'Import, Export and Customs Power Defence Act', 1939'. (3)

Despite such controls the dollar shortage continued to cause acute worry. During September 1939 Oliver Stanley (4) presented a memorandum to the War Cabinet, which proposed the imposition of restrictions, specifically on imports from the U.S. Such proposals covered leaf tobacco, apples, pears, canned fruit and a suggestion that the dollar content of film royalties payable to the U.S. should be reduced by negotiation. Furthermore, salt was rubbed into American wounds by a plan of Stanley's to save dollars and at the same time boost morale in a strategically threatened area. His plan was to buy £870,000 p.a. worth of Balkan tobacco from Turkey and £500,000 p.a. worth from Greece. The money to pay for the Turkish tobacco was available in the form of interest on a twenty year loan that Britain had previously negotiated with Turkey. In actual fact British hopes to divert their tobacco supply sources, partially at least, from the U.S. to the Balkans, were thwarted by subsequent German and Italian action.

- (3) Sept. 3. 1939. Prohibited imports without Board of Trade licence, textiles, apparel, glassware, cars, pottery and non-essential foods.
Oct. 1939. Extended to all types of machinery.
Nov. 1939. Extended to pears and apples.
Jan. 1940. Extended to tobacco, followed by bacon, ham, lard, dried fruits.
March 1940. Extended to bottled fruits.
May 1940, and progressively during year, controls and prohibitions on U.S. cotton and tobacco, etc.

- (4) President Board of Trade, May 28, 1937 - January 5, 1940.

Cordell Hull, (5) was deeply antagonised by these moves, which were contrary to the economic principles he held, and contrary to the economic interests of primary goods' producers in the U.S. The apparent attack on these interests, by British economic war policies, was not weighed in the balance by Americans against Britain's de facto protection of America's Atlantic seaboard from possible attack by Germany. This was something that was to become more prominent after June 22nd 1940. A distinct deterioration occurred in Anglo-American relations, and opinions were voiced in the U.S. that America should unilaterally denounce the Anglo-American Trade Agreement of 1938(6) and official complaints were presented to the British Government. Perhaps rather tactlessly, no replies were made by Britain to American protests, though it is difficult to imagine what could have been said at that stage considering Britain's precarious strategic position which made economic controls, in the Government's view, an absolute necessity. Sir John Simon(7) and R. Cross(8) forcefully expressed the opinion that the maintenance of discrimination against the United States, under the conditions prevailing at that time, was essential. There was in fact a rather unfounded hope that pressures from American agriculture would persuade the government to dispense with its cash and carry policy and introduce a more flexible payments or credit system, which would allow Britain to overcome her foreign exchange dollar problem and enable her to buy more freely in the U.S.

(5) The American Secretary of State, 1933-45.

(6) For details see Cmd. 5882, 1938.

(7) Chancellor of the Exchequer, May 28, 1937 - Oct. 3, 1940.

(8) Minister of Economic Warfare, Sept. 1939 - May 15, 1940.

Only Stanley, in fear of losing the 1938 Trade Agreement, made noises to appease the Americans.

Early in 1940, in the face of mounting American criticism, the British Government did try to reassure the Americans that the economic controls were temporary war expedients. Attempts were made to ameliorate American opinion by pointing to Britain's increased purchases of arms: unfortunately this was not much of a palliative to the tobacco cotton and fruit growers. However, with the fall of France and the threat to Britain's control in the Atlantic, American criticisms subsided somewhat, even if their actions did not reflect an abundance of sympathy for Britain's economic position.

One should not judge American attitudes toward helping Britain with her economic difficulties too harshly however. There was still much residual ill-feeling about America's participation in the First World War and the default on repayments to her by the European powers. Also, until mid-1940, there was no immediate threat to the interests of the U.S. (9)

(9) In terms of divisions the French had 130 against 98 German, of which 36 were untrained and badly organised. The French had more and better armoured, though slower, tanks than the Germans. For details of the composition of the opposing armies see "The History of the Second World War" Liddell Hart, Pan.1973: 'The Fall of France 1940, Causes and Responsibilities', Ed. S.M.Osgood, D.C.Heath and Co. Boston, U.S.A. 1967.

In addition the war broke out at a most inopportune time politically for Roosevelt, as there was an impending presidential election in November 1940. At the outbreak of the war Roosevelt stated:

"I hope the United States will keep out of this war. I believe that it will. And I give you assurances that every effort of your Government will be directed toward that end." (10)

Sherwood in his biography of Hopkins suggests that Roosevelt knew even at that time, that the U.S. would have to enter the war sooner or later, though in 1939 considerations of Congressional and public opinion made it impossible to adopt a more positive policy. And indeed, one can quote a number of facts to substantiate this. What now appears as a fairly minor step taken by the administration, the repeal of the Neutrality Legislation, evoked the following comment from the influential Republican Senator Arthur Vandenberg.

"In the name of "democracy" we have taken the first step, once more, into Europe's "power politics"... What "suckers" our emotions make of us!" (11)

And as late as August 1941 Beaverbrook reported from the U.S. that public opinion was still very much against participation in the war. This was further reflected that same month by the passage of the Selective Service Act through Congress with the narrow margin of one vote. Henry Stimson in his diary suggests that stronger political leadership by Roosevelt could have increased America's participation in the war effort against Germany, however, this, of course, remains a matter for speculation.

(10) Quoted from 'Lord Lothian' (Philip Kerr, 1882-1940), by J.R.M. Butler, London Macmillan and Co. Ltd., St. Martins Press, 1960, p.269.

(11) Vandenberg, A.H. Jr., and J.A. Morris, 'The Private Papers of Senator A.H. Vandenberg, Houghton Mifflin Co., Boston, 1952, p.3. Oct. 27. 1939.

What is certain, is that the U.S. did not evince an over-generous attitude toward the U.K. in the supply of materials. It was only after a full year of hostilities that the U.S. conceded anything other than normal commercial relations to the U.K. for the supply of armaments.

On April 23, 1940, the British Ambassador in Washington, Lord Lothian, wrote to V.H. Finney that the Americans were beginning to awaken to the problems that might arise in the Atlantic as a result of a British defeat. On April 9th the Germans had invaded Denmark and Norway. On May 14th the Dutch suffered a similar fate and surrendered. Hitler was now poised to strike at France and Britain. On May 15th Churchill cabled Roosevelt that the U.K. would pay cash and carry dollars for as long as she could, but he hoped, that in the case of a dollarless Britain, U.S. supplies of war materials would continue anyway. Churchill pleaded for immediate assistance, in particular for destroyers to safeguard the sea-lanes. On May 16, Roosevelt replied sympathetically, but stated quite clearly that the transfer of destroyers to the U.K. now under consideration, would require Congressional authorisation. Nevertheless, the fate of Britain, and particularly of her fleet, caused increasing concern for the Americans during the month of May.

On May 14th Churchill encouraged U.S. Ambassador Kennedy to consider the possibility that if the destroyers were transferred to the U.K. they would still be available to defend the U.S. even in the event of a British collapse. Both Lothian and Churchill wanted to use this possibility as a bargaining counter for the immediate transfer of the destroyers. At the same time they did not want the fact that even the possibility of defeat was being considered officially, for obvious morale reasons.

Kennedy communicated Churchill's suggestions to Roosevelt, with whom Lothian took up the matter to the extent of proposing a transfer of the British Fleet to the U.S., if she would become a co-belligerent. Roosevelt answered non-committally, that such would be a matter for Congress to decide. On May 9, Churchill pointedly stated in a letter to the President that, although the present government would never surrender, there could conceivably be a general collapse in which a puppet government might use the fleet as its only remaining bargaining counter to obtain reasonable surrender conditions. Churchill was exasperated by the dilatory actions of the U.S. government. In July British and allied shipping losses were approaching the 400,000 gross tons mark. On the 31st Churchill in desperation told Roosevelt that the whole war could hinge upon whether the U.S. transferred the destroyers to the U.K. or not. (12)

In fact, already in June, some favourable developments for Britain had occurred in the U.S. Admiral Gormley and Generals Strong and Emmons began informal staff talks with their British counterparts, though Roosevelt turned down Hull's proposal that the talks should be placed on a formal footing. On June 12, Lothian wrote to Lady Astor that a staggering change had occurred in the U.S. during the previous fortnight and that the Americans were now helping the allies with everything short of war. (13) This was an exaggeration, but there had been an undoubted shift in the administration's attitudes. This was partly reflected in the appointments of Knox and Stimson as

(12) For details of above see 'Their Finest Hour', W.S.Churchill, Cassell, p.639 and J.R.M.Butler, Op.Cit.

(13) See J.R.M.Butler, Op.Cit.

Secretaries of Navy and War respectively. Both favoured an interventionist foreign policy. On August 1, Lothian took the opportunity of a meeting with them, to press the case for the transfer of destroyers to the U.K. and met with a favourable response. Harold Ickes, Secretary of the Interior and Henry Morgenthau, Treasury Secretary, were also by this time in favour of a destroyers deal. Consequently on August 2, the U.S. Cabinet agreed in principle to the transfer of the destroyers, but also acknowledged that Congress might prove recalcitrant and would not only require a quid pro quo but one that could be clearly seen as such. Thus it was later suggested to Lothian that an assurance regarding the fate of the British Fleet might prove a satisfactory quid pro quo. This latter point was emphasised by Sumner Welles, Hull's deputy in the Department of State. Although Welles was held in high regard by Eden, ⁽¹⁴⁾ the Foreign Office had developed certain reservations about him, largely because they believed he had been somewhat over-influenced by Hitler and Mussolini during his February 1940 peace mission. ⁽¹⁵⁾ In view of this, the significance of a quid pro quo was downgraded by the British. In any case they were reluctant to make any commitment concerning the navy, which might indicate any possibility of defeat. Instead the British Government resurrected the idea of bases for the U.S. which had been previously discussed.

(14) See Eden, 'The Reckoning' Cassell, 1965, p.41.

(15) See 'British Foreign Policy During the Second World War', Sir Llewellyn Woodward H.M.S.O. London, 1962, p.41.

The main question now, as far as the U.S. was concerned, was the nature of the bargain that was to be concluded. Here Britain found a good friend in the form of Dean Acheson. On August 11th, Acheson along with B.V.Cohen, T.D.Thatcher - formerly a New York district judge and Solicitor General in the Hoover Administration - and George Rublee, drew up a document of legal considerations, which indicated that Roosevelt had the authority to transfer the destroyers to the U.K., providing the Chief of Naval Operations stated that they were not necessary for the defence of the U.S. The incumbent Attorney General R.H.Jackson received the document favourably and it appeared that only Roosevelt remained to be convinced. Once again Acheson set to work and brought favourable opinions to bear circuitously via, Lothian, Lord Athlone Governor General of Canada and the Canadian P.M., McKenzie King. (16)

Finally, Roosevelt agreed and Lothian discussed the terms of the agreement with Admiral Stark and Knox on August 27 and again with Hull on the 29th. On September 2, the final agreement was signed. The U.S. received 99 year leases on bases in Newfoundland, the West Indies and British Guiana and Britain in return received fifty obsolete destroyers and a small miscellany of other war materials. Churchill presented the agreement to Parliament on September 5, as two parallel transactions. While in the U.S. the agreement was presented as a single whole quid pro quo business agreement. Furthermore, there was an additional statement that in the unlikely event of a British defeat the fleet would be neither scuttled nor surrendered but

(16) See 'Morning and Noon', Dean Acheson, pub. Houghton Mifflin, pp 222-224.

sent overseas. The final comment on the agreement is left to Churchill.

"There was of course no comparison between the intrinsic value of these antiquated and inefficient craft and the immense permanent strategic security offered the United States by the enjoyment of the island bases" (17)

The deal was indeed a significant omen. It was characteristic of an ethos which permeated the American Administration. It is true that neither side hesitated in using diplomacy to further economic interests, but the U.S. certainly did this more overtly and more ruthlessly. Much was later to be made by the U.S. of their determination that the interests of the U.S. and not altruistic principles were to determine American policy. However, the implication that they ever did was slightly ridiculous. Unfortunately the ruthless pursuit by the U.S. of their own economic interests at the expense of Britain's was not immediately perceived by the British even after the destroyers' deal. It was to be some months before the British realised that they were to be given no quarter by the Americans regarding economic and financial considerations.

The Americans, by August 1940, were concerned by the collapse of France and the danger to the British Fleet. Many Americans, and certainly the administration, would have regarded with distaste and apprehension a Nazi victory. There was now a more positive willingness to help: but only at the going rate, and that required businesslike negotiations. In this case, the purchase of strategic bases with old destroyers at an inflated price. A hard bargain, and in some people's views, it was hardly

(17) Churchill, Op.Cit. p.357.

playing the diplomatic game. It was difficult, if not impossible, to establish a common evaluative denominator for an exchange of destroyers for strategic bases.⁽¹⁸⁾ It was thought by some, that diplomacy should not cross subject area boundaries, one country gaining economically from strategic considerations for example. Unfortunately for Britain, she was no longer able to dictate the rules of the diplomatic game. It was now someone else's turn to attempt to organise an international system, and the style and content of diplomacy that would accompany it.

The need to exchange bases for destroyers was of course a symptom of Britain's financial problems. Thus in July 1940, Sir Fredrick Phillips of the British Treasury journeyed to the U.S. with the intention of persuading the Americans to alleviate Britain's financial problems in some way. Unfortunately, so soon after Dunkirk, May 29 - June 3, the Americans regarded Britain as a sinking ship and were naturally reluctant to put money into her. Roosevelt and his administration made it clear to Phillips that it would not be easy for him to obtain financial assistance. Furthermore, they repeated their previous position that Britain would have to strip herself of all dollars, gold and marketable overseas assets, before the American Government could make any formal moves to help. Nevertheless, Phillips optimistically continued to put out feelers for aid, and despite the absence of any U.S. commitment to providing Britain with aid, she continued to forward contract in the U.S., on the assumption, that America would provide such aid. In July, there still appeared to be no immediate liquidity problem. It had been

(18) See 'Economic Planning for the Peace'
Penrose, E.F., Princeton U.P., New Jersey,
U.S., 1953, Ch.I.

estimated that Britain could maintain her cash and carry programme well into 1941. However, in August, re-assessments drastically altered the picture. The goal of 3,000 planes a month, set by the government, was costing Britain dearly and since the Spring of 1940 the Americans, understandably, had been insisting on more advance payments. The resultant strain on Britain's reserves and the threat to sterling was in turn endangering Dominion and Empire sources of supply, previously obtained because of a willingness, on their part, to accumulate sterling balances. Such a willingness was now being undermined. The position was indeed dire. In August the U.S. Cabinet refused to give loans to Britain on the grounds that

a) they could not be sufficient because of Congressional opposition, and

b) allied war debts might impair the peace settlements. (19)

There were in fact political considerations involved here as well.

Apart from the impending presidential election and the effects adverse publicity might have upon it, occasioned by proposals for loans to Britain, the administration was reluctant to act precipitously as this might endanger her bargaining position.

In July, Morgenthau had suggested to Phillips that Britain should sell all her foreign assets, and just prior to the November elections Lothian again reported to the British Government that they would be expected to sell all their South American assets and those they held in the United States.

In fact the liquidation of Britain's overseas assets was well under-way, despite their depressed market value. Between August 1940 and March 1941, Britain sold approximately £70m worth of assets. And yet, as time passed, American attitudes

(19) See Notter, Op.Cit. pp.37-38.

appeared to become more and more demanding. During Phillips' visit to the U.S. in November, the Americans suggested further sales and that Britain should commandeer allied gold and dollar reserves. Despite these harsh demands the re-election of Roosevelt on November 5, was the signal for a renewed effort to help Britain. Meanwhile, at the Board of Trade in England, Oliver Lyttelton⁽²⁰⁾ was suggesting non-economic concessions to the U.S. and/or a loan repayable in goods over a period of five years. But the Treasury was already deeply concerned about the postwar balance of payments position and the adverse effects unrequited exports would have on this. On December 7, Churchill wrote to Roosevelt spelling out Britain's supply difficulties and the strategic implications involved if they were not met. The extremity of the situation may be inferred from the following record of the letter made by Cordell Hull.

"... he (i.e. W.S.C.) gave an intimation of future union of Northern Ireland and Eire (which would have paid off a lot of political interest to Roosevelt) by saying: "I do not doubt that if the Government of Eire would show its solidarity with the democracies of the English-speaking world at this crisis, a Council of Defence of all Ireland could be set up out of which the unity of the island would probably in some form or other emerge after the war"."

(21)

Strange words indeed from His Majesty's First Minister who did not wish to preside over the dissolution of the British Empire.

(20) President, Oct. 3, 1940 - June 29, 1941.

(21) "Memoirs of Cordell Hull", Vol.II, Hodder and Stoughton, London, 1948, p.922.

According to Sherwood⁽²²⁾ the President brooded over Churchill's letter for some days. On December 17th, Roosevelt acted. At a press conference in Washington, he suggested that extensive aid should be made available to the U.K. by abolishing the dollar sign. This was the beginning of what was to become Lend-Lease.⁽²³⁾

While Roosevelt had been slowly working out ideas on how to help Britain, the depletion of her resources relentlessly continued. The shortage of hard currency was now acute. On December 12, Phillips reported that Morgenthau had suggested Britain should take over £200m worth of French gold stored safely in Canada. Britain was reluctant to do so for a number of political reasons and the Canadian Government was in full accordance with this because of the sensitivities of the Quebec French. The matter of Britain's gold and dollar shortages was reported to Roosevelt. The President, rather high-handedly, decided that, without prior consultation with the U.K., he would send the U.S.S. Louisville to South Africa to pick up all the remaining gold there that had been earmarked for the U.K. Churchill was understandably furious, but although this was acknowledged with some sympathy in the U.S., it did not change the course of events that had been set in motion. Britain was notified on January 26, 1941, of the safe arrival in the U.S. of £42m worth of gold. The British felt hard-done-by having the last dregs of their reserves carted off in an American ship on

(22) Op.Cit. p.224.

(23) Lend-Lease was based on a statute of 1882 which empowered the S.S. for War to lease or lend army property for the public good. The Lend-Lease Bill of 1941 was drafted largely in the Treasury by Edward H. Foley, General Counsel and his assistant, Oscar Cox, with background work on British financial problems by a Treasury lawyer, Herman Oliphant.

the basis of a unilateral decision by Roosevelt. On the other hand, Morgenthau, who as far back as July 5, 1940, had received a British memorandum stating the difficulties of further gold or dollar payments, was becoming suspicious of Britain's plaintive cries of poverty when £42m in gold could be summoned up so quickly.

In mid-February the last spectacular American demand before Lend-Lease was presented by Morgenthau in terms of a Presidential ultimatum. Morgenthau demanded the sale of something big a week before he was to appear before the Senate Committee on Lend-Lease Appropriations. This Congressional sweetener turned out to be the sale of the \$120m Viscose Corporation of America, 97% owned by Courthaulds, for one third of its normal value.

The Americans had been true to their word. Britain had been told that she would have to strip herself of marketable assets and reserves before official aid could be obtained from the U.S. It is too early to judge whether this, and future policies of a similar nature, were due to a fear of public and Congressional reaction against a milder policy, or whether it was the deliberate and intentional policy of the administration to bring about changes in British economic and monetary policies by such means. This is certainly a problem which will have to be resolved eventually. Still, in 1941, British officials appear to have been under a misapprehension regarding their personal relations with their American counterparts and the effect of such relations upon the negotiations. Phillips' oft repeated description of Morgenthau's help and sympathy belied the hard bargainer. During the Congressional hearings Morgenthau committed the administration to restrictions on the use of Lend-

Lease which went further than the act itself, and which were more inimical to British interests.⁽²⁴⁾ Feelings among British ministers began to run high, details of which will be considered later. However, as early as December 26, 1940, Beaverbrook expressed his feelings to Churchill in no uncertain terms.

"It would appear that the United States are demanding our South African gold and proposing to carry it away.

That is a decision which I would resist very strongly and seek to destroy with every means in my power. Our financial relations with the Americans have been so loosely handled that it is necessary, now and forthwith to take up a firm policy and to pursue it in the face of obstacles and even to the extent of rupture." (25)

Until November, 1940, the Americans had used the presidential elections as an excuse for the inopportunity of conceding economic help to Britain. After November the administration moved more rapidly, but hardly more palatably, in efforts to provide Britain with the materials she required to continue her war effort. There had undoubtedly been a shift in the administration's outlook during 1940.

- (24) Morgenthau gave assurances regarding the immediate adequacy of U.K. dollar and gold holdings. The Director of the Budget went even further:
1. None of the \$7B was to be used for old U.K. contracts.
 2. Said U.K. assets sufficient to meet (1).
 3. Any British assets in U.S. to be used as security for articles supplied under Lend-Lease.

However, Morgenthau thought this went too far and as the Director was no longer in the Treasury but in the President's Executive Office, he did not regard himself as bound by such statements. In May 1942, after prolonged prevarication, Morgenthau gave the U.K. \$290m credit for pre-Lend-Lease goods.

- (25) 'Beaverbrook' - A.J.P. Taylor, Hamish Hamilton, London, 1972, pp. 439-440.

On December 29, 1940, Roosevelt in his Christmas broadcast said:

"A Nation can have peace with the Nazis only at the price of total surrender....
Such a dictated peace would be no peace at all. It would be only another armistice, leading to the most gigantic armament race and the most devastating trade wars in history" (26)

These were different sentiments indeed from the ones he had expressed at the outbreak of the war. Still, this shift did not mitigate the harshness of America's bargaining with the U.K. The next stages in such bargaining were the negotiation of the Master Lend-Lease Agreement of February 23, 1942, and abortive attempts to supplement the 1938 Anglo-American Trade Agreement. During these negotiations a good deal of the problems, which were to persistently beset Anglo-U.S. relations for the rest of the war, came to light.

With the re-election of Roosevelt on November 5th, 1940, the Americans decided that the political situation now allowed them to take the initiative in attempting to modify some of Britain's objectionable trade practices. During 1940, Britain had tried to finance her war effort by an export drive and at the same time, had tightened controls over imports. Neither of these policies pleased the Americans, and by November 1940, especially as Britain was becoming more and more dependent on the U.S. for supplies, they decided that it was an opportune moment to consider supplements to the 1938 trade agreement. Accordingly, informal proposals were submitted to the British.

In substance the Americans wanted Britain to reduce imperial preference on goods of interest to the U.S. in return for reciprocal reductions of tariffs on goods significant to U.K. purchasers. The reduction of tariffs would be limited to 50%

(26) Sherwood, Op.Cit. p.226.

under R.T.A.A. legislation. In addition to this there was a proposal for a deferred benefit, which would accrue to the Americans at the end of the war. This was to consist of a pledge by Britain to a policy of import de-control at the end of the war. These preparatory talks were carried out in Washington by Stirling from the British Ministry of Economic Warfare and Harry Hawkins, U.S. Under-Secretary of State.⁽²⁷⁾ By May 1941, the negotiations were running into trouble on the issues of import de-control and preferences. On May 9, 1941, the Board of Trade sent two amendments to be incorporated into previous British proposals given to Hawkins. It was hoped that they would clarify the British position for the Americans. The amendments ran as follows:-

" (1)..... but, the United Kingdom Government attaching vital importance, as they must for reasons of national security, to the welfare of the metal-using industries after the war, and regarding the assurance of a substantial market in overseas parts of the Empire essential to that welfare, could not afford to surrender the advantages accorded to their exports of metal goods in Dominion markets.

(2)..... The United Kingdom Government must in candour make it clear that they may be compelled because of scarcity of Exchange to maintain restrictions upon imports of tobacco and other American goods after the war. " (28)

The amendments in fact were in clear opposition to the two main concessions the Americans were demanding. Stirling discussed the proposals with Hawkins who strongly advised against their adoption. He claimed Hull's reactions would be most unfavourable, if they were accepted by Stirling, and intimated further, that Hull's reaction could jeopardise what progress had already been

(27) Hawkins was also head of State Department Division of Commercial Policy and Agreements.

(28) A3435/2354/45 Board of Trade to Stirling, May 9, 1941.

made. Hawkins agreed that Britain should have some provisions to help her cope with post-war monetary difficulties and suggested that it was the Board of Trade's mode of expression rather than the content of the safeguards that was objectionable. (29) Hawkins' opinion here, in view of the beliefs Hull was known to hold, appeared somewhat over-optimistic to the Board of Trade who refused to be moved in substance.

"We do not wish to insist upon proposed additions to Ambassador's letter (A3435/2354/45), but we must be fully assured, before being committed to formal negotiations, that these reservations are accepted in principle by United States Government." (30)

Fears in England, of Hull's post-war intentions, were substantiated on May 18th, when Hull spoke at the inauguration of the National Foreign Trade Week. The speech was widely described by the press as the first authoritative statement of the United States peace aims. They consisted, substantially of the following five principles.

1. extreme nationalism must not be allowed to express itself in excessive trade restrictions,
2. non-discrimination must be the rule not the exception in international commercial relations,
3. new material supplies must be available to all nations without discrimination,
4. international agreements regulating the supply of commodities must protect fully the interests of the consuming countries,

(29) See Stirling to Board of Trade, May 11, 1941, A3495/2354/45.

(30) Board of Trade to Stirling, A3565/235/45.

5. international finance must aid the essential enterprises and development of the recipient countries and permit repayment through processes of trade. (31)

This speech and the problems emerging in Anglo-American economic negotiations caused considerable consternation in Britain. In particular Leopold Amery⁽³²⁾ was moved to write a strong letter to Eden, expressing his fears of Hull's economic doctrines. Amery indicated the dangers of abandoning imperial preference in any agreement with the Americans, especially as the return of a Republican Administration would probably revive and intensify the U.S. high tariff policy. He continued with the allegation that Hull was an anachronism, who could drag Britain into disastrous economic commitments, which would only lead to bitter mutual Anglo-U.S. recriminations.⁽³³⁾ Amery was not alone in his fears, both J.M. Keynes and the Chancellor of the Exchequer, Kingsley-Wood were disturbed by the American line of thinking. Amery's letter was widely circulated in government circles and received a reply from Eden a week later.

"... I confess I am alarmed, not so much by Mr. Hull's conservative ideas about the Most-Favoured-Nation Clause, as by the absence of any indication that the American Administration recognise the infinite harm done to international economic security and stability by what Keynes calls the "unbalanced creditor position of the U.S.A. " (34)

(31) See Halifax to Eden, June 9th, 1941. A4395/3795/45. Halifax commented that general views of State Department were in evidence in this speech.

(32) India and Burma Office, May 13, 1940-45.

(33) Amery to Eden May 30, 1941, W6669/37/49.

(34) Eden to Amery, June 6, 1941, w6669/37/49.

The two basic problematical elements in the trade talks were preferences and import decontrol. There was also a third technical problem which was to bring about a temporary pause in the bilateral U.S.-U.K. talks. The problem consisted of the position of the Dominions vis-a-vis the imperial preference system. At Ottawa from July 21 to August 20, 1932, a series of bilateral preference agreements had been signed by Britain and the members of her Commonwealth and Empire. The American proposals, were in effect, demanding a unilateral abrogation of these agreements by the U.K. This would result in a significant loss of U.K. markets for the Dominions without any provisions for compensation. It was impossible for Britain, in the economic position she was in at that time, to offer compensation, so the only alternative was the negotiation of separate agreements between the U.S. and the Dominions. On May 23, Halifax informed London that Hull was in favour of such talks, which would have to be accomplished before any further progress in the U.S.-U.K. talks could be made. Such a pause was not unwelcomed by the British, and indeed this was not to be the last time that the Dominions were introduced into negotiations by the British on the pretext of their importance but also with the ulterior motive of delaying progress.

As far as Britain was concerned, the proposed new talks were to be for separate Dominion-U.S. trade agreements to compensate for a reduction in the margin of preference on canned and dried fruit, previously given to the Dominions. Hopefully, such agreements would be followed by a U.S.-U.K. one, in which for a reduction of the U.K. tobacco preference for 1942, the U.S. would reduce by the maximum 50%, duties on items of interest in Schedule 4, of the 1938 Agreement and on

certain other articles of interest to Britain. Finally, Britain also wanted the U.S. to acknowledge Britain's freedom to maintain import controls on scheduled items to meet her post-war exchange difficulties. (35)

During the latter part of May and the month of June the trade talks shifted to a lower gear. Nevertheless, by early July it was becoming clear that problems were persisting. Keynes told Hawkins plainly that America might be asking the impossible of Britain if the U.S. maintained its creditor position, an export balance, refused to lend abroad and at the same time insisted that Britain dispense with her defences of bilateral arrangements and economic controls. However, Hawkins refused to be convinced of the necessity of such arrangements even for a temporary post-war transition period. A view that had changed from a few months previously. Furthermore, Hawkins expressed the opinion that Britain's maintenance of such controls would cause a furore among American exporters after the war, which the administration would be unable to countenance. Finally, Hull, he said, would recognise no agreement which even appeared to involve, as a principle, such restrictions. In fact, he was even reluctant to broach the problems, raised by Keynes, with Hull for fear of his unfavourable response. (36)

There is little doubt that by early July both sides were beginning to have doubts about the efficacy of continuing the negotiations. So much so that on July 5, Halifax sent a telegram to the Chancellor and the President of the Board of Trade

(35) See Dominions office to Rhodesia. A4191/235/45.

(36) Stirling to F.O. July 5, 1941, W8681/426/49.

summarising the position and requesting a definite decision. Hull still undoubtedly wanted a revision of the 1938 Agreement and was even prepared to deviate slightly from the M.F.N. principle. He was prepared to reduce tariffs for British counter-concessions. As far as the British were concerned though, a major problem was Hull's ignorance of Britain's economic problems. Problems which might force Britain to adopt policies that were doctrinally abhorrent to Hull. In view of the loss of financial and material assets and the difficulties of re-converting to a peace-time economy neither Keynes nor Phillips could envisage how Britain's balance of payments problems were to be righted without resort to such policies. (37)

Stirling was doubtful if the Americans could be persuaded to accept the inevitability of such policies, despite the goodwill of certain members of the State Department. Nevertheless, he strongly urged that attempts to familiarise the Americans with British problems should continue, even if only to start the 'softening up process on Hull'. This policy of attrition was condoned by Kingsley-Wood and Sir A. Duncan (38), though they emphasised the fact that Britain would not be forced into undertaking commitments by the Americans that she would be unable to fulfil, no matter how unpalatable this might be to Secretary Hull.

Unfortunately Hull was not the only one to appraise the difficulties inaccurately. There appears to have been a reluctance, or an inability, on the British side to see that

(37) Later in the year Keynes was to change his position somewhat, partly influenced by J.E.Meade he saw a more palatable solution in terms of an effective international monetary organisation.

(38) President Board of Trade, May 12 - October 3, 1940.

there was an important and substantial conflict of interests here. Stirling attempted to compromise with the Americans, though with little success. He tried to gain agreement on the basis of three new proposals.

- a) that war-time restrictions would be phased out in accordance with circumstances,
- b) controls would be allowed on exchange grounds,
- c) each party had the right to withdraw from the agreement if it believed the other was abusing its rights under (b).

The plan was not acceptable to the Americans. Stirling, though, still recognised the importance of trying to reach a modus vivendi with them, preferably one which would allow transitional controls.

Halifax was somewhat less realistic. He believed Hull's influence could be circumnavigated and a satisfactory agreement on transitional problems reached, leaving the long term problems for discussion later when things were clearer. The success of the agreement depended, he believed, simply on handling and presentation. Eden, Kingsley-Wood and Duncan were largely in agreement and certainly did not wish to prejudice the future general situation by the present talks. However, Eden based his rather cavalier attitude toward the present talks on an unrealistic interpretation of the 1938 Agreement. On close scrutiny, the agreement which allowed the imposition of economic controls in wartime, did not specify a time limit, after the end of hostilities, by which they were to be removed. This was considered, for a brief time, to be a loophole which could legitimise the post-war maintenance of economic controls.

Fortunately such a view was never pressed on the Americans. (39)

The British would still have favoured a satisfactory agreement if State Department goodwill had made it possible. But, there were growing doubts about the effectiveness of such an agreement on the basis the talks had been held so far. Lend-Lease was beginning to alter the commercial relationships between the two countries and the consideration talks were uncovering economic and commercial questions with wide implications. It was now difficult to separate the trade talks from these wider economic problems and considerations of post-war reconstruction. One possible solution would have been to widen the basis of the talks, but the success of a trade agreement was now seen to be dependent upon the satisfactory resolution of widely differing economic problems. The U.S. wanted Britain to commit herself to principles of economic and monetary laissez-faire in the post-war period. On the other hand, Britain wanted contingency plans for a flexible transition period, with America's blessings. Blessings the U.S. was reluctant to give. The U.S. did not want to be faced with a de facto post-war situation of economic controls, even if they were 'transitional'. For the question then arises: transitional to what? The answer for Britain would be, to conditions under which Britain's trade was in balance and the domestic economy not suffering from deflationary policies. Such conditions would delay the removal of controls inimical to American interests.

(39) See Halifax to F.O. July 4, 1941, W9465/426/49 and F.O. to Halifax, July 16, 1941, W8738/426/49.

By July 25, the trade negotiations were really floundering on the problem of discrimination, as also were the consideration talks which will be looked at shortly. On July 25, Stirling wrote to the Board of Trade and gave a lengthy appreciation of the State Department's interpretation of discrimination. The interpretation if implemented in an agreement would have prevented Britain purchasing soft currency goods at a higher price than similar U.S. goods, despite the fact she might not have any dollars to purchase such goods.⁽⁴⁰⁾ There was little doubt that something would have to be done over this serious problem. The theme reiterated time and again by Stirling was that no progress would be made until British intentions were made clear to the State Department.⁽⁴¹⁾

Such clarification was however required on both sides. On August 20, 1941, the Foreign Office wrote to the British delegation negotiating the Master Lend-Lease Agreement that they were considering American proposals and that meanwhile further discussion would be premature.⁽⁴²⁾ Similar moves were made to arrest the negotiations on a supplementary trade agreement. A few days prior to this Churchill and Roosevelt had met for their first war-time conference and it was the results of this meeting which had a considerable effect on the problem of discrimination. For a while, after the conference, there was a pause, while the full implications were absorbed and analysed.

(40) Stirling to Board of Trade, July 25 1941, W9930/426/49.

(41) See for e.g.s. July 23, Tele. to F.O. W10103/426/49, Halifax to F.O., August 3, W9552/37/49.

(42) F.O. to Washington August 20, 1941, W9552/37/49.

So, before the story of the trade negotiations is taken up again in November, the Atlantic Meeting will be scrutinised and some of the ideas that it generated, considered.

The idea of a meeting between the two leaders had been mooted for some time. Unfortunately when the idea came to a head in December 1940 both countries' embassies lacked ambassadors. Lothian had died suddenly in early December, and Kennedy had been recalled from London, to be replaced later in the New Year by J.G.Winant. The arrangements and some of the initial enthusiasm for the meeting was thus left to Harry Hopkins. (43) There was a need for such a meeting, not only to establish a personal relationship between Roosevelt and Churchill, but also to clarify a number of problems and policies which both countries were coming up against. The meeting acquired even greater importance with the developments in the Summer of 1941.

The invasion of Russia on June 22, placed a whole new perspective on the war. A perspective which was further complicated by developments even further East. On July 15, Admiral Darlan informed Admiral Leahy, American Ambassador to Vichy France, that Japan was to occupy bases in French Indo-China in the immediate future. (44) America and Britain reacted to this by freezing all Japanese assets and embargoing sales of oil and raw materials to that country. Unfortunately, this did not prevent Japanese landings in Indo-China on the following day. In fact, Japan, as far as Churchill was concerned,

(43) See 'Roosevelt and Hopkins - An Intimate History', R.E.Sherwood, Harper Bros. 1948.

(44) 'I Was There', W.D.Leahy, Gollanz, London 1950, p.58. In 1942 Leahy became Chief of Staff to the President.

was the most prominent problem to be dealt with at the Atlantic Conference. His other major concern was with the Atlantic supply route. Here the Americans had already assisted Britain by taking over her occupancy of Iceland and thereby extending her military influence to the mid-Atlantic. Nevertheless, the situation remained extremely grave. With regard to the particular concern of this story, economic policy, there were a number of issues being negotiated on in the Summer of 1941. Not only was trade under discussion but also the consideration for Lend-Lease and, what eventually came to be known as, the September Export White Paper. However, there is some controversy over the initiation of the talks on general economic principles which led to the Atlantic Declaration, and the status originally conferred upon them by the two sides.

According to Sumner Welles,⁽⁴⁵⁾ there had been neither a formal nor an indirect informal exchange of views regarding a joint Anglo-American declaration prior to the Placentia-Bay meeting. He goes on to claim that it was Churchill who took the initiative on the matter at dinner with Roosevelt on August 9. Sherwood in his biography of Hopkins has taken this to mean that it was Churchill who first raised the matter. In fact, this is somewhat doubtful, though it is clear that Churchill took the initiative in terms of having the first draft of the declaration drawn up.⁽⁴⁶⁾ It seems unlikely that Churchill first raised the principles that were eventually embodied in the Atlantic Charter. There is no record of a

(45) 'Where Are We Heading?' New York, Harper Bros. 1946, pp. 5 - 6.

(46) See 'The Grand Alliance', W.S. Churchill, Cassell, London, 'The Second World War' 6 vols. 1948-54, p. 386.

Cabinet discussion of a joint declaration prior to Churchill's departure, nor was the British Government too anxious to press ahead with economic talks by having the difficult notion of discrimination clarified. Churchill, in fact, had to refer the text of the declaration to the Cabinet in London which reinforces the view that Churchill journeyed to Placentia Bay unprepared for such a declaration. Furthermore, Churchill had a dislike of economic issues and also of statements concerning post-war aims. Only a few months earlier he had 'blown up' over a leakage to the press concerning the views of Harold Nicolson on the post-war world.⁽⁴⁷⁾ Finally, Churchill himself allocates responsibility to Roosevelt for the origin of the idea of a joint declaration.⁽⁴⁸⁾ Sherwood would appear to have made a mistake regarding this. For example he refers to Churchill and Hopkins discussing the phraseology of the Atlantic Charter during the voyage to Newfoundland when there was no extant draft in existence.⁽⁴⁹⁾ Unfortunately, Hopkins was indisposed for much of the voyage and so did not keep a written record of his conversations, thus it is impossible to say whether this is a reference to a more general consideration of post-war planning or not. The uncertainty of Sherwood's evidence certainly undermines his claim that Churchill was the first to suggest the principles of the declaration. On balancing the evidence the inference would appear to point to Roosevelt.

(47) February, 1941. At that time Nicolson was in Duff Cooper's Ministry of Information. See 'Diaries and Letters' 1939-45. Ed. N. Nicolson, Collins, London, 1967, pp 143-144.

(48) W.S.C. Op.Cit. p.385.

(49) Sherwood, Op.Cit. p.350.

The allocation of responsibility for the origin of the idea of a joint declaration is significant. It is significant as an indication of the importance placed on economic policies by the American Administration. Hull and the State Department had already made it clear to the British that controls and discrimination directed against the U.S. would have to be dismantled if a modus vivendi was to be possible between the U.S. and the U.K. Hull and Welles saw this top level meeting as an opportunity to press their point of view upon the British leaders. After all, the U.S. was in a very good bargaining position. She was still a non-combatant (neutral would not be an appropriate term at this stage), she had the time and the personnel to consider economic issues and most of all Britain was now very reliant upon the U.S. for her war effort. The leaders of the State Department believed that if they could get a commitment from Britain to principles which would determine the nature of the post-war international economic system, then specific details of the system would be easy to fill in. R.N.Gardner comments on this disposition of Hull's.

"He had a most exaggerated notion of the efficacy of formal statements of general principle. In the weeks before Pearl Harbour, for example, he earnestly tried to get the signature of the Japanese Government to a declaration ... including a commitment to non-discrimination." (50)

Unfortunately, in August, Hull was recovering from ill health so it was the dry rather arrogant Welles that accompanied Roosevelt to Newfoundland to press the State Department's views. What was even more unfortunate for Hull, was that

(50) 'Sterling Dollar Diplomacy' - Anglo-American Collaboration In The Reconstruction Of Multilateral Trade', R.N.Gardner, Oxford Clarendon Press, 1956, p.5.

on this occasion his plans to pressurise Britain to commit herself to non-discrimination and a policy of economic de-control backfired with a vengeance.

The first draft of the declaration was drawn up by Cadogan⁽⁵¹⁾ on the basis of a briefing from Churchill. However, it was the second draft drawn up by Welles and amended slightly by Roosevelt that was to cause controversy. Welles made a number of minor alterations to the British draft. He widened the preamble by inserting 'other dictatorships' so that America's immediate object of concern, Japan, was brought within its reference. He omitted the qualification which stated that the U.S. and the U.K. were:-

"... only concerned to defend the rights of freedom of speech and thought without which such choice (of government) must be illusory." (52)

However, the main and most contentious change was made in point four. The British version had simply pledged equitable domestic and international distribution of essential products. Welles' version altered this very significantly.

"Fourth they will strive to promote mutually advantageous economic relations between them through the elimination of any discrimination in either the United States of America or in the United Kingdom against the importation of any product originating in the other country; and they will endeavour to further the enjoyment by all peoples of access on equal terms to the markets and to the raw materials which are needed for their economic prosperity." (53)

(51) Sir Alexander Cadogan permanent under-secretary of State, January 1938 - February 1946.

(52) 'The Semblance of Peace' by Wheeler Bennet and Nichols, Macmillan, 1972, p.39.

(53) Ibid, p.39.

Roosevelt amended and cut down the length of the Welles' draft before it was formally discussed with Churchill late in the morning of August 11. Perhaps even Roosevelt thought Welles' point four was too barbed, and too obviously directed against the U.K. His re-wording was certainly more diplomatic, though the substance remained the same. It was an attempt to gain a commitment from Britain to reduce and eventually eliminate imperial preference.

"Fourth they will endeavour to further the enjoyment by all peoples of access without discrimination and on equal terms, to the markets and to the raw materials of the world which are needed for their economic prosperity." (54)

The only other significant change Roosevelt made was to strike out the reference to an international security organisation. Welles then incorporated these amendments in the third draft which was then discussed with Churchill.

"The chief difficulties were presented by Points 4 and 7, especially the former.

With regard to this I pointed out that the words "without discrimination" might be held to call in question the Ottawa agreements, and I was in no position to accept them. This text would certainly have to be referred to the Government at home and, if it was desired to maintain the present wording, to the Governments in the Dominions. I should have little hope that it would be accepted. Mr. Sumner Welles indicated that this, was the core of the matter, and that this paragraph embodied the ideal for which the Administration had striven for the past nine years." (55)

Churchill continued to press for amendments. He said that the only likelihood of the War Cabinet ratifying such a draft would be if 'with due respect for their existing obligations' was inserted, if 'without discrimination' was struck out, and 'trade' substituted for 'markets'.

(54) Ibid, p.40.

(55) W10151/426/49, War Cabinet Memo, WP(41)202, on Atlantic Meeting by W.S.Churchill. Dated August 20th, 1940.

Welles argued strongly against these amendments for he knew how much they were contrary to American interests. Richard Gardner⁽⁵⁶⁾ has suggested that Roosevelt's lack of understanding on this led him to believe the phrase 'access to raw materials' would effectively safeguard American interests. Whatever his appreciation actually was he allowed himself to be persuaded to give way to Churchill on this. In fact, Harry Hopkins strongly recommended this course of action. Hopkins may also have misjudged the significance of the economic issues, but for him it was more important that a joint statement should be made simultaneously with the announcement of the meeting than that delays should be incurred. Accordingly, it was agreed that Churchill should dispatch draft three of the proposed declaration with the suggested amendments to the War Cabinet. Still the declaration had certainly not yet been finalised. Indeed, the suggested amendments had not been officially incorporated into the draft, as may be seen from this comment by Churchill.

"The fourth condition would evidently have to be amended to safeguard our obligations contracted in Ottawa and not prejudice the future of Imperial Preference." (57)

This latter point is of some significance particularly with regard to conflicting accounts of the role that Max. Beaverbrook played at the conference. Sherwood⁽⁵⁸⁾ has written that Beaverbrook arrived at Placentia Bay on August 11, and not only participated in the discussions relating to article four, but constituted the main opposition to the American attack on imperial preference. A.J.P. Taylor rightly contradicts this.

(56) Op.Cit.

(57) P.M. to Atlee, Lord Privy Seal, May 11, 1941 - February 19, 1942. W10151/426/49, also quoted in 'The Grand Alliance', W.S.C. p.391.

(58) Op.Cit. pp.360-361.

Beaverbrook in fact did not arrive at the conference until 5 a.m. on the 12th.⁽⁵⁹⁾ Taylor explains this error in terms of Beaverbrook's inflated opinion of himself and the fact that Sherwood consulted closely with him in the writing of his book.⁽⁶⁰⁾ Taylor goes on to add that the draft as amended on the 11th was approved without further discussion on the 12th and thus rules out the possibility that Beaverbrook had any influence on the declaration at all. As we shall see, this is not entirely accurate and in fact there were opportunities for Beaverbrook to express his opinions before the declaration was finalised.

There is no doubt the original amendments referred to above were Churchill's. It was generally known that Churchill was less than enthusiastic about the Ottawa Agreements under normal circumstances. However, the situation in 1941 was hardly normal and a number of considerations made him adopt the stance that he did. His Treasury Department, including Keynes, had been advising caution with regard to any dismantlement of preferences without an accompanying reform of international trade and economic policies. Secondly, a declaration on the lines Welles advocated would have caused delays because of the Dominions. Such delays would have seriously devalued the propaganda advantages Churchill hoped to derive from the meeting. And thirdly, Churchill was determined that the Americans should not press a policy upon him which would have a divisive effect in the Cabinet. Kingsley-Wood, Lord Cranbourne, Beaverbrook and Amery would all have strongly opposed measures that might have undermined the imperial preference system.⁽⁶¹⁾

(59) Morton, A.V., 'Atlantic Meeting', Methuen and Co. London 1943, p.121. Morton was an eye-witness journalist at the conference.

(60) 'Beaverbrook', A.J.P. Taylor, Hamish Hamilton, London 1972, pp 480-481.

(61) Cranbourne, later 5th Marquess of Salisbury, S.S. Dominions Office October 30 - February 19, 1942 and again September 24, 1943-45.

On receiving Churchill's telegram, Attlee called a cabinet meeting in the early hours of August 12, to discuss the proposed draft. The draft, with Churchill's amendments was accepted by the cabinet though they proposed that a new clause should be added.

"Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic advancement and social security." (62)

It is quite clear from the fact that this was incorporated in the final declaration that the impression Taylor gives in 'Beaverbrook' that the draft was finalised on the eleventh, is erroneous. Indeed the Cabinet wanted to go further in securing British Imperial economic interests and this was put to Roosevelt by Churchill on the twelfth, but the objections were so strong that the point was pushed no further. (63) Furthermore, this allows the possibility that Beaverbrook might have tried to influence the content of the declaration either by urging Churchill to press for further safeguards before the final meeting on the twelfth or by urging such safeguards on the Americans himself. In fact Churchill was inclined to believe that the British position was adequately safeguarded by the amendments put forward on the eleventh, and in the end that was the form that point four took.

The other point of difficulty which Churchill mentioned in his memorandum was a reference to an international security organisation which Roosevelt had objected to. At this time

(62) 'A Decade of American Foreign Policy, Basic Documents 1941-49', U.S. Government Printing Office 1950, p.2.

(63) See paper indexed W10151/426/49.

Roosevelt was reluctant to commit himself to an internationalist policy which was equated by many in the U.S. with 'interventionism', a policy which was still very much in the minority. Furthermore, Welles records:-

"He said (i.e. F.D.R.) that he himself would not be in favour of the creation of a new Assembly of the League of Nations, at least until after a period of time had passed and during which an international police force composed of the United States and Great Britain had had an opportunity to function." (64)

This idea of an Anglo-U.S. police force had been mooted previously in July by Roosevelt but had been received very cautiously in Britain. (65) It was to be some months before the preference of the State Department for an international organisation was accepted fully by Roosevelt and became standard U.S. policy. The British view, on the other hand, was influenced by an awareness of the strategic vulnerability of her amorphous far-flung empire and hopes were being directed toward an international organisation as a means to safeguard Britain's imperial interests. (66) On this issue Churchill was again largely successful at Placentia Bay. Roosevelt would not return to the previous wording but he accepted the phrase:-

"... pending the establishment of a wider and more permanent system of general security, ..." (67)

(64) S. Welles, Op.Cit. p.12.

(65) Keynes and Halifax to F.O. July 8, 1941, W8340/37/49.

(66) For details on this see 'The Memoirs of Lord Gladwyn' G. Jebb, Weidenfeld and Nicolson, London 1972, pp.113.

(67) 'U.S. Documents' 1941-49, Op.Cit. p.2.

The Atlantic Meeting was undoubtedly a diplomatic victory for the British, judged on any criterion, but particularly in the light of Anglo-U.S. relations. Churchill's original concern with obtaining an agreement on joint Anglo-U.S. action toward Japan proved abortive. This was a grave disappointment but in other areas the British had much to be pleased about.⁽⁶⁸⁾ The American proposal for a joint declaration had been seized by the horns by the British and resulted in a most satisfactory outcome. The first high-level assault by the Americans on Britain's economic system was effectively side-stepped. The Americans failed to modify Britain's imperial economic system. The U.S. accepted the view that economic principles might have to be modified in the light of existing circumstances. In addition they accepted a national obligation to maintain high employment and social security and committed themselves to some form of participation in a future international security organisation. Finally, their acceptance of equality of treatment for 'victor and vanquished' was to prove important later when the Soviet Union replaced Germany as the threat to Europe in British eyes. In return for all this the Americans had received rather vague and contingent commitments from the U.K. to a policy of open-door trading and non-discrimination. Not a very satisfactory conclusion for the Americans.

In fact the debate which followed in the U.S. soon waxed acrimonious. Hull in particular objected to the declaration,

(68) In fact there is still some controversy over whether Roosevelt pledged help to the U.K. in the event of Japanese aggression or not. Certainly from official documents this would not appear to be the case, see F.R. of U.S. Pub. by State Dept. Vol. I, 1941. However, such an impression was given to Vandenberg by a speech of Churchill's on January 27, 1942, in Parliament, See Vandenberg Op.Cit. p.27. Revisionist historians have also attempted to maintain this argument.

and as we shall see tried to modify it in American interests. The British had perhaps been too successful for their own good. The State Department with whom trade and other economic talks were being carried on were certainly disappointed with the results and were less inclined to compromise on their own interests. The negotiations on economic matters with the U.S. became more and more problematical, and the discussions for Lend-Lease were to lead to very different results. However, before turning to these talks we must first return to the talks for a supplementary trade agreement and see how they progressed.

We may recall that the trade talks had been deliberately slowed down in August. Still with the successful conclusion of the Atlantic Conference the British were optimistic that there might be a less doctrinal approach to economic controls and preferences. This optimism was added to by the successful progress of the American talks with Dominion representatives. On November 6, Halifax wrote that:-

" ... they (i.e. the Dominion representatives) were certain that the State Department now fully realised that the provision for a "transitional" period is inevitable, and that controls and restrictions cannot be dropped immediately the war ends. But they said that the Americans do insist on some general declaration to eliminate these "discriminatory" methods of regulating trade, plus some provision for implementing that intention after the transition period." (69)

The optimism with which this was received was, unfortunately, to be soon qualified. On the following day Halifax's commercial counsellor informed the Board of Trade of a list drawn up by the State Department which contained the possible concessions

(69) Halifax to F.O. received November 6, 1941, W13202/11576/49.

Britain could make to the United States. The document proposed that during the life of the agreement there should be no increases in preferences which would effect the U.S. There was also a tentative but specific list of concessions on agricultural goods which included tobacco, rice, ham, bacon, apricots, prunes, etc.⁽⁷⁰⁾ In addition the Board of Trade was told that the American Trade Agreements Committee were still considering 'a small number of industrial products' for which preference reductions might be requested. Such requests, if made, would be communicated in due course, though the State Department commented that they viewed such developments as unlikely. This was small compensation for the British who were taken aback by the proposals.

In the trade negotiations Stirling had consistently argued for a reduction in tobacco preferences only. It is significant that the main Empire tobacco producer was Rhodesia which was still a colony and easier to contend with in those days than the four Dominions who supplied hard and soft fruit, bacon and meat, etc., which had now been added to the list as subjects for possible reductions. Furthermore, with the broadening of the talks to encompass the Dominions the situation had become more complicated for Britain. The Dominions, however, could see advantages, both economic and political in gaining access to the U.S. markets and in fact were now more favourably disposed towards a trade agreement with the U.S. than the U.K.

(70) For full details see Washington to B. of T. received November 7, 1941, W1323/11576/49.

During November and early December they even began to complain of Britain's dilatory approach to the talks. (71) The wider ramifications which were emerging worried British officials. They did not want their bargaining position weakened by internal disagreements within the Empire. They wanted these problems solved first so that a united Empire stance could be taken, vis-a-vis the United States. So, despite one or two minor concessions ceded by the U.S. communicated to London on November 10, they began to back-pedal furiously on the talks. (72) A draft telegram was drawn up for dispatch to the Dominions and India pointing out prospective economic problems for the U.K. and which also indicated that the talks on the consideration for Lend-Lease might be a better venue, for trade discussions. This view was further supported by the need for inter-Commonwealth consultation that the more general nature of the talks would necessitate. Paragraph four of the telegram stated rather pointedly:-

"... we assume that nothing will be done which would commit any of the Empire Governments concerned until each of them has had ample opportunity of studying the complete picture." (73)

(71) For a brief summary of the position of the Dominions vis-a-vis the U.S. and trade see summary of U.S. tariff requests - an appreciation by Sir R.W. Dalton, U.K. senior trade commissioner in Australia 1924-48 in Board of Trade to Washington December 22, 1941, W15569/11576/49.

(72) See Halifax to F.O. November 10, 1941, W13928/11576/49.

(73) Draft telegram to Dominion Governments: a similar letter was sent to India. W13923/11576/49.

On November 27, the Foreign Office wired Washington asking that a request be made to the State Department to exercise patience while Britain formulated her policy ideas clearly. It also contained the view of the Board of Trade which could not:-

"... see how they could use fully the general clauses of the trade agreement with the United States Government, since it would be difficult to deal with those relating to exchange control and import restrictions apart from the wider problems involved in the question of "consideration" for Lend-Lease and general post-war economic relations." (74)

A few days later the U.S. was precipitated into the war by the attack on Pearl Harbor. At first, as we shall see in detail shortly, the British believed that this would strengthen their bargaining position. The Americans in fact refused to modify their position in substance. On December 25, Halifax wrote that:-

"The State Department have shown the greatest reluctance to yield any ground even on immoderate requests. This seems to be due (A) to fear that failure to obtain substantial modifications of Ottawa preferences would disappoint expectations aroused by the Atlantic Charter and (B) to extreme pressure from the Department of Agriculture..." (75)

Unfortunately the ambiguity of the Atlantic Charter which in August had seemed so favourable to the U.K. had allowed a different emphasis of interpretation in the U.S. An interpretation which Hull had made sure favoured American economic interests and which raised hopes regarding the modification of Britain's preferential system.

By May 1942 doubts were again being expressed about the efficacy of continuing the negotiations. The British negotiators were becoming increasingly uneasy with recent developments. (76)

(74) F.O. to Washington, November 27, 1941, W13923/11576/49.

(75) Washington to F.O., December 25, 1941, W15562/11576/49.

(76) For e.g. see N.B.Ronald to J.J.Wills, May 19, 1942, W5812/253/49.

In fact the scope and direction of the discussions were gradually being superseded by the development of events. With the introduction of Lend-Lease the immediate importance of trade on the basis of the 1938 Agreement declined and in addition the entry of the U.S. into the war significantly altered matters both in terms of U.S. policy and negotiation priorities. The position of the U.S. in 1942 was such that her capacity to negotiate was very limited until she became more organised on a war footing. The last significant reference to the trade negotiation in 1942 was in a Foreign Office telegram to Washington of June. By now it was the considered opinion of the Foreign Office that the different economic issues were so inter-related that the trade agreement should not be completed in isolation.⁽⁷⁷⁾ For example, the outcome of the trade talks would be affected by whatever agreement was reached on Article VII of the consideration talks. Thus until progress could be made on a more general level, the ministry was reluctant to allow even a public hearing of the trade issues. Furthermore, the State Department wanted to avoid politically controversial negotiations because of the congressional elections in November 1942. It was also unlikely that a trade agreement could be passed through Congress before the Spring of 1943 when Congress was due to renew the Trade Agreements Act. However, as evidence of Britain's willingness to cooperate, Stirling's team were advised to continue informal talks. It was hoped that such talks might illustrate to the Americans the difficulties of a wider settlement unless they adopted a more sympathetic

(77) F.O. to Washington, June 11, 1941, W8006/253/49.

attitude toward the U.K.'s probable post-war economic difficulties. Britain did want the negotiations to continue on this level especially as they knew detailed talks would be necessary to deal with the thorny problem of tariff reduction, and that such reductions could only occur in the context of a general settlement. Still, there was no intention to conclude an agreement now. By July 1942 concern over the progress of the U.S.-Dominions talks on tariffs and preferences had increased. The British did not want the Dominions to get out of step with them on this issue and once again began to apply pressures to slow the progress down. The importance of the talks began gradually to dwindle. From November 1942 to Spring 1943 there was a virtual halt in U.S.-U.K. negotiations on matters arising from Article VII and the Clearing Union proposals. Furthermore, when they were renewed the U.S. favoured a multi-lateral approach. By January 1943 the Board of Trade also hoped to postpone bilateral U.S.-U.K. trade negotiations indefinitely in favour of a multi-lateral approach,⁽⁷⁸⁾ though they did expect some strong U.S. opposition to this. In fact the talks continued in a desultory fashion. In July 1943 Waley and Stirling were still informally negotiating,⁽⁷⁹⁾ though a War Cabinet Paper⁽⁸⁰⁾ of July 22, 1943, made it quite plain that the British now regarded trade problems on a much wider basis and wanted some form of multi-laterally effective agreement, preferably worked out bi-laterally first by the U.S. and the U.K.

(78) Washington to F.O. January 13, 1943, U215/47/70.

(79) Washington to F.O. July 30, 1943, U3399/68/53.

(80) WP (43) 329, U3116/251/70.

In short the supplementary trade agreement talks failed. Their failure was partly because of their narrow base. As time passed Britain became more and more deeply involved economically with the U.S. both on a practical level and on the hypothetical level in terms of planning for the post-war period. As the situation became more complex so more considerations became involved which were unimaginable when the talks began. The talks thus do not appear to have a great significance. However, they did, in conjunction with the more substantial Lend-Lease consideration talks, instigate the investigation into problems which separated the U.S. from the U.K. on commercial monetary, trade and economic policies. These were differences which were to have very significant political consequences in the coming years.

LEND-LEASE - THE CONSIDERATION

On March 11, 1941, after two months of controversy in Congress, the Lend-Lease Bill was signed and came into effect. Section 3(b) of the act provided:-

"The terms and conditions which any such foreign Government receives, any aid authorized under Sub-section (a) shall be those which the President deems satisfactory and the benefit to the United States may be payment or repayment in kind or property or any other direct or indirect benefit which the President deems satisfactory." (1)

The problem facing the Americans and the British now was the form of consideration Britain was to provide. In the early Spring of 1941 many officials in Washington wanted political and strategic concessions from the British in return for Lend-Lease⁽²⁾. On May 22, Keynes and Phillips reported a number of American ideas on consideration which included the construction of bases by Britain for the U.S., a five-year supply of tin and rubber for U.S. stockpiles after the war, the replacement of ships by a long term construction programme and finally the gift of certain British Pacific Islands to the U.S. The latter suggestion was rather tentative though, for the Americans did not wish to appear as under-writers of the British Empire in the Far East.⁽³⁾ At this stage the Foreign Office were optimistic about an early entrance into the war by the U.S., which they believed, would enhance their bargaining position.

(1) Taken from Foreign Office copy W6017/37/49.

(2) See Penrose, Op.Cit. Ch.I.

(3) Halifax to F.O. received May 22, 1941, W6216/37/49.

So, in view of this, they were reluctant to rush into negotiations with the Americans.⁽⁴⁾ Unfortunately information received from Keynes on May 22, dampened such hopes. Keynes informed the Treasury that Roosevelt was pressing for an announcement on consideration before June 13, when he intended to report to Congress. Harry Hopkins had assured Keynes that Hawkins, who was working on the consideration problem, was producing a liberal draft. By this he presumably meant one that would be favourable to Britain.⁽⁵⁾ Hopkins, unofficially, said that he thought the position for Britain would be that she would have to return surviving war materials, but supplies of rubber and tin, islands and bases would only be exacted for non-war materials. Keynes tactfully indicated the possible dangers to the British balance of payments if economic considerations of any substance were demanded in the post-war period. In fact, at this stage, Keynes seems to have regarded these American pressures simply in terms of over-ebullient salesmanship. He neither thought that claims for tin or rubber would be pressed, nor did he consider the time factor to be of particular urgency. He told the Foreign Office that Roosevelt was under no legal obligations to make an announcement and recommended that if the American terms were harsh, then the Treasury should stall by insisting that the terms must be submitted to the Dominions for consideration.⁽⁶⁾ Keynes wrote as late as May 29, that Hull and Roosevelt still appeared unsure over whether to include

(4) See F.O. minutes W6216/37/49.

(5) Messrs. Acheson, Feis, Hawkins and Hickerson in consultation with C.Hull were in charge of drawing up the first draft.

(6) Keynes to F.O. received May 22, 1941, W6216/37/49.

references to post-war economic relations or not in the consideration agreement. The British Government however, by this time, had little doubt. They expected, and certainly hoped, that no substantial economic concessions would be demanded, but were resigned to the acceptance, in some form or other, of a declaration of principles similar to those expressed by Hull on May 18. This aroused concern among ministers in the British Government, notably illustrated by Amery's letter to Eden on the 30th. (7)

On June 12, the President made the following statement to Congress in his first quarterly report on Lend-Lease.

"Work has started on the agreement to fix the terms and conditions, under Section 3(b) upon which the foreign governments receive aid." (8)

In fact this work had been initiated, at an official level, by an interchange of views between Halifax and Sumner Welles on June 12. During June the British became aware of increased pressure from Roosevelt for an early agreement on the consideration agreement. With this, worries deepened in the U.K. regarding the subject matter of the talks. In cables of the 5th and 9th of the month, the Board of Trade and the Treasury clearly expressed their concern.

(7) For details of this and Hull's speech see Chapter I.

(8) Report attached to letter, Kingsley-Wood to Eden, August 8, 1941.

"We do not know what our post-war exchange and import licencing policy will be, and we must avoid, in the discussions on trade policy, making any statements which can be quoted as pledges or which can tie our hands. We feel that it would be a mistake to enter into any discussions with the Americans about the technique of Payments Agreements and their possible adaptation to post-war conditions; we should think it unwise to indicate now that it will be our aim not to discriminate as regards imports between countries except as a result of our being heavily indebted to particular countries." (9)

By late June the situation regarding consideration needed definite clarification and on July 8, Halifax and Keynes were presented with an opportunity to do so. On the 8th, they were to have an audience with the President. Kingsley-Wood directed them to restrict themselves to listening to the President's views, though if the need arose they were to emphasise the impossibility of Britain accepting consideration obligations in the form of dollars or dollar earning goods. (10)

The substantial part of the U.S. proposals which were considered at the meeting were as follows.

"1. (3) In respect of balance of aid accorded under the Lend-Lease Act not thus compensated, no cash account shall be set up and no delivery of goods or assets shall be asked for which would interfere with the normal economic relations between the United States and the British Commonwealth after the war or with capacity of the British Commonwealth to purchase American goods and services.

(4) But the British Government deeply appreciative of the magnanimity of these terms, agree for their part to furnish in return further considerations and co-operation set forth in subsequent clauses below.

2. President shall be entitled to ask for deliveries in kind or property or for direct or indirect

(9) Board of Trade to Phillips, June 5, also similar one to Stirling, June 9, 1941, W6315/37/49. See also Kingsley-Wood to Eden, June 23, 1941, W7782/426/49.

(10) Chancellor of Exchequer to Washington, June 29, 1941, W7905/37/49.

benefits under all or any of the following heads as may be agreed in detail hereafter, subject to 1.3 above.

- a) Defence of the United States.
- b) Maintenance of the future peace of the world.
- c) Post-war relief and reconstruction.
- d) Post-war trade and economic policy.

3. Britain to return any surviving Lend-Lease goods at the end of the war on demand. " (11)

During the interview the President expressed a strong desire for a general agreement. He went on to surprise Halifax and Keynes by saying that he did not see any urgency for detailed provisions. This was partly because he was not clear himself what form such provisions should take and partly because what ideas he did have might prove to be unpalatable to the public. He quoted an international police force and island economic unions in the West Indies as examples. Roosevelt added that he did not envisage that future demands would be made for reciprocal Lend-Lease nor was he in favour of making nice distinctions between war and non-war materials. The most important view he expressed, from the British point of view, was general agreement with the proposal of 1.3. This was most encouraging for Halifax and Keynes. The President suggested that Keynes should undertake further talks with Acheson and draw up a new draft. Keynes readily agreed to this for he now hoped that a satisfactory solution might be possible in view of 1.3. He was somewhat disturbed though, by the vagueness of the headings 2.A-D., and requested guidance from London before meeting with Acheson for talks.

(11) Halifax to F.O. July 8, 1941,
W8340/37/49.

The ministers in London expressed general satisfaction with the developments but were more apprehensive than Keynes. They strongly advised him not to enter into detailed discussions with Acheson on the A-D headings. In effect Keynes was to restrict himself to a declaration of common purpose similar to 1.3 followed by something on the lines of:-

"... the British Government will be happy to discuss with the United States Government in due course further measures of co-operation over a wider sphere."

The return of Lend-Lease goods was acceptable provided there was no responsibility on the U.K. to return Lend-Lease materials which had been passed on to the Dominions. Further than this Keynes was not to go, he:-

"... should not put forward other proposals even in a tentative form." (12)

The Chancellor also telegraphed direct to Keynes and cautioned him against detailed elucidation of the headings discussed with the President. He suggested that in view of his imminent return to London he should wait until then, when the issues could be sorted out face to face. Kingsley-Wood continued:-

"The proposals regarding defence of the United States and post-war trade and economic policy have most far-reaching implications and involve commitments into which we should not wish to enter lightly or without the fullest understanding of the exact interpretation likely to be placed on them, whether by the present or by some future Administration. We warmly agree with the President that attempts to define such matters at this stage might lead to great difficulties and we hope you will be able in your discussion with Acheson to confine him to the general questions which the President seems to have in mind ... especially now that the President has himself given such a clear lead that he does not at present wish for definitions." (13)

(12) P.M. and Chancellor of Exchequer to Washington, July 14, 1941, W8377/37/49.

(13) Chancellor of Exchequer to Keynes, July 14, 1941, W8377/37/49.

Unfortunately for Britain, the State Department had rather different views regarding consideration for Lend-Lease. During the early months of 1941 the State Department had worked out clearer and more definite ideas regarding economic policy than either the President or his immediate entourage. Furthermore, there was some friction over Lend-Lease between the President's Executive Office, the State Department and the Treasury. The authority for organising the supply of materials to Britain, and China, had previously been under the auspices of the Treasury. With the Lend-Lease legislation the authority was removed from the Treasury, much to their annoyance, and vested in a new agency, 'The Division of Defence Aid Reports of the Office of Emergency Management'.⁽¹⁴⁾ This opened up a new area of foreign policy which was denied to the State Department, much to their irritation. The only way the State Department could interfere was on a personal level with the President through the influence of Hull or Welles. The State Department was piqued over the President's handling of Lend-Lease and intended to make their influence felt on this new policy area via the consideration talks. The State Department had a clear view of the concessions they wished to extract from the British and were not prepared to let the opportunity that was presented by the consideration talks to slip through their fingers.

(14) Seven months later re-named Office of Lend-Lease Administration, O.L.L.A. Officially the new agency was headed by General Burns but de facto authority lay in the hands of his friend Harry Hopkins. With the creation of O.L.L.A. Edward Stettinius became chief administrator.

Keynes carried out the instructions sent from London and presented the modified proposals to Acheson. Acheson's immediate reaction was to point out that the new draft excused Britain of any liabilities in the form of goods, assets or any other type of obligation. Keynes agreed, but indicated that both the President and the Prime Minister appeared to favour such verbose vacuity. Acheson still maintained the view that the U.S. government would not accept such a one-sided agreement. He said that the State Department in particular would oppose it in no uncertain fashion. (15) It was apparent the State Department, at any rate, was not prepared to excuse Britain from physical repayment of Lend-Lease without some form of consideration from other areas. Acheson and his colleagues in the State Department set about drafting an alternative consideration agreement. Acheson had strongly advocated the Lend-Lease legislation and in many ways was strongly Anglophile. On the other hand this did not pre-empt him from avidly pursuing American economic interests as he perceived them, despite the obvious harm this did to Britain on occasion. By the end of July the new draft was completed and approved by the President. On July 28, Acheson handed it to Keynes. From this draft a worrying ambivalence began to emerge from American policy. On the surface the problem appeared to be an American desire to obtain clarification of Britain's intentions regarding post-war policy. However, the alternate to this was also an issue, though the Americans were not willing to acknowledge this.

(15) Keynes to F.O., July 8, 1941,
W8377/37/49.

The draft Acheson passed to Keynes was by no means wholly objectionable. There was to be no repayment of Lend-Lease in cash or goods. Keynes favoured clearing up the matter as quickly as possible. He did not want less propitious circumstances to arise which would make an agreement more difficult but nevertheless he felt obliged to object to the wording of Article VII. Objections which according to Acheson, he made with some vehemence.

"... he burst into a speech such as only he could make. The British could not 'make such a commitment in good faith'; 'it would require an imperial conference'; 'it saddled upon the future an iron-clad formula from the Nineteenth Century'; 'it contemplated the ... hopeless task of returning to a gold standard'; and so on." (16)

Acheson coldly replied that the intent of Article VII was that at the end of the war after Britain had received vast quantities of aid from the U.S. she was simply to be prohibited from taking whatever trade measures she liked against the U.S. (17) Acheson had in fact gone further than this. He virtually admitted that technical language had been used which would prohibit the continuation of the imperial preference system and possibly import and export exchange controls. This was something the President had indicated to Keynes and Halifax as unnecessary at this stage. Here the problem facing the British negotiators becomes clearer. On the one hand they were being asked by the Americans to clarify their post-war plans and commit themselves to general principles. The Americans were not prepared to accept verbal assurances of this from the British.

(16) 'Present At The Creation', Dean Acheson, Hamish Hamilton, London 1967, p.30.

(17) Ibid. p.30.

They insisted that assurances should be embodied in a written agreement. On the other hand the British were being asked to accept verbal assurances from the Americans regarding the interpretation of such an agreement. Furthermore, such assurances contained within them conflicting interpretations. From talks with the President a non-technical agreement of general intent appeared to be what the U.S. Administration wanted. In further discussions with members of the State Department a more specific goal seemed to be envisaged, one that embodied the long-held views of the Secretary of State, Cordell Hull. Keynes was worried by the proposals and Acheson's reaction to the reception they got. Still he cooled down somewhat and promised Acheson that he would try to explain the American position to the British Government on his return to London on the following day. Before the meeting ended he did warn Acheson that consideration of the draft in London might take some time.

Halifax was also worried by the recent developments. On August 4, he told the Foreign Office that in his opinion the Americans were now determined to get some assurances regarding U.K. post-war economic policies. As Article VII stood though, he thought it was too specific. Couched in such specific terms it could prove highly embarrassing under certain conditions. On balance Halifax did not consider the acceptance of Article VII advisable. He suggested that approaches to other U.S. Departments might prove fruitful regarding Article VII.⁽¹⁸⁾ In fact Halifax may not have had a full grasp of the situation. As we shall see shortly, he was soon to change his position on Article VII.

(18) Halifax to F.O. August 5, 1941.

The problem of discrimination had also arisen in the trade agreement talks and the Americans were beginning to take a harder line. Keynes was worried by the situation and by the possibility that the position might deteriorate further. To prevent this he wanted the British Government to be as forthcoming as possible. In America, Hawkins discussed the problem in the Cabinet and urged the need for a British assurance on non-discrimination. It was obvious a decision was required from the British Government but the Chancellor of the Exchequer still had grave doubts.

On August 8, Kingsley-Wood wrote to Eden⁽¹⁹⁾ that he did not think the Government could accept the second part of Article VII. The draft Acheson had given to Keynes was as follows:-

"The terms and conditions upon which the United Kingdom receives defence aid from the United States of America and the benefits to be received by the United States of America in return therefor, as finally determined, shall be such as not to burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world wide economic relations, they shall provide against discrimination in either the United States of America or the United Kingdom against the importation of any produce originating in the other country; and they shall provide for the formulation of measures for the achievement of these ends." (20)

Kingsley-Wood proposed a reformulation of the second part of the Article.

"..., they shall provide for joint and agreed action by the U.S. and the U.K., each working within the limits of their governing economic conditions, directed to the progressive attainment of a balanced international economy which would render unnecessary policies of discrimination and other impediments to the freedom of trade." (21)

(19) &

(20) Attached to letter Kingsley-Wood to Eden, August 8, 1941, W9748/37/49.

(21) Ibid.

Kingsley-Wood, reflecting British policy generally, wanted to safeguard against two possible eventualities. First of all the imposition on Britain of a unilateral obligation to reduce or abolish preferential arrangements, import and export exchange controls. If such commitments were unavoidable then they should be tied to reciprocal U.S. concessions, though of a different kind. In the U.S. it was not preferential arrangements which were the main obstacle to British exporters, but tariffs.⁽²²⁾ The insertion of 'agreed and joint action' by Kingsley-Wood was supposed to emphasise the reciprocal nature of any obligations Britain might undertake. Secondly, Britain was acutely aware of her declining trade, financial and economic standing, which would make her more prone to the vagaries of external economic and trade conditions. This would pertain much more to the U.K. than the U.S. who was rapidly emerging as an economic giant. Consequently any post-war commitments for Britain had to be made more contingent upon the prevailing economic conditions at that time. The British were truly worried over this problem of discrimination with regard both to the Lend-Lease Consideration and trade talks. The Atlantic Meeting complicated the position even further. For a short time the President of the Board of Trade believed the issue had been resolved in Britain's favour,⁽²³⁾ but soon the ambiguity of the agreement and Hull's reactions to it dispelled such optimism.

(22) The Americans did have some preferential arrangements, namely with, Virgin Islands, Porto Rico, Phillippines and Cuba. They were not significant in terms of world trade but they were a contradiction of the State Department's claim to adhere to a policy of non-discrimination as a point of principle.

(23) See Ronald to Playfair, August 21, 1941, W10085/37/49.

Still, for a while, during the pause in the talks at this time, the British began to re-draft the second half of Article VII in the hope that the Atlantic Declaration could be used to justify their views. Before returning to the problem of Article VII, negotiations for a wheat agreement will be briefly considered. The distaste that Britain felt regarding the doctrinaire views of the U.S. on discrimination has already been seen. Now, in the negotiations on wheat we shall see how that distaste was compounded by the hypocrisy the Americans displayed in their attempts to secure markets and high prices for their own cereals. Such hypocrisy was to have an effect upon the British in other realms of negotiation. Their attitude towards the Americans hardened and their scepticism of American principles deepened.

On July 10, talks began with the Americans to establish an international agreement on the production and sale of wheat. As the talks developed the British delegation and Whitehall were soon aghast at the terms the Americans were attempting to impose. Eventually, the blatant contradiction of principles applied by the U.S. in these talks with those of the consideration and trade discussions embarrassed even the Americans.

The production and sale of wheat, similar to other mass produced commercial food-stuffs, is extremely difficult to control because of the whims of weather and of man. In 1933 an abortive International Wheat Agreement had been drawn up which resulted in the establishment of a Wheat Advisory Committee, with its sole office in London. This was the only concrete outcome of the conference and was ineffective as a controlling body. In September 1939, however, the Advisory Committee was used by the British Government in attempts to arrange new quotas

from the four big producers, Canada, U.S.A., Australia and Argentina. The attempt again failed, this time because of opposition from the newly elected Canadian Prime Minister, McKenzie King who had campaigned on an anti-restrictionist ticket.

In September 1940, London raised the issue yet again. This time, although initially unsuccessful, it did lead to further developments. The reason for Britain's recurring concern for a wheat agreement is not hard to discover. She was the largest world importer of cereals. At first the U.S. did not act on the new British proposals because of the imminent presidential election but the proposal had not been received with universal coolness. The American Department of Agriculture, headed by Claude R. Wickard⁽²⁴⁾ hoped to restructure the international wheat market so that American quotas and production could be increased and the international price of the commodity raised. In March 1941 the U.S. began to make positive moves on the wheat issue and on July 10, informal talks began in Washington.

By the first week in August a draft agreement had been prepared on which it was proposed that formal talks should be based. The Americans in fact had been far better informed and briefed than their British counterparts and this was very much in evidence in the nature of the progress that had been made. The draft was similar in outline to the 1939 one but with significant changes in detail. First, a minimum price was to be applied on all wheat production; not 75% as previously.

(24) U.S. Under-Secretary February-August 1940 and Secretary of Agriculture 1940-1945.

Second, the minimum price was to be raised from 35/-6 per quarter to 38/-6. Third, the obligation to control trade quotas on wheat was to be switched from the exporting to the importing countries, a switch which clearly reflected a change in American views regarding European and British bargaining power.

The reaction in Whitehall, to put it mildly, was very sharp. Keynes dubbed it a piece of chicanery. Hudson⁽²⁵⁾ wanted to know where the quid pro quo was. He suggested that such American arrogance was a good excuse for removing acreage restrictions. He went on to claim that the proposals would make it impossible for the U.K. to revert to private purchasing of wheat after the war and indeed if the agreement stood for five years, as proposed, the private grain trade would be extinguished for good. N.B. Ronald, Foreign Office Counsellor, in vitriolic mood on September 9, minuted the following views:

"In what they have said about the Wheat Agreement the Americans have constantly hinted that we could force the Continental Powers, to whom they want to sell wheat, to agree in return for being saved from starvation to bind themselves for an indefinite period hereafter to conform (to?) their national economic policy to suit American interests. This is too much like selling one's birthright for a mess of pottage. Do not let us allow ourselves to be manoeuvred into the position of selling our birthright for a mess of pottage and give away too far to meet the Americans on Article VII of the Draft Consideration Agreement." (26)

The full conference talks which began at the end of October were of a different character. Now the British delegation was fully briefed and had been directed to oppose the proposals.

(25) Minister of Agriculture and Fisheries, May 1940-1945.

(26) Minutes by N.B.Ronald, September 29, 1941, W10969/37/49.

This caused difficulties for the Americans, but Wickard still hoped to maintain the first draft. The British persisted with their objections to the minimum price arrangements though, and said that they would have to consult their new ally, the Soviet Union. With this the talks reached a stage of deadlock.

At this time the American Embassy in London was drawn into the controversy. As we have seen above the wheat talks were not the only economic issue being discussed by the two countries. In the 'consideration' and trade talks the U.S. was attempting to gain British commitments to freer and non-discriminatory economic policies. Yet here, in the wheat talks, the U.S. in direct contradiction of these policies, was trying to control the market in their own interests. This would deprive Britain of a buyer's market with respect to her most vital import. Such a policy would also have dire consequences for Britain's post-war balance of payments. The Americans on the one hand were inviting the British to put her economic interests in the balance by adopting certain economic principles, while on the other hand they were violating these same principles to remove an area of American economic interests from the balance of uncertainty.

The American Embassy in London was quite aware of these facts and noted with some alarm the suspicions and scepticism they occasioned in London. The American policy on wheat was not enhancing her bargaining position in other areas of economic concern.⁽²⁷⁾ In effect, largely because of this and the vigorous British opposition to the proposals in Washington, the Americans gave way. The price provisions were replaced by measures to establish annual agreements on maximum and minimum

(27) See Penrose, Op.Cit. pp.66-67.

prices. Consumer representation, quotas related to the total volume of wheat trade and control of stocks were all provided for in a moderate fashion. Most important of all though was the fact that the draft was to remain as such until a truly international conference could be convened.

The provisions which were to be operable immediately consisted of rather vague production controls and a 100 million bushel relief pool administered by an International Wheat Council, temporarily located in Washington. The Board of Trade in April 1942 recommended that the memorandum of agreement drawn up at the talks should be accepted. There were some disapproving noises from the Exchequer but the whole problem had now really become a dead letter. The Americans had realised the inopportunity of pressing for agreement on the original lines of the draft agreement. The memorandum of agreement simply postponed the wheat problem. The provisions which were to be immediately operable, were, to any eyes, a very pale reflection of American hopes in the Autumn of 1941. So far as Britain was concerned the outcome was satisfactory but their views of American economic principles had been bitterly soured. (28)

During the late Summer of 1941 British ministers were busy re-drafting Article VII. Opinions were beginning to harden and with the apparent diplomatic victory at the Atlantic Meeting

(28) N.B. In August 1942 and January 1943, Britain, with the help of Canada, managed to postpone further decisions on wheat prices at Wheat Council meetings though not without U.S. allegations of uncooperativeness. In August 1943, the U.S., herself, requested further postponements until January 1944.

For further details see 'History of the Second World War, U.K. Civil Series, Food. Vol.I. 'The Growth of Policy', Edited. W.K.Hancock, H.M.S.O. and Longman Green and Co.Ltd., London 1951, pp 350-355.

concerning economic policies, it was generally felt that less attention should be paid to American predilections for declarations of economic principles. However, despite the blatant American hypocrisy over the wheat talks, the British should have known Hull would not give in so easily. Hull was determined to twist a favourable interpretation of the Atlantic Declaration from the British. On August 27, 1941, Winant told Eden of a telegram from Hull concerning the interpretation of the phrase, "with due respect for their existing obligations".

"Mr. Hull wished to describe this phrase as a forthright declaration by the British and American Governments to do everything in their power, now and in the post-war period, by means of the reduction of trade barriers and the reduction and elimination of preferences and discriminations, ..." (29)

This was put to Churchill who replied to Hull that it would be preferable simply to use the words 'the abolition of vexatious discriminations'. This was too vague for Hull who refused to be moved, and so there the matter rested for some weeks.

By September, the British re-draft of Article VII had been completed. It was largely composed by Greenwood, who communicated it to Kingsley-Wood in a letter of August 22. Some amendments were made, the most important of which are

(29) Quoted in 'History of the Second World War, Vol.II, British Foreign Policy In The Second World War', Sir.Llewellyn Woodward, London, 1971, p.207.

indicated below.

"The terms and conditions upon which the Government of the United Kingdom receives defence aid from the Government of the United States of America and the benefits to be received by the United States of America in return there for, as finally determined, shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them; they shall provide for joint and agreed action by the United States and United Kingdom, each working within the limits of their governing economic conditions*, directed to securing as part of a general plan the progressive attainment of balanced international economies, the avoidance of harmful** discriminations and generally the economic objectives set forth in the joint Declaration made by the President of the United States of America and the Prime Minister of the United Kingdom on August 12, 1941.

And furthermore it is agreed that at an early convenient date conversations should be begun between the two Governments with a view to discussing the best means of attaining the above objects and generally the better ordering of economic intercourse between nations in future conditions of settled peace." (30)

By September 26, the above draft had been passed by Churchill and accepted by Halifax as a basis for new talks. This detailed and protracted consideration of the draft was beginning to arouse impatience in the U.S. Winant had asked the State Department in early September to agree to a pause in the negotiations while the British Government dealt with pressing war problems.

(30) H.W.Smith to N.Butler, September 26, 1941, W11797/37/49: * suggested by Amery in letter to Greenwood, August 27, 1941, W10480/37/49: ** this previously read 'special', but caused some concern - see Cranbourne to Kingsley-Wood, September 7, 1941, W10480/37/49, 'Harmful' was eventually substituted on Churchill's recommendation - see margin notes in Smith to Butler, quoted above: For detailed F.O. analysis of the text, see N.B.Ronald to T.Daish, Offices of the War Cabinet, September 8, 1941, W10480/37/49.

This in fact enabled the British to reconsider the problems involved. Nevertheless, by October Winant was complaining about the hold-up, and the fact that nothing had been communicated to the Americans on the subject of Article VII since Acheson had handed his draft to Keynes on July 28. By October 6 it looked as if the British were ready. No objections to the re-draft had been raised by the Dominions but disagreements within the Cabinet caused further delays⁽³¹⁾ so that the British version was not handed to Acheson until October 17, 1941. Acheson took immediate exception to a number of points in the draft. Some years later Acheson was to comment on this.⁽³²⁾

"... their proposed settlement would commit the two countries "each working within the limits of their governing economic conditions (an escape clause large enough for a Sherman tank) ... to securing as part of a general plan (that is, British obligations for Lend-Lease to be conditioned upon, say, Latin America's accepting the same) the progressive attainment of a balanced economy, (here were two Humpty Dumpty words which could mean whatever one wished them to mean) the avoidance of harmful discriminations, (harmful discriminations, I said to Halifax, are always the other fellow's discriminations, never one's own) ... "

And at the meeting itself he indicated clearly the unsatisfactory nature of the proposals. Members of the State Department considered the re-draft shortly after the meeting with Halifax. Herbert Feis⁽³³⁾ suggested that there might be a real problem for Britain with regard to the Dominions and imperial preference. However, Acheson with his clarity of perception said that the Dominions would fall into line with

(31) See Acheson Op.Cit. p.31.

(32) Acheson, Op.Cit. p.31.

(33) State Department adviser on international economic affairs, 1937-43.

American policy if pressed because of their growing reliance on the U.S. for military assistance. Both Hull and Roosevelt later concurred with this view and agreed that the British proposals were quite inadequate. Acheson and Feis now set about re-drafting Article VII in consultation with O.L.L.A., the Economic Defence Board under Vice President Wallace and with Roosevelt himself. On November 19, Hull submitted a memorandum to Roosevelt which included a new draft of Article VII. The President expressed his satisfaction with the new draft, and this in fact was the final form of the article with the exception of a few grammatical alterations. It was not, however, to be the end of the controversy over its acceptability.

This final draft of Article VII was submitted to Halifax on December 2, by Acheson and Feis.

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and the welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining in the light of governing economic conditions, the best means of attaining the above stated objectives by their own agreed action and of seeking the agreed action of other like minded Governments." (34)

(34) From 'A Decade of American Foreign Policy, Basic Documents', U.S. Government Printing Office, 1950, p.5.

Halifax was told that the wording of Article VII had been kept general to avoid embarrassment by a specific reference to imperial preference. Its eventual abolition though, was intended by the article and the U.S. Administration would have to say so if questioned on this. There was little to console the British in this. Acheson himself made a number of further points to Halifax as he handed him the draft. He said that the changes were intended to give more emphasis to the element of multi-national action rather than simply joint Anglo-American action, and hence the alteration from 'joint and agreed' to 'agreed action'. This, incidentally, de-emphasised the reciprocal and bilateral nature of the link between British reductions of imperial preference and U.S. tariff reductions. Britain was still committed to abolish discriminatory controls but American commitments were of a more general nature and no longer tied too closely to British reductions. Acheson omitted any mention of this subtle shift and indeed denied any intention of imposing unilateral obligations on the British though the commitment to abolish rather than simply reduce was acquiring the characteristics of such a commitment. Secondly the American Administration regarded this declaration as the beginning of a movement aimed at broader goals, one of the main ones being increased production. Thus sentence two of Article VII had been altered. Acheson said the State Department had kept to the spirit of a general formulation but had avoided unduly cautious phraseology which could have offended some factions in America. Finally, and in fact one of the two changes which were to cause concern for the British, was the transfer of the phrase 'in the light of economic conditions', from paragraph one to paragraph two.

Halifax reported:-

"Acheson laid great stress on the fact that paragraph 1 of article 7 states objectives at which the two governments declare their intention to aim; and that paragraph 2 refers to "the doing", i.e. action to be taken, after discussions, to achieve purposes stated in paragraph 1." (35)

Whether Halifax realised the full implication of this or not is unclear. He certainly does not spell it out in his account of the meeting with Acheson as he had spelt out the change which committed Britain to abolish discrimination in return for tariff reductions. The point of shifting the phrase to paragraph two was to make it qualify the means of obtaining the objectives rather than the objectives themselves as was clearly seen by the British North American Department F.O. (36)

Acheson refused to concede anything on the commitment to abolish discrimination eventually but did add that the Administration now realised that it would have to be done over a period of time. Halifax was encouraged by this and in view of what he believed to be American good faith, urged that a start should be made on the post-war economic problems. In fact Halifax was rapidly coming to the conclusion that the agreement should be accepted as it stood. This was a considerable change from the view he had expressed in August. (37)

(35) Halifax to F.O. December 5, 1941, W14596/37/49.

(36) N.American Dept. Minutes and Comments, N. Butler, P. Dean, December 7, and 11th, W14652/37/49. The Minutes received wide circulation, Sirs, H.Wilson and R.Hopkins, Keynes, Waley, Leith-Ross, Daish, Croft, Kingsley-Wood, Cherwell, Leisching and Overton.

(37) See Halifax to F.O. August 5, 1941, W9552/37/49.

Now, Halifax began to support American views. He wrote:-

"The United States administration urge that some risks for the sake of the future must be taken... They are willing to take their risks with Congress and they beg of us to take political risks on our side to win the large gains which are at stake." (38)

One could ask what risks were the U.S. taking when no figures or guidelines were given for the technically very difficult task of reducing tariffs? The main risk for the U.S. was in terms of Congress. But this would take the form of criticisms if an adequate consideration agreement was not concluded. So Halifax's argument, and the American one, was rather feeble. The political risks for the U.S. and the U.K. hardly complemented each other: they competed. The better the consideration was from Britain, the more acquiescent Congress would be and vice versa. Halifax did admit that the commitment to the eventual abolition of discrimination was a thorny political issue but if it became a question of the break-down of the talks versus acceptance of Article VII as it stood, he preferred the latter course.

In fact, Acheson had pushed the issue to a critical point. He had warned Halifax that if agreement was not reached soon, or if a loop-hole for imperial preference was again suggested, the suspicions and impatience this would arouse in the U.S. could prove disastrous. He cautioned that even those amicably disposed toward Britain might feel like throwing in the towel. If there was further delay there was also the danger that departments such as the War and Navy, might insist on becoming involved which again would not be favourable for Britain.

(38) Halifax to F.O. December 4, 1941,
W14596/37/49.

Finally, Acheson said there was a need for an agreement which could be presented as a quid pro quo to Congress before the third Lend-Lease appropriation measures come up in Congress in January. Such pressures appeared, to many in Britain, as unwarranted railroading tactics. There was little inclination to give way under such conditions.

On December 7, the Japanese attack on Pearl Harbor temporarily altered the bargaining relationship. This eventuality had been awaited with some degree of optimism by the Foreign Office. The new war situation even made the Americans adopt a more flexible attitude to the time limit they had been trying to impose upon the British for the agreement. On December 13, the Foreign Office wired the Washington Embassy and stated clearly that in the changed position it would be preferable not to push ahead into a hurried decision regarding the extant American draft. They added that they were considering more general talks with the Dominions and the U.S.

"... requiring no final decision on Imperial Preference or any other large issue." (39)

In fact, London favoured talks on economic policy prior to the signing of the Consideration Agreement and was obviously less sanguine than Halifax about accepting the American proposals. The telegram quoted below exhibits some of the irritation felt in London toward Halifax. The cable is cited in length as an accurate summary of London's fears and apprehensions of being prematurely pushed into an agreement. London's policy of delaying progress because of America's misfortune may not have been very gallante, but is in itself an indication of London's growing desperation with American actions and policies.

(39) F.O. to Washington, December 13, 1941, W14652/37/49.

"Apart from Imperial Preference, the i.e. introduction of the word "discrimination" without any qualifying adjective shows the importance the Administration attach to it. Our comment for your information, is that the word "discrimination" admits of various interpretations and it becomes essential that we should review very carefully to what extent we can at this stage wholeheartedly subscribe to it. Is it certain the Administration would wish entirely to eliminate all possibilities of discrimination against states which may still in the future exhibit aggressive tendencies? Have they in mind to eliminate the discriminatory export subsidies now in force in the United States which distinguish between different destinations? But what we have chiefly in mind are our own post-war difficulties which will be very real; they are certainly not understood in America at present. We need to review carefully how far we can afford to divest ourselves of this power to use protective measures unless and until better arrangements can be found. (40)

The Foreign Office had deep doubts about the proposals and was less willing than Halifax to accept verbal assurances regarding intention and interpretation. In the U.S. Hull continued to urge that a rapid settlement should be sought. He told Winant to press the matter with the British. On, or about, December 11, Winant handed a State Department appreciation of the extant proposals to Anthony Eden, in the hope that this might dispel British fears.⁽⁴¹⁾ Briefly the letter stated that the proposals had been drafted with Britain's post-war problems specifically in mind. They were in no way prejudicial to the solution of such problems. Action resulting from the agreement was to be ^{by} mutual consent and decisions were to be executed subject to the prevailing economic conditions. The agreement was to be the basis for wider action, and finally, the U.S. had no intention of imposing unilateral conditions, but had, herself, accepted identical ones. Although, as we shall see,

(40) Ibid

(41) Tel. State Department to Winant, F.O.
indexed W1513/37/49.

the idea behind such a communication appealed to British leaders, the actual content of this did little to clarify the issues or alleviate concern. The final comment for example, was simply untrue. The British were to undertake the abolition of preferences while the Americans were only to reduce tariffs. The Foreign Office decided to allow the position to stand on the December 13 telegram.

The British might have been reluctant to see further progress at this stage but the Americans certainly were not. Pressure for agreement was maintained and on December 16, the Americans resorted to a most unusual ploy. Leo Pasvolsky, one of the main economic advisers in the State Department, handed a secret and confidential document to Redvers Opie which set out the State Department's appraisal of the situation. In fact, the memorandum had been drawn up by Pasvolsky himself. Halifax forwarded the document to London with the comment that it had been handed to Opie in strictest confidence, though obviously in the knowledge that it would be sent to London. It was an internal memorandum of the State Department but a number of factors suggested that it was more significant than its face value might have suggested. It reflected the views of Hull and was the result of much debate within his department. Secondly, despite its length the State Department hoped to submit it to Roosevelt for consideration. Halifax obviously thought that it should be taken very seriously.

The communication of this document to the British was intended to indicate informally the concern felt in the State Department. They wanted to show the importance they attached to

the substance of Article VII and by doing so persuade the British to adhere to it.

"...; our unsuccessful attempts to obtain from the British Government a satisfactory clarification of the reservation contained in Point IV of the Atlantic Declaration; and many other indications have revealed the existence in some influential British official quarters of views with respect to post-war economic policies which should be highly disturbing to us. These views reflect on the part of those who hold them, a definite antagonism to the acceptance by Great Britain now of any commitment to move after the war toward adherence to the type of commercial policies which our Government has heretofore regarded, and regards today, as indispensable to economic progress." (42)

Pasvolsky continued by allocating the blame for the difficulties to a small group of influential men who held strong views on protection of one kind or another. He categorised them as (a) protectionists for protection's sake, (b) those who believed it would be necessary to maintain protection during the transition to a peace-time economy, (c) those who believed in the imperial preference system and (d) those who agreed in general with the broad position of the U.S. but who balked at giving up imperial preference in the manner suggested. Although Pasvolsky admitted that this was not official policy at this time, he did believe it was causing the problems which were delaying the agreement. Pasvolsky, however, hardly filled in the reasons for these British attitudes which made them appear more doctrinal than they actually were, but more of this shortly. Pasvolsky did consider an Anglo-American economic entente essential. A failure to achieve this would result in

(42) Halifax to Eden, December 16, 1941, Document enclosed, 'Strictly Confidential, Pasvolsky to Hull', December 12, 1941, Copy. W367/81/49.

an economic war with Britain. Other countries would emulate U.K. policies and a general collapse of international economic cooperation might then follow.

"... if policies of economic peace fail of adoption in one they will necessarily be doomed in the other and, therefore, everywhere in the world." (43)

Pasvolsky expressed the view that a policy of bilateralism on its own, would not prove successful for Britain, largely because the U.S. would be the main source of capital goods supply for Britain and her Empire after the war. Thus some form of multilateral trade could be insisted upon. He acknowledged the need for specific policies to cope with Britain's transitional problems, but insisted on the present need for adherence to the declaration embodied in Article VII. Once this had been accepted talks could then begin, under various headings, for detailed economic planning. This was all very well for Pasvolsky and the Americans but the British were not sure whether detailed economic talks could solve their problems if certain policies were initially excluded by declarations such as that embodied in Article VII.

Eden was certainly unimpressed, and in his brusque reply to Halifax raised an idea that was to become significant later.

"My own point of view is that from a political point of view Imperial Preference is an Imperial domestic matter and as such should not be lightly described as discriminatory, though from the economic view it is undoubtedly discriminatory in effect." (44)

(43) Ibid.

(44) Eden to Halifax January 6, 1942, W367/81/49, Draft.

More important than this though was Keynes' lengthy appreciation of the Pasvolsky Memorandum. Paragraph one reads:

"The bulk of this paper, which is a very able one, within its limitations, is a dogmatic statement of the virtues of laissez-faire in international trade on the lines familiar forty years ago, much of which is true, but without any attempt to state theoretically or to tackle practically the difficulties which both the theory and the history of the last twenty years has pressed on most modern minds. Mr. Pasvolsky looks like Rip Van Winkle and evidently is, in fact, he!" (45)

From which one may gather that Keynes regarded the 'limitations' to be more a matter of Pasvolsky's intellect than of the assumptions of the paper. Keynes' criticisms were in fact quite scathing. Pasvolsky noted the problems facing Britain but did not evince a clear understanding of them. Thus the assumption that laissez-faire would maximise trade simply avoided the problem. Such a claim depended upon other conditions and the conditions, particularly dollar scarcities, which would prevail at the end of the war would prevent such an automatic expansion of trade. The main British concern was with these conditions which distorted the free market economy and undermined the assumptions of laissez-faire. Pasvolsky, with the point of view he held was thus unable to see bilateral agreements as a means by which trade would be continued, under conditions of exchange shortages and monetary instability. Keynes went on to criticise Pasvolsky for not acknowledging the harm that tariffs did and for regarding preferences with greater hostility than they warranted. Keynes did not think that the paper was a good example of economic thinking. He quoted Professors Viner, Clark and Hansen as people who all advised the U.S. and who

(45) Notes on the Pasvolsky Memorandum, J.M.Keynes, January 5, 1942, W789/81/49.

would not express such naive views. There was perhaps a danger of over-estimating the State Department's role in decision making for he was dubious about the claim that the paper would receive wide circulation. Perhaps Keynes had missed the point here. The document was not intended to be a university paper embodying the latest ideas on economic analysis, it was a political document. The paper was intended to disclose American displeasure with British recalcitrance and indicate the determination of the Americans to gain a commitment, on the lines of Article VII, from the British. The misunderstandings of economic theory were only of secondary importance.

Keynes was pleased by Pasvolsky's suggestion that talks on economic policies should be undertaken in the near future. He hoped that such talks would clear up some of the misunderstandings. For example, Pasvolsky had characterised him in the paper as an unqualified proponent of bilateralism. Keynes objected strongly to this, especially as he had never talked to Pasvolsky on such matters. Pasvolsky's views were based on second-hand reports from Harry Hawkins during the trade talks. But Keynes commented that Hawkins did not even pretend to follow the talks with understanding, implying that he was incapable of assessing what economic views Keynes might or might not have. In fact by this time Keynes believed he had hit on an idea which would allow a viable alternative to bilateralism. This idea was to be expressed in the draft of the International Clearing Union (I.C.U.). Furthermore, despite his scathing criticisms of Pasvolsky, Keynes now also favoured acceptance of Article VII as it stood. He placed his faith in the I.C.U. and

judged that Article VII would be inevitably vague without detailed talks, so it might as well be signed rather than cause further unnecessary trouble.

Keynes' preference for signing the agreement was not shared by many of his colleagues. Indeed Keynes' appreciation of the Pasvolsky memorandum gave added fuel to the case for not signing.

"The chief moral I draw from this paper is the inadvisability (which I wish Lord Halifax could be made to appreciate) of our being asked to sign up ambiguous undertakings on the dotted line in advance of face to face discussion about the principles of future policy." (46)

The general view of the Foreign Office was that Pasvolsky's Memorandum, contrary to Keynes' view, was of considerable significance. However, they did agree with Keynes that further talks were necessary and that much of the trouble was due to the lack of American understanding. They did acknowledge the political significance of the Pasvolsky Memorandum but would not accept that there were substantial areas of conflicting interests.

" f) the talks once started, we shall have an unanswerable case 'against "signing up ambiguous undertakings on the dotted line" and will be fully justified in refusing to enter into definitive agreements in respect of particular projects, e.g. the draft Wheat Agreement, without reference to the larger economic and political issues they involve." (47)

However, the consideration of these views is anticipating the course of events somewhat. The attitude in the Washington Embassy was less hostile to the American position. On December 20, Halifax sent two telegrams to the F.O. making it quite clear that he was reluctant to convey to the Americans,

(46) N.B. Ronald to R. Hopkins, January 23, 1942, W749/81/49.

(47) Ronald to R. Hopkins, January 23, 1942, W749/81/49.

British Government views which had been conveyed to him, notably in the telegram of the 13th of that month. He reiterated arguments he had used on December 4, in favour of accepting the agreement with increased vehemence.

"Above all we simply cannot afford to allow suspicion to arise in the mind of the President or of his advisers that we are organising the entry of the United States into the war as a pretext for evading commitments which we might otherwise have been not unwilling to undertake, as appears to be suggested by reference in paragraph 1 of your telegram under reply to the changed position." (48)

The point here is that judgements were being made from two different standpoints. Halifax, naturally as he was on the scene of the negotiations was more concerned with the immediate problem of maintaining cooperation with the Americans. He was on the receiving end of criticisms and recriminations from men who, on a number of occasions, he had expressed faith in and noted their apparent sympathy for Britain's economic plight. Here again the inclination was to bend and acquiesce. In London the picture was seen in a wider perspective. The dealings, so far, with the Americans did not appear in a favourable light no matter what the intentions or the personal dispositions of the American negotiators might be. Great concern was felt about the appreciated fact that the proposed agreement was subject to an interpretation which in their view could be so used by the U.S. as to be detrimental to Britain's post-war recovery. There was a prevalent view often expressed by Keynes, that Britain should not accept conditions which her future economic weakness would not allow her to carry out. It was judged that this could be a greater danger than that of prolonging the negotiations for

(48) Halifax to F.O. Tel. 5953 and 5954, W15249/37/49.

modification and clarification. The Foreign Office thus wrote to Halifax on the 24th, pointing out the apprehensions they felt. However, they knew that he was eager to precipitate events, so in an effort to forestall the situation, suggested that he consult personally with Churchill. The Prime Minister was at that time in the U.S. to discuss cooperation with Britain's new wartime ally.⁽⁴⁹⁾ It was widely known that there was little love lost between Churchill and Halifax. The Foreign Office also suggested the possibility of exchanging interpretative notes to safeguard Britain's position in the eventuality of future disagreements.⁽⁵⁰⁾

On the 29th Halifax replied. He reported that the Prime Minister had been too busy to formulate a judgement on the issue. But Halifax was determined not to let the negotiations fail by default. Halifax had a meeting with Cordell Hull on the same day and according to Hull 'seemed impressed' by the Secretary of State's arguments. Halifax appeared to be convinced that it was necessary to conclude the agreement speedily in time for the Congressional appropriations for Lend-Lease in January.⁽⁵¹⁾ In fact on that day Halifax signed the provisional agreement.⁽⁵²⁾

(49) Churchill's visit was originally to be December 22-28 but it was extended into January for the 'Arcadia Conferences'.

(50) F.O. to Halifax December 24, 1941, W15273/37/49. The idea of the exchange of notes originated in the communication of State Department views on the agreement communicated via Winant to Eden. See W1513/37/49 above.

(51) See 'Memoirs of Cordell Hull, Vol.II', London, Hodder and Stoughton, 1948, p.1152.

(52) See Halifax to F.O. Tels. 6105 and 6106, December 29, 1941, W15637 and W15638/37/49.

The precipitousness of this action aroused no little concern in the U.K. On January 7, 1942, Richard Law (53) wrote to Lord Cranbourne.

"Halifax telegram of 29th December about the Consideration Agreement seems to me to show that he has not understood what we here had in mind when in our telegram to him of 24th December we spoke of an agreed interpretation embodying the explanations given by the State Department (see W1513/37/49 above) as to what they understood to be the purport and significance of Article VII." (54)

Law added at the end of his letter that Eden was in agreement with him. Law attached a possible draft of an exchange of notes for Cranbourne's perusal. The draft accepted in principle the eventual elimination of discrimination. But it also emphasised the need for joint agreement, the elimination of discrimination in prolonged stages, rejected unilateral obligations and stressed that action must be dependent upon prevailing economic conditions. In short there was no longer simply a qualification of the means by which discrimination was to be eliminated but also of the end goal itself. (55)

Among British ministers the feeling that further clarification was necessary grew. Cranbourne in a letter to Greenwood on January 13, stated:-

"... I personally think it is essential to obtain from the Americans an agreed interpretation of the paragraph (Article VII) which would be acceptable to us and could be used in public." (56)

Meanwhile Churchill, still in the U.S. having extended his stay for the 'Arcadia Conference', said to Hull at a dinner on January 12, that:-

(53) Parliamentary Under Secretary for Foreign Affairs 1941-43, Minister of State 1943-45.

(54) Law, personal to Cranbourne, January 7, 1942, W15677/37/49.

(55) Ibid.

(56) Cranbourne to Greenwood, January 13, 1942, W585/122/49.

"... he definitely refused to agree to giving up imperial tariff preferences and would not accept the inclusion of such a clause in the Lend-Lease Agreements." (57)

Churchill was undoubtedly extremely busy with pressing strategic problems while in the U.S. and may indeed have been too busy to consider Article VII in any depth as Halifax had mentioned. However, Churchill had told Halifax in no uncertain terms that because of America's recent entry into the war the British Government considered it opportune to delay agreement as long as possible. (58) It was becoming doubtful though whether the British could continue to resist American pressure. Acheson and Feis continued to press strongly for the formalisation of the agreement. It was true that American advocacy of the agreement had fluctuated somewhat from December 7, but it is difficult to agree with the official British history that there had been anything like a general relaxation of pressure or any major change in American objectives. (59) Acheson's determination to push the agreement through finally took him to the President. Roosevelt agreed to suggestions put forward by him. These were that Acheson should make it explicitly clear that the President favoured agreement on the present terms, but if this was not possible then the second part of Article VII should be struck out, leaving each country free to adopt whatever policy it wished. (60) Acheson, in confidence, communicated such views to Halifax, along with a written comment

(57) Hull, Op.Cit. p.1153, Vol.II.

(58) Halifax to F.O. January 29, W1508/122/49.

(59) "The History of The Second World War, Civil Series 1939-45, Financial Policy", R.S.Sayers, HMSO and Longman Green, London 1956, p.411.

(60) See Acheson, Op.Cit. p.33.

comment from Roosevelt.

"... I strongly hope that the British will accept the first course (i.e. immediate acceptance), because the second leaves them in a more difficult future economic position." (61)

The Americans were now really flexing their muscles. The implied threat was, agree to Article VII now, or else when such subjects come up for discussion in the future the probability will be that the U.K. will be faced with an even harder bargain. Furthermore, Britain by her refusal to agree to Article VII was endangering the prospects for future Anglo-American collaboration. This latter point, as the Americans knew full well, was regarded as very important by the British Government. There was also a thinly veiled threat that now the State Department had full presidential backing some members might be less reticent in demanding concessions from the British. Halifax when informing London of these developments, though he did not see them in the threatening light presented here, reiterated his conviction that Britain should sign the agreement.

Indeed the situation for Britain was rapidly deteriorating. The possible advantage Britain might have gained by the entry of the U.S. into the war was being rapidly eroded. In fact, with Japanese successes in the Far East it was becoming a distinct disadvantage in the short run. The divisive effect Japanese successes had upon the Commonwealth was weakening Britain's stand on Imperial Preference. By January 1942, the southern Dominions were pressurising Britain to accept the agreement. With the U.S. as their only possible protector, they were unwilling to

(61) Halifax to F.O. January 29, 1942,
W1508/122/49.

countenance arguments with her over economic policies. (62)

Furthermore, the Australian attitude since Ottawa in 1932 had changed somewhat. At Ottawa much of the impetus for preferences had come from the Australians in the form of Mr. Bruce and from the Canadian representative Mr. Bennet. However, by 1941, Mr. Bruce, now the Australian High Commissioner in London, was tempted by the prospect of Australian access to the American wool market and had modified his views somewhat. He and his economic adviser, McDougall, had, in fact, visited Winant in London to discuss such matters.

"Though they did not in any way compromise the British position, it was clear that they were extremely anxious to assist in reaching a solution satisfactory to all sides." (63)

As for Canada, the Prime Minister McKenzie King had originally opposed the preferential system and would on no account countenance a breach with the United States, on the grounds in question, because of Canada's close economic and commercial links with that country. The emergence of these divergent attitudes in the Dominions was of great concern to Churchill who set such store by the unity of the Empire. So this was yet another pressure on the British Government to reach agreement.

On February 2, the Cabinet discussed the problems involved in Article VII. Eden and Cranbourne decided reluctantly in favour of signing the agreement for fear of the position and conditions becoming even worse. Others in the Cabinet insisted on the unacceptability of the term and held out hopes for improvement. Winant, who shortly after the meeting stayed for

(62) See Australian High Commissioner to D.O. January 31, 1942, W1508/122/49.

(63) Penrose, OpCit. p.21.

a weekend at Chequers, noted that approximately three-quarters of the Cabinet objected to any mention of preferences in the agreement. Some, like Amery, objected on principle, but the majority simply objected to the venue. They were quite prepared to have preferences discussed in the context of a general economic agreement. Their objection was to the nature of the quid pro quo being demanded. Churchill, in particular, did not wish it to appear that Britain was bargaining away imperial preference for materials which she required to wage war against the common enemy. The result of this division of opinion was prevarication. It was generally agreed that it was inappropriate to sign such an agreement until there had been further talks. The Chancellor and the Foreign Secretary were delegated the responsibility for replying to Halifax. In the reply they were to press for the possibility of an exchange of interpretative notes. (64)

On February 4, Winant wrote to Eden and enclosed a letter from the State Department which contained the information and opinions that Acheson and Feis had confidentially communicated to Halifax on January 29. On the following day Roosevelt appealed personally to Churchill for prompt action. (65) Roosevelt said that he did not think it was in either government's interests to delay further. Nevertheless, the Cabinet on the 6th decided to press on. The arguments against signing were substantially the same, though now presented in the following manner.

(64) Cabinet Meeting February 2, 1942, W1870/122/49.
N.B. In Acheson's account in Op.Cit. pp29-33, he refers to this Cabinet Meeting inaccurately as taking place on February 6.

(65) F.D.Roosevelt to W.S.Churchill, received February 5, 1942, W1508/122/49.

"The point of view to which most importance was attached by the War Cabinet was that we should not put ourselves in the position of appearing to give undertakings in regard to our system of Imperial Preference, in exchange for benefits received under the Lend-Lease Act. If we were to alter our system of Imperial Preference, this should be done as part of negotiations for economic concessions from other countries." (66)

Consequently, draft interpretative notes were wired to Halifax in Washington. The draft statements were the same in substance as those drawn up by Richard Law which were referred to above, but with a very significant alteration;

"para. 4. The representatives of the United Kingdom Government have stated that they do not understand the word 'discrimination' as applying to special arrangements between members of the same Commonwealth or Federation." (67)

This was an attempt to get the U.S. to accept imperial preference as a purely domestic politico-economic issue. A point of view which we have come across before, but one which had never been seriously put to the Americans. This was very obviously a last desperate attempt to avoid the implications of America's economic doctrine. Halifax's report of American reactions was very unfavourable; Welles used the word 'grave' to describe the new position brought about by this British innovation. (68) Acheson took much the same line. He said that if the British suggestions were accepted it would mean that discussion of imperial preference would depend solely on the benign grace of Britain. As Welles had said at Placentia

(66) War Cabinet February 6, 1942, W1871/122/49.

(67) F.O. to Washington February 6, 1942, W1508/122/49.

(68) Halifax to F.O. February 8, 1942, W1979/122/49.

Bay, the breakdown of imperial preference had been the goal of the State Department for nine years; they were not prepared to let the issue go like this. In short the Americans turned the proposals down flat. Acheson told Halifax that he saw no point in continuing the talks further. Halifax agreed. (69)

The impasse was reported to Roosevelt and Welles who were unwilling to let the situation rest there. Roosevelt drafted a personal telegram to Churchill which was amended by Acheson and Hopkins. Welles and Roosevelt approved the changes and it was sent off. (70) In it Roosevelt:-

"said that nothing could be further from his mind than an attempt to use Lend-Lease as a trading weapon over the principle of imperial preference." (71)

This helped to soften the feeling that the abolition of imperial preference was the price of war materials. At a cabinet meeting on the 12th, Churchill read out the letter and it was felt that the President had shown a full appreciation of the problems raised by Britain, in particular his acceptance of the fact that there was:-

"...no commitment in advance (of negotiations) to abolish Empire Preference ..." (72)

It seems somewhat strange that the Cabinet should have viewed this letter in the light of a considerable concession from Roosevelt. Acheson certainly put little weight on it.

"If this (i.e. F.D.R.'s letter) did not illumine the subject, as Professor Whitehead said of a lecture by Lord Russell on higher mathematics, it did not deepen the surrounding darkness." (73)

(69) Acheson, Op.Cit. p.33.

(70) Acheson, Op.Cit. p.33.

(71) Sherwood, Op.Cit. p.507.

(72) WM(42)20 Conclusions, February 12,1942, W1871/122/49.

(73) Acheson, Op.Cit. p.33.

What should be kept in mind though was Britain's position which was now really desperate. For example, N.B.Ronald was to paint this gloomy picture only a few days later.

"It seemed to me that our position was considerably weaker now than it had been four or five months ago. The series of calamities which were now overtaking us in the field were attributed rightly or wrongly, by the Americans, the Dominions and India to the ineptitude with which we were conducting the war. There could be no doubt that a strain had been put on the bonds which bound Australia, New Zealand and India to the United Kingdom. The recovery of Malaya from the Japanese might well have to be left to the Americans. They would certainly demand a price for all this. All those areas, particularly Malaya, formed an integral part of any sterling block. South Africa with her gold was also in danger of wobbling out of the sterling bloc. The possibility of a closed Empire economy was now even more of a mirage than it had been before. The Americans could hardly be expected to treat seriously any suggestion by us that, unless they fell in with our ideas for the co-ordination of post-war policy, we should be forced back on a closed Empire trading system. Such a trading system henceforward is probably an illusion ..."

(74)

In the light of this, and the dependence Britain now had, and would continue to have on the U.S. for the immediate future, even a gesture such as the letter from Roosevelt, was grasped for desperately. The Cabinet expressed satisfaction with the position as stated by Roosevelt, though the final decision was deferred for some hours because of ministerial consideration of the agreement. Later on February 12, Churchill wrote to Roosevelt and told him that subject to Dominion approval, they would now sign the agreement, without an exchange of interpretative notes. However, if he was questioned on the agreement he would explain it from his standpoint. This standpoint was that there were no commitments in

(74) Minutes of conversation N.B.Ronald and Sir Hubert Henderson, February 26, 1942, W2458/27/49.

advance of negotiations and that post-war de-control was to be in stages depending on the prevailing economic conditions. Churchill did add that he would not refer to Roosevelt's personal correspondence with him to substantiate such a standpoint. On February 23, 1942, the Master Lend-Lease Agreement was duly signed.

In many ways the agreement was a stand-off. The British had not succeeded in qualifying it to the degree they had wanted, though they were committed to talks which would involve dealing with the problems of discrimination and controls at a time which many considered to be premature. The American position had certainly been improved since their slight setback at the Atlantic Conference, but it was still far from being satisfactory. Still the agreement had been finalised and could be interpreted in a manner which seriously undermined Britain's imperial economic structure. For all the British reluctance to accept verbal assurances this, in the final analysis is what they had to do. The British had reluctantly acquiesced to the force of circumstances and American bargaining pressures. As Ronald so poignantly indicated, Britain's economic position could not be divorced from military defeats and the debilitation of Empire unity. These problems and the exhausting drain on Britain's economic resources themselves, was to complicate her talks with the Americans on economic and post-war planning during the rest of the hostilities. However, toward the end of 1941 there was a new ray of hope for Britain. Maynard Keynes had for some months been in favour of signing Article VII.

He did not believe that further modifications of it could be made because the real task was now in terms of detailed economic planning. Keynes believed that it would be possible for Britain to accept a policy of economic de-control which the Americans favoured so strongly, if an adequate international monetary system could be established. Such a system he envisaged in terms of an International Clearing Union, to the planning for which we must now turn.

The International Clearing Union and
The Stabilisation Fund: Two Different
Answers to Two Different Questions.

The opening months of 1942 were dismal indeed for Britain. Losses of men and defeats in the Far East snowballed along, culminating in the fall of Singapore on February 15. Britain's much vaunted naval expertise was unable to prevent the loss of the prestigious 'Prince of Wales' or the movement of German warships through the Channel in broad daylight. In North Africa the Germans were proving to be considerably more troublesome than their Italian allies, and here too, the British began to experience a series of reverses which were not arrested until July 1942. Confidence at home and abroad was badly shaken, so much so that Churchill broadened the political base of his government during February. Atlee became deputy Prime Minister and Minister at the Dominions Office, Cripps Leader of the House and Hugh Dalton President of the Board of Trade.⁽¹⁾ These further declines in Britain's fortunes affected to a marked degree, the negotiations in Washington. Britain's position was now precarious on all fronts.

Britain had been shown to be incapable of protecting her interests in the Far East in the face of Japanese aggression. Not only had Britain lost Malaya, with her tin and rubber which provided over £300m a year in foreign currencies for the sterling bloc, but also a great loss of prestige. The growing dependence

(1) For other ministerial changes see, 'British Political Facts', Butler and Freeman, Macmillan, London 1968, pp 22-31.

of Australia and New Zealand on the U.S. for their defence had a disruptive effect on what political cohesion there was in the Empire. These challenges to both the political and economic bases of the British Empire affected Britain's standing in the Empire itself, furthermore, there were fears that South Africa, with her gold, might leave the Sterling Bloc which would adversely affect Britain's negotiating strength with the U.S. One of the main strengths of the British bargaining position in the Article VII controversy had been the possibility of Britain maintaining a viable preference system based on the Empire and sterling.⁽²⁾ By 1942 this alternative to cooperation with the Americans appeared unviable. However, fortunately for Britain, although the Americans pressed for, and were successful in bringing the consideration agreement into being, conditions in the U.S. were such that further talks at this time did not materialise. The U.S. was having considerable difficulties herself, organising her war effort, creating a more efficient administrative structure, apportioning responsibility for decision making areas to the various departments, coordinating policies and, of course, fighting the Japanese. In fact, as shall be seen, 1942 was largely devoid of post-war planning per se, though preparations towards that purpose did get underway. Very little was done to resolve the problems lingering, and indeed perpetuated by the Mutual Aid Agreement. Some tentative steps were taken to rationalise supply provisions between the U.S. and the U.K., and noises were made

(2) For U.S. fears on this see 'Pasvolsky Memorandum' in Halifax to Eden, December 16, 1941, W367/81/49

over the Lend-Lease White Paper, but largely inconsequential at this stage; though they will be considered briefly later. The main developments, from our point of view in 1942, were ideas regarding international monetary problems. Keynes by the fall of 1941 had begun to apply himself to this problem. He saw its solution as a necessary complement for British economic success if she was to abandon preferences, bilateralism, quotas, etc., as the Americans seemed determined that she should do.

Keynes was basically in favour of a multi-lateral solution to the problems of international trade, and commerce; but was deeply appreciative of the obstacles to such an approach and the relaxation of economic controls which it entailed. In accordance with the prevalent belief of the British Government and administration, he judged that Britain's economic decline and the war-time organisation of her economy would render the adoption of an economic policy of de-control in the international sphere unviable without a transition period and international provisions to cope with the problems which would arise. The American failure to appreciate or make concessions to Britain's weakening economic position, at times, intimidated Keynes. It was not a matter of him being a proponent of bilateralism, preferences, exchange controls, etc., for their own sake, but of such policies being the only possible way of sustaining the British economy under certain conditions. He was not being doctrinaire and certainly objected strongly, on more than one occasion, to being categorised as an unqualified protagonist of bilateral clearings, and was further irritated by the apparent lack of American enthusiasm to discuss the problems in order to

clarify the issues and avoid such misinterpretations. (3)

Keynes was in favour of the relaxation of economic restrictions and this was re-inforced on the commercial side by J.E.Meade (4) who was working on the control of international commodities 1941-42, and whose work was to become a basis of I.T.O. and G.A.T.T. It was then, not a radical difference between economic visions that divided the U.S. and the U.K., but the problem of how to bring what was very much a common vision, into being.

The Board of Trade held similar views. For example, a memorandum of February 12, 1942, began:-

"Ideally, the Board of Trade regard a multi-lateral system as the desirable basis for this country's trade and for international trade generally." (5)

But like Keynes in the Treasury, there was concern over the methods to be employed. In the Board of Trade's view the Americans were placing an unwarranted optimism on the efficacy of the M.F.N. (Most Favoured Nation) principle. Although the adoption of this by the Americans had alleviated trade conditions in the 30's to a small extent, there was always the danger that it could simply mean -

'..equality of treatment before a closed door...' (6)

Furthermore, the Article VII agreement, although there was an interdependence between U.S. and U.K. reductions of trade barriers, the British were pledged to the abolition of preferences as opposed to American reductions in tariffs. Now reductions

(3) See J.M.K. Memo 5.1.42, F.O. Indexed W749/81/49.

(4) Member of the Economic Section of the War Cabinet Secretariat 1940-45, Director 1946-47.

(5) Board of Trade Memo 'Post-War Commercial Policy', Shackle, F.O. Indexed W2317/27/49, February 12, 1942.

(6) Ibid.

of tariffs was a very complicated issue and a time consuming one.

"Geneva experience has shown multi-lateral "all-round" tariff reduction schemes to be virtually impractical." (7)

The alternative to this was a very protracted series of bilateral negotiations which could take up vital time at the end of the war when Britain would most need a more liberal American import policy. However, this eventuality was not of great salience at this time, it began to be considered but not until the commercial talks were started did it become of critical importance. On the other hand the transition period, of which the above would be a key detail, was of general and prominent concern.

"Before the war, while preserving the general basis of M.F.N. treatment, we had to make certain departures from it, such as clearing and payments agreements, etc., and there is reason to expect that the difficulties which led to our adopting these special expedients will exist in still greater degree after the war. Except in so far as special steps could be taken to alleviate these difficulties and to stimulate trade and employment generally under some of the various suggested forms of Anglo-American co-operation, we should need to be at liberty to avail ourselves temporarily at least, of some of these 'bilateral' devices." (8)

By early 1942 Keynes favoured a concentration on the substantial economic problems which would arise in the post-war period. He believed that Anglo-American problem solving in the practical field would be conducive to a more concrete Anglo-American accord than declarations of economic principle. Thus by February 1942, though still perturbed by the vagueness of the wording of the Mutual Aid Agreement, he had been urging

(7) Ibid

(8) Ibid. p.5. Similar views in Draft Treasury note on 'External Monetary and Economic Policy, February 17, 1942, W2458/27/49.

British acceptance of it for some months.⁽⁹⁾ Not only did he believe that acceptance of his Clearing Union (C.U.) would solve some of the problems that had plagued the consideration of Article VII, but he also knew that the success of the C.U. would be dependent upon U.S. collaboration. With this cooperation he hoped to concretise to some extent the economic position of the two countries in a manner which would hopefully alleviate the post-war difficulties envisaged for Britain. Obviously Keynes did not wish to break with the Americans over Article VII with such aspirations in mind.

From the fecundity of his mind, Keynes rapidly formulated the problems which could restrict post-war international liquidity and he began to produce a structure of inter-related answers which he termed an International Clearing Union. However, before we turn to analyse the development of the C.U. and later the American Stabilisation Fund (S.F.) we must first look at the important conditions under which they were developed. During 1942 there was a distinct absence of active U.S.-U.K. cooperation on economic planning. The declared intention to embark upon conversations to implement the Article VII provisions "... at an early date", was in fact delayed until the Autumn of 1942, and then the preliminary talks were very tentative.

In the Spring of 1942 Winant suggested that Washington should send a small group of experts to London to engage in informal talks on ways of implementing Article VII. But Spring passed on for Summer and still no U.S. representatives materialised.

(9) See E.F. Penrose, *Op.Cit.* p.30.

By August the Foreign Office decided that they were not going to do so. In July, Acheson had confidentially informed the British Embassy Officials that the delay was due to the difficulty of selecting:-

" ... two or three people out of the many departments who would expect to be represented." (10)

These 'confidential remarks' of Acheson were in fact simply the tip of a very complicated iceberg. The Americans were naturally primarily concerned with the dangerous strategic position in the Pacific and organising war-time production. On the third of January Field Marshall Sir John Dill, senior British officer of the U.S.-U.K. Combined Chiefs of Staff, wrote of the American military organisation:-

"There are no regular meetings of their Chiefs of Staff, and if they do meet there is no secretariat to record their proceedings. They have no joint planners and executive planning staff ... Then there is the great difficulty of getting the stuff over to the President. He just sees the Chiefs of Staff at odd times, and again no record. There is no such thing as a Cabinet meeting, and yet the Secretaries for War, Navy, etc., are supposed to function. At present this country has not - repeat not - the slightest conception of what the war means, and their armed forces are more unready for war than it is possible to imagine.....
The whole organisation belongs to the days of George Washington ... " (11)

Similarly, the State Department was very badly organised for dealing with foreign affairs on a vastly expanded scale.

(10) Playfair to Shackle, May, 1943, U2505/47/70.

(11) Dill to Brooke, January 3rd 1942, from Lord Alanbrooke Personal Files - quoted 'The Turn of the Tide 1939-43 - A Study Based on the Diaries and Autobiographical Notes of Field Marshal The Viscount Alanbrooke' by Arthur Bryant, Collins, London 1957, pp.292-93. For some details of domestic re-organisation for war production see early chapters of 'Speaking Frankly', by Byrnes, J.F., Heineman London 1947 - Byrnes was Director of Economic Stabilisation 1942-43 and Director of Office of War Mobilisation 1943-5 in which positions he was likened to a Vice President in charge of domestic affairs. For some details of war taxation policies and fiscal measures see J.M.Blum, 'From the Morgenthau Diaries - Years of War 1941-45' Houghton Mifflin Co. Boston 1967.

The State Department ciphers, for example, were so unreliable that the President often used military ciphers in diplomatic exchanges. A situation which exacerbated the State Department's ignorance of international developments due to Roosevelt's monopolisation of the 'political aspects' of the war and partly accounts for references to Winant's lack of knowledge in certain areas of Anglo-U.S. negotiations and the widely held knowledge of this in the U.K.⁽¹²⁾ Roosevelt did in fact take charge of U.S. foreign policy to an extreme extent largely to the exclusion of the State Department.

"Prior to Pearl Harbor I had been a member of the War Council, composed of the President the Secretaries of State, War, and the Navy, the Chief of Staff, and the Chief of Naval Operations, and I took part in its meeting. After Pearl Harbor I did not sit in on meetings concerned with military matters..... I learned from other sources than the President what had occurred at the Casablanca, Cairo, and Teheran conferences." (13)

Some rationalisation and reorganisation of the administrative system had taken place during 1939-42, but the problems of executive co-ordination, particularly with regard to the State Department were never satisfactorily resolved during the war. R.E.Sherwood⁽¹⁴⁾ comments on the failure of Stettinius to effectively reform the department as Secretary of State. This was, in fact, one of the major tasks delegated to him by Roosevelt. Sherwood suggests that Stettinius's failure was due to professional inertia in the department and reluctance to become involved in 'International New Dealing' and 'One World Ideas' after long experience of isolationism. The lack of

(12) See a letter of December 11, 1942 U1838/50/70.

(13) Hull, Op.Cit. pp.1109-1110.

(14) Op.Cit. p.757.

communication between the President and the State Department over 'military matters' caused added confusion in the department as, of course, military matters often had wide implications for post war planning - the primary role of the State Department in these years - which indeed was noted by Hull, himself. The organisational inadequacies of the State Department were further compounded by lack of clear directives, particularly concerning liaison and cooperation with the Treasury on post-war problems. Eventually the co-ordinating and inter-departmental organs established during 1939-42, and which were further developed during the war did bring about smoother executive functioning, but inter-departmental conflicts did continue to arise throughout the war, often confusing both American policies and procedures; and the British who were on the receiving end. (15)

(15) N.B. January 8, 1940, based on recommendatory memo by Leo Pasvolsky 'Advisory Committee on Problems of Foreign Relations', Chaired by S. Welles, with three sub-committees on Political, Arms and Economic Problems - chaired by G. Rublee (Welles in effect because of Rublee's ill health), Judge Moore and Pasvolsky respectively.

May 27, 1940, Economic sub-committee re-organised under Pasvolsky and re-named Inter-Departmental Group to Consider Post-War International Economic Problems and Policies with representatives originally from State, Treasury, Agriculture and Commerce Departments, but broadened further as time passed.

December 22, 1941, Hull proposed Advisory Committee on Post-War Foreign Policy consisting of members of the State Department, academics, journalists, businessmen, etc., to be chaired by Secretary of State: approved by F.D.R. on December 28, 1941. It contained two economic sub-committees to deal with short term reconstruction problems and long term economic problems. They were chaired by A.A. Berle and Dean Acheson respectively - first met February 20, 1942. A Political Advisory Committee chaired by Welles, February 21, 1942-Jan. 23, 1943; January 30 taken over by Hull, continued to meet till June 19, 1943. Other sub-committees on International Organisation, Legal and Territorial Problems.

April 9, 1943 - the two economic sub-committees superseded by the Post-War Foreign Economic Policy Committee or Taylor Committee, chaired by Myron C. Taylor - this marked an expansion of post-war planning initiated by Hull.

September 22, 1943, Committee on Co-ordination of Economic Policy. Again instituted by Hull and presided over by M.C. Taylor.

For a fuller account of committees and their composition See Notter, Op.Cit.

As we shall see the Treasury was undergoing similar re-organisation, though not on the same scale, or to the same extent.

A considerable amount of re-organisation was being carried out in the State Department during the latter part of 1941 and the early months of 1942. This, of necessity, caused some delays. It had become obvious during the 1941 Anglo-American talks that the Americans were unsure of themselves in elaborating in detail, and putting into practical formulations the economic principles which predominated in the State Department. This partly stemmed from the over zealous faith, in the efficacy of joint statements of principle of Mr. Hull, noted before. Even in retrospect he could write of the completion of the Mutual Aid Agreement:-

"The foundation was now laid for all our later post-war planning in the economic field." (16)

As we have already seen in February 1942, the leaders on both sides were not even sure about the interpretation of the agreement and Hull himself had tried to extract from the British an interpretation more concretely in favour of American interests. There was indeed much room for further clarification and scope for the Americans to develop practical proposals in Article VII talks. However, there was considerable confusion and conflict within the U.S. as to how talks with the U.K. should proceed, particularly between the Treasury and the State Department.

On February 20, 1942, the newly formed Advisory Committee on Post-War Foreign Policy held its first meeting and by March 21 Acheson was able to submit a report of his economic

(16) Hull, Op.Cit. p.1153.

sub-committee to a full meeting of the Advisory Committee. It was clear that the consideration of relevant Anglo-U.S. economic problems in relation to future Article VII talks was still in its infancy. More commercial handling of Lend-Lease supplies and long range economic policies were being considered and also,

"... Attention was being given to the problem of
balances of payment." (17)

However, even at this early stage there was little co-ordination of policies with the Treasury. H.D.White, in charge of Treasury liaison with other departments on external policy was not a member of the Advisory Committee in its initial stage. And yet it was to be the Treasury which took the lead in the field of economic post-war planning in 1942.

The Treasury was headed by Henry Morgenthau, an old friend of Roosevelt's and a strong advocate of New Deal policies. This friendship, in marked contrast to Roosevelt's formal relationship with Hull, was partly responsible for the comparatively large role the Treasury played in the foreign affairs of the U.S. during the war. At the same time Hull's prestige both in Congress and among the public should not be forgotten. Indeed Rosenman comments that of the Administration only Hull, as far as Roosevelt was concerned, was politically dangerous if he threatened to resign.⁽¹⁸⁾ Still with regard to the negotiations with the British on problems of international monetary stabilisation, it is doubtful if the State Department had the relevant expertise, with the possible exception of Merle Cochran who in early 1942 was on loan to the Treasury from the State Department. (Indeed at times Keynes questioned the Treasury

(17) Notter, Op.Cit. p.88.

(18) See Rosenman S.I. 'Working with Roosevelt', Rupert Hart-Davis, London, 1952.

Department's competence to conduct negotiations of such a technical nature). On December 8, 1941, Morgenthau called a meeting of his senior staff and to avoid any friction appointed H.D.White to be in charge of the Treasury's foreign affairs liaison with the State Department and to be in charge of drawing up a Stabilisation Fund. This was confirmed on December 15 by Treasury Department Order 43. This was all very appropriate and perhaps inevitable, and yet it was to cause some difficulties. Until 1942, U.S.-U.K. negotiations on economic problems had been mainly restricted to the State Department and the Agriculture Department. Contacts with Morgenthau had been primarily concerned with payments for pre-Lend-Lease goods and their supply. Once the Lend-Lease Bill had been passed, responsibility passed to General Barns and Hopkins, and later to O.L.L.A. under Stettinius. The rapport already established between the State Department and British representatives in the U.S. was lacking with the Treasury, particularly White who was not an easy man to get on with at the best of times.⁽¹⁹⁾ And yet it was at this time of re-organisation in the State, Treasury and other departments and when there was a paucity of effective coordination of policies that the problems of international monetary re-organisation became prominent and had to be dealt with by the Treasury. White was the master-mind behind the S.F. but naturally he had to work with a broad section of Government advisers and officers, largely in two committees, a Cabinet level committee and a sub-committee known as the 'American Technical Committee' consisting of experts from the Treasury, State and Commerce Departments, the Board of Governors of the Federal Reserve System,

(19) See Rees, Op.Cit.

Securities and Exchange Commission and the Foreign Economic Administration, all of whom met under White's chairmanship, though it was he and his two Treasury advisers, Edward M. Bernstein and Ansel F. Luxford, who were largely responsible for the development of the financial plans.

During the early months of 1942 White drew up three tentative drafts of a S.F. and in May Morgenthau foreworded a copy of a draft to Roosevelt with the remarks:-

"I am convinced that the launching of such a plan at this time has tremendous strategic as well as economic bearing. It seems to me that the time is ripe to dramatize our international economic objectives in terms of action which people everywhere will recognise as practical, powerful and inspiring." (20)

Morgenthau's memorandum was received favourably by the President who suggested that the studies now in progress should continue and that Morgenthau should refer back to him after discussions had taken place between the interested departments. (21) Morgenthau called a cabinet level committee meeting on May 25th which went smoothly. On Jesse Jones' suggestion, White was made chairman of the sub-committee, or American Technical Committee as it became known, and gave it the responsibility of issuing the next report on the issues involved. The State Department representative Herbert Feis appeared favourably disposed to the developments and no hitches emerged during the meeting.

However, there were differences between the State and Treasury Departments. First of all the State Department resented Treasury encroachments on foreign affairs, especially

(20) Memo by Morgenthau to F.D.Roosevelt, May 15, 1942, taken from the Morgenthau Diaries and quoted in Blum, Op.Cit. : Morgenthau Diaries 528 : 321-322.

(21) F.D.R. to Morgenthau in Diaries 597:7. Quoted in Blum Op.Cit.

so when a large portion of foreign affairs had already been taken over by the President. The Treasury under Morgenthau as we shall see, had ambitions to internationalise New Deal policies of 'economic guidance'. Now as far as the Treasury was concerned in 1942 her role in foreign affairs was fairly narrowly circumscribed, though of great significance. The State Department on the other hand, in spite of Presidential encroachments, still had a large area of policy decisions to concern herself with. This again caused some difficulties. The State Department wanted to place plans for an I.C.U. or S.F. in a context of wider post-war economic planning. This not only coincided with the broader foreign affairs interests of the State Department but would also perpetuate State Department's overall control in this field, thus imposing some restraints on the actions and policies of the Treasury regarding the S.F.

Suspicious soon developed between the State and Treasury and differences over procedure irritated Treasury officials who began to suspect that Hull was attempting to sabotage the monetary proposals being developed. The State Department favoured talks of an informal nature with a small number of countries. They did not favour a full international conference which Morgenthau and White were pressing for. The main domestic objections the State Department had for this was that Treasury participation in an international conference would confer upon them recognition and prestige in the field of international monetary matters which would give them virtual autonomy in this field. An eventuality this, that would not only detract from State Department prestige but could be harmful to the Department's post-war economic policies. The main problem here was that it was known that Morgenthau had great ambitions

for the dollar in the post-war world and the concomitant of this was a weakened position for sterling, not necessarily as a positive aim of Treasury policy but simply by not adopting policies to help a weakened sterling. The State Department on the other hand wanted a reasonably healthy pound to enable the U.K. to implement a more liberal economic policy. The State Department also, with the recent difficulties with the British over Article VII in mind, the large British stake in international monetary reform and British expertise, were apt to be more deferential to the British position. They thought it merited close U.S.-U.K. talks as a preliminary. Acheson explained to Morgenthau on July 2, 1942, that the British in his opinion were:-

"... very nervous that we will produce a large meeting, have some plan which we will put before that meeting, and that they will not have an opportunity to go over the whole thing with us freely, privately, and frankly before the thing starts." (22)

There was also a feeling, not just in the State Department either, that such talks in isolation were premature. Alvin Hansen and Benjamin Cohen of the State Department and E.A. Goldenweiser of the Federal Reserve System; all members of the American Technical Committee, warned White that his S.F. was assuming the solution of all other post-war economic problems. (23) Nevertheless, as we shall see, the State Department was reluctant to enter into a discussion of a wide range of economic problems at this time and it would appear Morgenthau was unwilling to wait for the State Department to surmount this reluctance. During the conversation with Acheson

(22) Conversation July 2, 1942, Morgenthau Diaries 545 : 90-114 in Blum, Op.Cit.

(23) See footnote p.75 Gardner, Op.Cit.

on July 2, Morgenthau, exasperated with the slowness of decisions told Acheson that he would allow Hull to decide the nature of the procedural initiative on the monetary talks, and would abide by that decision: but he demanded that Hull should come to a clear decision. By July 21, Hull's proposals on procedure had been received and fully accepted. The U.S. was to inform friendly governments of the U.S.'s. moves on the monetary field, and representatives of the Treasury and the State Department were to invite spokesmen from the U.K., S.U., China, Canada, Australia, Brazil and Mexico for introductory discussions. If their response was favourable, then the Treasury was to draw up an agenda and other necessary documents for a formal international conference. (24)

In fact the State Department itself was beginning to look more favourably on the renewal of talks. On July 23, Hull made a major broadcast on post-war economic policy. (25) In his speech Hull reiterated the spirit of the Atlantic Declaration, and made a specific reference to:-

" ... the need for making national currencies once more freely exchangeable for each other at stable rates" (26)

The U.K. Embassy in Washington thought the speech more remarkable for its omissions. Hull had omitted widely expected criticisms, of what he considered utopian post-war plans being entertained in the Board of Economic Warfare under Vice-President Wallace and his protege, Milo Perkins; this also applied, though to a

(24) See Blum Op.Cit. pp.233-234.

(25) See F.O. Indexed A6957/5202/45, Winant to Eden, July 25, 1942.

(26) Ibid.

much lower degree to Henry Morgenthau. This feud, outstanding between the State Department and the 'New Dealers' in the Administration, now moving into the international planning field, had recently been exacerbated in discussions with Sir Frederick Leith-Ross over post-war relief schemes, which made Hull's lack of critical comment appear even more memorable. (27) It was indicative, however, that Hull had established, to his own satisfaction, the procedure for further talks with the British on international monetary matters. In the months of July and August tentative steps were taken to re-start talks. It was clear to the British by mid-Summer that the Americans had no intention of renewing talks in London but copies of the C.U. and the S.F. were exchanged for study. Rees comments:-

"From this time on the two countries worked together on postwar financial planning." (28)

This had certainly not been the case up until the late Summer of 1942 and in fact the implication of this comment is somewhat misleading with regard to subsequent developments.

What, then in summary, were the reasons for the delays over Article VII talks? Inter-departmental rivalry was one factor. The State Department wanted to keep post-war planning under its own wing, but the switch of emphasis to monetary matters in 1942 necessarily involved the Treasury. In an attempt to minimise the Treasury's influence the State Department tried to broaden the talks on post-war economics so that specialist areas

(27) F.O. Indexed A6957/5202/45. Sir R.I. Campbell to F.O. Weekly Political Report: August 4th 1942.

(28) Rees. Op.Cit. pp.140-141.

such as money would have to fit into a general framework determined by the State Department.⁽²⁹⁾ This necessarily entailed much reorganisation and the establishment of inter-departmental committees to consider the problems which added to the delays. In addition Hull entertained an unjustifiably optimistic assessment of the implications of the Article VII Agreement, but he was reluctant to enter into the more down to earth exercise of implementing it in detail, knowing full well there was always a danger of the principles being modified in such talks. This was particularly undesirable with the mid-term elections rapidly approaching.⁽³⁰⁾ Finally, Hull was not enthusiastic about bilateral talks with the British because, among other reasons, it might alienate other U.N. members from the multi-lateral approach he favoured. This last point though was not so strongly subscribed to by some of Hull's main aides in the State Department.⁽³¹⁾

This delay and its causes are of considerable importance. The delay was a symptom of the lack of U.S.-U.K. communication at this time and exacerbated a condition Keynes had noted in his critique of the 'Pasvolsky Memorandum'.⁽³²⁾ The two sides were formulating problems and developing solutions in virtual isolation from each other. As we shall see what informal efforts were made to keep the two sides familiar with respective planning developments was insufficient to avoid the production of two separate plans and their publication. This was an eventuality

(29) See Memo of conversation J.M.Keynes and Penrose, Memo to G.Jebb dated August 21, 1942, U584/50/70.

(30) Memo O. Sargent, August 25, 1942, U560/5202/45.

(31) Hull's last two objections to renewing talks confirmed by Acheson, conversation with Opie and Phillips, August 19, 1942, Campbell, Minister in Washington 1941-45, to F.O. U565/50/70.

(32) Keynes, January 5, 1942, W789/81/49.

which created a number of significant problems. Still this is anticipating events. In order to continue the story a detailed look must be taken at the genesis of the C.U. and the S.F., the motivations behind them and the conditions they intended to bring about. It should be kept in mind though that the problems of communication described above and the differences of opinion between the State and Treasury Departments only exacerbated the difficulty of resolving the substantial problems we are now going to consider. Lack of communication did not create them.

Keynes' ideas on monetary reform gradually took shape during late 1941 and early 1942. Harrod comments that originally the C.U. was regarded very sceptically in government circles, but as it was discussed, amended and re-drafted it gradually became accepted.⁽³³⁾ In this sense British executives proved more receptive to re-education than the Americans. By the Spring of 1942 the proposals for an I.C.U. had taken shape but had been disclosed to no-one outside British Government circles.⁽³⁴⁾ Mr. Winant's suggestion that a small team of experts should come to Britain from the U.S. to discuss monetary problems was received well in the U.K. though as we have seen, the proposal proved abortive. Nevertheless, in anticipation an outline of the C.U. proposals was submitted to the Dominions on May 22nd.⁽³⁵⁾ By August the British had drawn up I.C.U. as an official government document, and, as it was apparent that American inaction in London would require new initiatives to be carried out in Washington, in early August a copy of the C.U. was handed to the Americans by Phillips.

(33) Harrod, Op.Cit. p.528.

(34) Playfair to Shackle, May 31, 1943, U2505/47/70.

(35) See Ibid.

Britain's primary problem in the post-war period in terms of economic reconstruction was judged to be the establishment of a balance of payments equilibrium. This had to be done without depressing the domestic economy, a problem further complicated by the existence of the sterling bloc which often necessitated an 'expensive money' policy in order to attract and/or retain sterling deposited in London by members of the bloc. Keynes did not wish to solve the problem by the perpetuation of defensive economic controls, if possible. He saw the alternative in terms of an international organisation. But knowing that Britain's economic and political future was inextricably inter-woven, and that Britain would emerge from the war economically exhausted, he wanted to ensure that a nation's crude economic power would not reflect, in an institutionalised form, its concomitant political power. Judging that Britain would emerge from the war economically weak, he set out to politically establish a de-politicised international organisation that would institutionally help to promote Britain's economic welfare.

In the preface to the I.C.U. the main objectives were clearly stated to be the rejection of bilateral clearings, unilateral competitive devaluations and the avoidance of national trade dis-equilibria. The proposed solution in general terms was to institute orderly banking, as opposed to political, control over monetary prices. The creation of a flexible quantum of artificial international currency combined with the penalisation of its abuse, whether in the form of accumulating debts or credits. The application of un-used credit balances to finance reconstruction and development. All these measures were aimed at re-creating international confidence in trade and to provide an adequate breathing space so that other appropriate economic remedies could

be adopted in an orderly way to establish international equilibrium.

"The idea underlying such a Union is simple, namely, to generalise the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the Union can never be in any difficulty as regards the honouring of cheques drawn upon it. It can make what advances it wishes to any of its members with the assurance that the proceeds can only be transferred to the clearing account of another member. Its sole task is to see to it that its members keep the rules and that the advances made to each of them are prudent and advisable for the Union as a whole." (36)

The provisions of the plan did contain a number of points which were to cause controversy with the Americans; provisions which were rather obviously favourable to British interests. The voting system was to be proportional to each country's quota which was defined as the maximum debit balance allowed to a country, and that sum was estimated on the basis of the volume of a country's exports and imports over a selected period. This was obviously a favourable provision for the U.K. Secondly, the institution of sanctions against consistent credit balances, placing responsibility on creditor countries to help establish economic equilibrium, although economically sound, its onus would fall primarily on the U.S. It was intended to prevent the accumulation of credit causing dis-equilibria, and exercising a contractionist pressure on the world economy. Creditor countries would have to help finance other countries' deficits and facilitate their export sales.

"How indeed can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms." (37)

(36) F.O. Indexed U584/50/70. Proposals for an International Clearing Union, dated August 22, 1942.

(37) Ibid, p.5. Section III, para 12.

However, these proposed sanctions were to be automatic and embodied in the rules of the C.U. There were to be no 'political' manipulations of monetary prices, withholding of credit facilities, etc. The only sanction against states per se was the removal of the C.U. facilities from them. In section 8, paragraph 38, Keynes stressed what he termed the impersonal banking nature of the C.U.

"No particular member States have to engage their own resources as such to the support of other particular States or of any of the international projects or policies adopted. They have only to agree in general that, if they find themselves with surplus resources which for the time being they do not themselves wish to employ, these resources may go into the general pool and be put to work on approved purposes. This costs the surplus country nothing because it is not asked to part permanently, or even for any specific period, with such resources, which it remains free to expend and employ for its own purposes whenever it chooses; in which case the burden of finance is passed on to the next recipient, again only for so long as the recipient has no use for the money. As pointed out above, this merely amounts to extending to the international sphere the methods of any domestic banking system, which are in the same sense "impersonal" in as much as there is no call on the particular depositor either to support as such the purposes for which his banker makes advances or to forego permanently the use of his deposit." (38)

A necessary implication of this was the adoption of a book entry banking system to register credit and debit of the member states which would accordingly render the use of gold as a reserve redundant and in effect de-monetise it. This would remove a very important political and monetary lever from the U.S. as she held the vast majority of the world's monetary gold. Also in addition to the innovation regarding persistent creditor balances referred to above (39) there were also arrangements regarding the holding of reserves which would help to protect

(38) Ibid, p.11.

(39) See also Section VII, para 35 Ibid.

Britain's economic position.

"It should, therefore, be laid down that Central Bank balances may not be held in another country except with the approval of the Central Bank of that country; and, in order that sterling and dollars might not appear to compete with bancor for the purpose of Central Bank reserve balances, the Founder States might agree together that they would not accept reserve balances of other Central Banks in excess of normal working balances except in the case of banks definitely belonging to a Sterling Area or Dollar Group." (40)

Not only was Keynes incorporating provisions which envisaged the continuation of a Sterling Bloc within the workings of the C.U. but Section IX, paragraphs 42 and 43 were actually designed to help the Sterling Bloc to recover as a viable concern from its war time difficulties. The provisions were designed to enable, as painlessly as possible, the convertibility and liquidation of sterling balances accumulated during the war. Finally, Keynes envisaged the need for a transitional period with reconstruction, perhaps partly financed by the un-utilised credit balances of the C.U., though the main burden would fall on the U.S. in the form of extended Lend-Lease or other forms of aid. If, due to these measures, inflationary tendencies become too prominent, counter-measures could be taken in the form of reducing the amount of credits made available by the C.U. Keynes concluded:-

"It might help to create the conditions and the atmosphere in which much else would be made easier." (41)

By August 1942 the British decided that Winant's Spring plan for U.S. experts to come to the U.K. was not going to prove fruitful.

(40) Section IV para. 23, Ibid.

(41) Ibid.

Penrose and Winant had both been surprised by the tardiness of the American response and indeed the British were gradually realising that Winant and the Embassy in Washington were not effective enough for the delicate negotiations they were about to embark upon, and that they would have to go to Washington. (42)

In preparation for the renewal of talks with the U.S., Phillips was authorised to hand a copy of the C.U. to the Americans in Washington and the Dominions were invited to send experts to London for informal and non-committal discussions on monetary and other post-war economic problems. (43)

During September Phillips began discussions on monetary questions with the State and Treasury Departments. But it soon became apparent that the U.S. wanted to widen the scope if they were to continue. Apart from this point, however, the Americans appeared to have considerable doubts about the C.U. and on October 6, A.A. Berle handed a list of questions concerning the proposals to Phillips. (44)

- (42) By December 1942 The British were fully aware that Winant was not kept fully informed by Washington. See F.O.1838/50/70 Washington to F.O. December 11, 1942: See also George Kenan 'Memoirs 1925-50' Little Brown, Boston, Toronto 1967, pp 170-173. In addition the British did not have a particularly high opinion of Winant usually described non-committally - honourable-inarticulate but a real force, etc. But Alexander Cadogan describes him as an 'ass', 'inaudible', 'a great bore' and 'spineless' - See Diaries of Sir Alexander Cadogan 1938-45", Ed.D.Dilks, Cassel, London 1971; Cadogan was F.O. Permanent Under-Secretary of State January 1938 to February 1946).
- (43) See Playfair to Shackle May 31, 1943, U2505/47/70, and draft of C.U. as discussed above, F.O. U584/50/70 August 22, 1942.
- (44) See F.O. U1008/50/70, Dated October 19, 1942, British Embassy to N.B. Ronald, F.O. 'Questions' relating to the C.U. from the U.S. Administration.

The questions exhibited a surprising lack of understanding of the mechanisms of the C.U., but they did indicate the central concern of the Americans regarding the nature of the basic ideas which would have to be employed - one way or another in any international organisation dealing with monetary matters. Thus, the questions were directed towards the control of exchange rates, lack of government control, problems of inflation, the over-draft system, American liability, creditor responsibility, the possibility of the continuance of the Sterling Bloc as a monetary entity and the emphasis on founding members and the divisive effect this could have on international cooperation. Still, to fully understand the American position we must now turn to study the development of American ideas on this subject, under the overall management of H.D.White. (45)

As we have seen in late 1941 White was delegated the task of drawing up a stabilisation fund by Morgenthau. The Secretary admitted his lack of expertise in such matters according to Blum, (46) and looked to White for the technical expertise. He did of course have well formulated views concerning the underlying principles of such an organisation and of the relationships between states which should be established in such an organisation. Morgenthau viewed Britain with some admiration and established friendly relations with British representatives, though not to an extent which would compromise American interests.

(45) N.B. The British reply to the American questions are contained in the same series of folders but are of little interest, being technical replies and adding little to our understanding of British aims as expressed in the C.U.

(46) Op.Cit. p.229.

He was suspicious of the Bank of England and Wall Street and attributed the economic failures of the 30's largely to them.⁽⁴⁷⁾ Benevolent government guidance on the home front had been the cornerstone of the 'New Deal' and such benevolence was now to be transferred to the international arena. His attitude towards Britain in monetary matters, as we shall see, was determined by his conviction that the dollar, in the control of the U.S. Treasury, should predominate in the post-war monetary field. He and White colluded in attempts to bring these two results about.⁽⁴⁸⁾ This policy implied an unsympathetic attitude toward sterling and accounts for White and Morgenthau's attempts to restrict the size of British reserves and to terminate Lend-Lease on the cessation of hostilities. This also caused some divergence of opinion with the State Department who wanted larger British reserves to support Britain's post-war liberalisation of trade. However, these above comments are only sketchy generalisations of attitudes and nowhere fully account for the twists and turns of policy which we must now delve into.⁽⁴⁹⁾

During 1942, in the early months, White produced three drafts for a S.F. and by May 8th 1942 had completed a first detailed and elaborated draft.⁽⁵⁰⁾ The provisions of the S.F. differed from those of the I.C.U. and more significantly they reflected a deep division of basic ideas and aims between Britain and the U.S. However, the author of one of the most authoritative accounts of the monetary talks during the war appears to differ with the present writer over this, though as

(47) This suspicion later extended to R.H.Brand, a banker by profession, who was the British Treasury representative in Washington during the crucial years 1944-46.

(48) See Morgenthau's letter to H.S.Truman quoted in 'New York' Herald Tribune', March 31, 1946.

(49) For above see Blum Op.Cit. p.122-124.

(50) Blum, p.230.

shall be illustrated, there is certain confusion in his interpretation. Of the genesis and early drafts of the two plans, he says:-

"These two plans were strikingly similar both in their origin and in their fundamental purpose..... The public discussions of the two plans reinforced the impression that a large gulf separated British and American opinion on external financial policy." (51)

Apparently implying that there was no substantial gulf at all. And as regards the active or passive nature of the fund or clearing union, he appears to substantially contradict himself.

"They (I.B.R. and I.M.F.) were to become genuine institutions of international government, serving the needs of their members without regard to national political considerations." BUT .."....., they would have to surrender the right to vary their exchange rates; abolish all forms of exchange control; and submit to Fund supervision over domestic economic policies." (52)

This is not an attempt to caricature Gardner's overall judgement by quoting out of context. He does accept that the U.S. and U.K. were far from agreement on such issues as international liquidity and creditor-debtor control but at the same time does maintain an ambivalent attitude towards the two sides' overall position. Now these stances as E.F.Penrose rightly suggests⁽⁵³⁾ were largely adopted in the knowledge that hard bargaining would of necessity take place. Nevertheless,

(51) Gardner, Op.Cit. p.100.

(52) Op.Cit. Gardner, p.74. Having in mind the early S.F. proposals which would have given the U.S. an effective veto on the governing board - one could ask if such decisions are considered political when under national control, how is it that they qualitatively differed once they became subject to international control, especially as the proposed S.F. governing body in 1942 was so obviously of a political nature? The answer is, of course, the S.F. was to be political both in its institution and effect in a way favourable to American interests.

(53) Op.Cit. p.45.

this, and the knowledge that some compromise would be necessary does not detract from the fundamentally different economic and political judgements and goals which were embodied in these two plans. It is easy to rationalise in retrospect in a manner such as (1) the U.S. had a monetary plan; (2) the U.K. had a monetary plan; (3) after negotiation a joint Anglo-U.S. monetary plan was produced. (4) Conclusion:- the success in producing a joint plan must mean that (1) and (2) were fundamentally similar.

This might be plausible if one could compartmentalise such negotiations. In actual fact these negotiations continued, off and on, until the 1944 Bretton Woods Conference; and the active/passive nature of the Fund was not finalised until 1946. During this period much happened to alter Britain's views, her bargaining position, her evaluation of the I.M.F's. role, and its importance in the emerging context of post-war reconstruction planning.

White stated in the early drafts of the S.F. its general purpose which was to prevent the disruption of foreign exchange, the recurrence of monetary and credit collapse, to assure restoration of international trade and to supply capital for reconstruction, relief and recovery.⁽⁵⁴⁾ The latter three aims come under the jurisdiction of the I.B.R., with assets originally of £10B for contra-cyclical spending and commodity price stabilisation. At 1942 prices quite a considerable sum. However, the Technical Committee concentrated on the S.F. during 1942 and the I.B.R. proposals were temporarily put to one side.

(54) White Papers P.U.L. (Princeton University Library)
File 24.

The conditions for membership of the fund forbade exchange controls, bilateral currency arrangements and required liberal tariff, trade and commercial policies. The fund was to enable one country to buy another's currency up to the limit of its own contribution to the fund, to meet a balance of payments deficit. Purchases above one's own contribution had to be ratified by a four-fifths majority vote of the governing board, which was also required for a change in exchange rates. The voting rights of the board of control was proportional to one's quota, 100 votes each, one additional vote for each \$1m of gold and for each \$2m in currency. The size of the quotas was:-

"... in accordance with an elaborate formula in which arbitrary weights were assigned to gold stocks, gold production, national income, foreign trade, population, foreign investments and external debts. This formula... covered political motives ..." (55)

It was more than just a coincidence that this formula provided the U.S. with an effective veto as it acquired more than 1/5th of the voting rights on the control board. The nature of the fund was to be based on the contribution by members of gold and currency. This was a major difference from the C.U's over-draft principle which, it was estimated in early 1942, would create four times as much credit as the S.F. The fund was also to be less flexible than the C.U. and a symptom of this was the role it allotted to gold.

"The United States ... had acquired most of the world's monetary gold, and as Morgenthau and White saw it, it served the national interest to keep gold as part of an international monetary system." (56)

(55) Penrose, Op.Cit. p.45.

(56) Blum, Op.Cit. p.231.

White's proposals for blocked balances however was one area where he adopted a more radical approach than Keynes. Keynes had simply provided the continued existence of the Sterling Area within the framework of the I.C.U., with rather vague provisions to prevent it or the dollar area from competing with the C.U. outside of their respective areas as a vehicle of international clearing. E.F. Penrose clearly summarises White's rather technical provisions as follows:-

(57) "His scheme would have enabled a government to sell to the I.M.F. blocked balances accumulated during the war (58), on condition that both the creditor and the debtor country after a three years interval would begin to re-purchase 40 per cent of them at the rate of 2 per cent annually. The balance held by the Fund would not be sold without permission from the debtor country. No restrictions on convertibility would be placed on the amounts re-purchased by the creditor country. The danger that the Fund would be encumbered with too much blocked currency was to be met (1) by permitting the Fund to buy the Government bonds of the debtor country, and use them as security for loans in any country except the debtor country and (2) by giving to the Fund authority to limit the proportion of the blocked balances which it would be obliged to purchase in a stated period of time."

The Americans were very suspicious of blocked balances and the economic and political leverage they could bestow. Thus they were prepared to be very forthcoming about their liquidation by convertibility.

In October 1942, H.D. White and Morgenthau came to London. Their primary purpose was to sort out the problems of an occupation currency which would be used in North Africa after the impending allied invasion. However, in July, White had sent

(57) Penrose, Op.Cit. p.46.

(58) In fact a clear differential was not made between war balances and others until February 25, 1943, by the U.S. on U.K. promptings, see F.O. U861/47/70, Telegrams 908 and 909, both dated February 24th, question and answer 13.

a draft of his proposals on monetary re-organisation to Keynes⁽⁵⁹⁾ and Keynes had reciprocated with his C.U. in August. John Winant on the periphery of the economic talks, decided that an unofficial meeting between Keynes and White might facilitate the development of Anglo-American monetary planning. Consequently, a meeting was arranged, attended by the two great men and Penrose, Lauren W. Casaday and Phillips, who had recently returned from the U.S. to discuss monetary matters with the Dominions in London. Penrose's account of the meeting⁽⁶⁰⁾, almost exclusively a White-Keynes tete-a-tete, records considerable disagreement, which appeared more prominent than points of agreement. One of the main areas of controversy was the size of the funds for any international organisation, the possible \$23B U.S. liability under the C.U. was not really appreciated by the Americans. Furthermore, the creation of an artificial currency and the minimisation of the use of gold and the prevalence of ^{impartial} impassive banking principles would, White claimed, be unacceptable to Congress. On the other hand the S.F. strictures on the changing of exchange rates worried the British who were fearful of post-war economic conditions being so unstable that exchange adjustments in this period would be unavoidable. Voting arrangements, quotas and White's aversion to using the Fund for reconstruction were also points of departure between the two.

During October the British talked in some detail with the Dominions concerning the I.C.U. Both Phillips and Keynes were

(59) Rees, Op.Cit. p.140.

(60) Op.Cit. pp 47-49.

in London at this time and considerable modifications were effected to the I.C.U. A number of points were altered and drafting points cleared up. But the most significant change, and a change that reflected the concern felt by the British regarding talks with White on his S.F., was the re-emphasised provision to establish in no uncertain terms creditor responsibility in the I.C.U.. In the August copy of the I.C.U. handed to the Americans⁽⁶¹⁾ the principle of creditor responsibility had been laid down in Section 2, para 4. This provided for a rising interest charge on creditor or debtor balances. In the revised version⁽⁶²⁾ section III was entitled 'What Liabilities Ought the Plan to Place on Creditor Countries?'. The emphasis was now on explaining the consequences of a chronic creditor position. There was no proposal that a creditor should be obliged to reduce import tariffs, export capital and so forth, but it was indicated that if such policies were not adopted, this would eventually disrupt the I.C.U. In fact, the whole rationale of the I.C.U. was that a longer breathing space would be made available which would allow orderly adjustments without resorting to deflationary policies.⁽⁶³⁾

The British concern with creditor responsibility did have an effect on White. In his December 16 re-draft he introduced a 'scarce currency clause'. This was obviously in deference to British views. Unfortunately the U.S. did not clarify the

(61) F.O. U584/50/70

(62) November 9, 1942, U1386/50/70.

(63) Other minor changes included the Governing Board's right to reduce or increase all quotas in fixed proportion on the basis of contra-cyclical planning II (ii), option to invest surplus bancor if it was not being used by the creditor country III(a).

proposal until February 24, 1943. Harrod, and some other pro-American officials in Britain received the new American proposal with great elation. Harrod describes it in euphoric terms in his biography of Keynes, though as we shall see, there were others who appraised it more soberly.

The tentative moves on either side in the Summer of 1942 now seemed to be bearing fruit. In November Phillips had given the Americans British replies to their enquiries on the C.U. which had been made in early October. He also gave them the revised draft of the C.U. which was briefly discussed⁽⁶⁴⁾. The prospects for progress were encouraging. Further talks were envisaged by the British in which White's S.F. could be integrated with the C.U. to produce a joint Anglo-American plan⁽⁶⁵⁾. But in fact the Americans proved elusive yet again and left the British in the dark as to future developments until late-February 1943.

The British were disappointed by the lack of progress. In mid-December even Churchill felt the need to enquire what progress had been made of Kingsley-Wood. Kingsley-Wood replied that the British were prepared for talks and had handed copies of the I.C.U. to the Americans but:-

"they have not been ready to engage in active conversations."⁽⁶⁶⁾

(64) See U1008/50/70 quoted in full above.

(65) Playfair to Shackleton, May 31, 1943, U2505/47/70.

(66) December 17, 1942, Churchill to Kingsley-Wood and his reply W47/47/70.

On January 8, Phillips informed the Treasury that one reason for the delay was that Hull and Morgenthau were apparently reluctant to put up a U.S. plan to be critically shot down. They wanted a plan to emerge in discussion with experts from the U.S., U.K., U.S.S.R., China, Canada, Latin America and perhaps one other representative of the allied powers. The Americans did not have any objection, though, to Britain circulating the C.U. to Russia nor for that matter China.⁽⁶⁷⁾ The American allusion to the emergence of a plan through discussion appeared somewhat strained to the British who had received no rejoinder, from the U.S., to their revised C.U. which had been presented to them in November. The absence of American comments on monetary matters, and their shift in procedural policy caused much concern in the U.K. On February 18, 1943, N.B. Ronald wrote to Cambell, minister in Washington, concerning the status of Anglo-American talks.⁽⁶⁸⁾ The change in procedural policy was quite worrying. During the Summer of 1942 the State Department had emerged from a bout of re-organisation and inter-departmental conflict over subject areas. It had then begun to make noises favourable to a renewal of Anglo-U.S. talks. The State Department had suggested that talks should be renewed a deux between the U.S. and the U.K. on post-war problems. They hoped that by January at the latest an agenda of likely topics for discussion could be drawn up.

On November 17, 1942, Welles had spoken publicly on the desirability of inter-U.N. talks prior to the armistice, also the talks Opie and Phillips had conducted with the State and Treasury departments had initially augured well. Since November

(67) See Phillips to Treasury January 8, 1943 and Playfair to Shackle, May 31, 1943, U149/47/70 and U2505/47/70.

(68) Ronald to R.I. Campbell, Personal and Secret, Feb. 18, 1943, U671/47/70.

though, there had been a pause in developments. The U.S. Administration now favoured a multilateral, or at least a quadrilateral approach with the U.K., China and Russia. The British were reluctant to accept this. In their opinion Britain and the U.S. would have the biggest stakes in the post-war international economic arena and it should be left to them to decide on its basic character. Secondly, they knew that in quadrilateral talks the U.S. would have the automatic support of China at her disposal. The switch in American policy was largely caused by a partial reversal of State Department policy. The State Department did not completely abandon the idea of bilateral talks with the British because they still had an eye on the wider context within which the monetary organisation would have to blend. They also required British acceptance of the general post-war economic structure which they were determined to create. But such acceptance would be less forthcoming if some deference to British views on international monetary planning was not given. The Treasury Department with their narrower concern to simply establish an international monetary organisation went even further than the State Department by urging an international conference. There were other reasons however for the State Department's departure from close bilateral collaboration with Britain. The successful Anglo-American campaign in North Africa had occasioned an acute political problem. The Americans had adopted Admiral Francois Darlan as the leader of the French, despite his previous participation in the Vichy Government and his well-known fascist tendencies. The British supported General Charles de Gaulle and the differences between the British and Americans that

this caused, created a minor political crisis. Hull who had been sympathetic toward Vichy France was inflamed by the British attitude and the whole episode left a sour taste in his mouth for many months. In addition to this direct disruption of relations between Britain and the State Department there was also the effect of the mid-term elections which though more circumspect did inhibit decisiveness in the State Department somewhat. (69) There was also a noticeable shift to conservatism in both parties' candidates. On February 17, 1943, Phillips wrote:-

"Para.2. I never feel sure how far the general setback in recent months to Roosevelt's position, and to the prospects of post-war cooperation is really appreciated in London." (70)

On January 16, momentarily the position brightened. The Foreign Office was informed that Hull himself was taking a renewed interest in Article VII talks and intended to exchange views with the British soon. (71) Later the same day however, any optimism which had been aroused was dampened down with the news that Berle's projected visit to London, of which the British

(69) November 1942	Mid-term election results.					
Gubernatorial (32 contested)	Before		After			
	D.17	R.15	D.24	R.23	P.1	
House of Representatives	D.256	R.165	I.6	D.223	R.209	others 4
Senate Elections	D.65	R.29	I.1	D.57	R.38	P.1 I.1
			P.1			

D = democrat R = republican I = independent
P = progressive

(70) Phillips to Eady, February 17, 1943, U915/47/70.

(71) Reference to this in Ronald to Campbell, February 18, 1943, U671/47/70.

had high expectations, had been postponed indefinitely. Hopes for Anglo-American detailed consultation prior to a wider international consideration of monetary issues were finally dashed by Berle on February 1st. On that day Berle circulated a revised version of White's plan to British, Chinese and Russian representatives in Washington.⁽⁷²⁾ Little deference had been given to British views in the new draft.

Phillips' immediate reaction was that the plan was too detailed to be considered in isolation from other economic issues. He suggested that the British should stall on becoming involved in talks by protesting such a point of view. He was frightened that the U.S. were trying to extract a pledge from Britain regarding rigid exchange stability before revealing their hand on complementary economic issues.⁽⁷³⁾ This reflected a basic problem which tended to separate the two countries. The issue was the balance to be established between 'stability' and 'expansionism' and the measures which would be conducive to such policies. The American Department of the Foreign Office minuted more favourable views on the U.S. Stabilisation Fund proposals. They referred particularly to the measures for dealing with blocked balances after the war.⁽⁷⁴⁾ Gladwyn Jebb also shared this more favourable view, but he was unsure whether White had realised the full implications of his proposals on

(72) Phillips to Treasury, February 4, 1943, U570/47/70.

(73) Ibid.

(74) F.O. N.American Dept. Minutes by Coulson, U627/47/70.

accumulated balances. Jebb further qualified his views by pointing out that the manner of determining quotas must be considered as the crucial problem for Britain. Jebb believed that the proposals should be discussed in a U.N. forum, however, unlike some of his colleagues, he appears to have grasped a nice point concerning American procedural policy. He knew the Americans would not favour a truly multilateral approach in terms of a U.N. forum. What the U.S. did favour was a series of bilateral talks centred on the U.S. which would have the appearance of multilateralism but would leave America firmly in the driving seat. Jebb suggested that the Americans would be the least likely to accept a U.N. forum, and added that:-

"It has been made clear that this (S.F.) is not an official view, but merely the view of officials."(75)

The restricted circulation of the draft S.F. without prior notice or consultation with the British was disconcerting enough but the U.S. also proposed to circulate it to all U.N.'s soon, with a suggestion that experts should convene in Washington for talks. The British Government would have even preferred a general conference of experts to this, but their hand was being forced by the U.S. and they had to follow the American lead. The British now circulated the draft of the I.C.U. to Russia, and China, but informed the Americans at the same time that they hoped a consensus on the monetary issue could be agreed upon by the U.S. and the U.K. prior to the wider circulation of the plans. The Americans chose to ignore this request and with intense pressure emanating from the Treasury the S.F. was

(75) Jebb, G., Head of Reconstruction Department, F.O. 1942-45, Minutes. February 19, 1943, U627/74/70.

circulated to the United and Associated Nations during February. Once again all the British could do was to follow suit with the I.C.U. (76)

Not only were the British having trouble over the substance of the S.F. and procedural policy, they were also experiencing a break-down in communications with the U.S. However, on February 16, Phillips had a conversation with Adolf Berle who agreed to resume bilateral monetary talks with the British on February 23. There had been no substantial discussions since November. (77)

Pasvolsky and Redvers Opie were also present at the meeting on the 16th and Phillips made a detailed record of the informal exchange of views that took place. The two Americans regarded the S.F. and the C.U. as proposals to negotiate which would have to be done on a type of multilateral basis. They said it was difficult to exclude other countries, which of course it now was, due to American actions. They told Opie and Phillips of the favourable reactions from China and of interest shown by Russia. Furthermore, the Treasury Department was pressing for an even wider circulation of the S.F. which would probably occur later in the month, and indeed as we have already seen this is what happened. However, the two American officials added that the lengthy talks which would inevitably ensue, would provide ample opportunity for bilateral Anglo-U.S. consultations. Phillips then raised the question of other economic issues upon which the success of the I.M.F. would be dependent. Pasvolsky replied that in his opinion whatever the progress might be in the monetary

(76) Playfair to Shackle, May 31, 1943, U2505/47/70.

(77) Phillips to Treasury, February 16, 1943, U741/47/70.

talks, some account would have to be taken of other economic problems so that all the international arrangements could 'hang together', but he rather ominously added:-

"In the monetary discussions it would have to be assumed that other conditions were going to be fulfilled." (78)

Berle continued by saying that although the U.S. had made progress on a Primary Products Scheme and plans for international investment, interest was not as universal as in monetary matters. In the former two areas no concrete conclusions had been reached. This caused further worry for the British. They could not see how an international monetary organisation could be devised in isolation from other economic issues. Still they agreed gladly to further talks on the 23rd as the best means of achieving satisfactory progress. (79)

The British decided that the ground would have to be prepared very carefully for the new talks. They began an intensive analysis of the two plans and the problems that they might involve. The major differences were clearly stated in a comparative analysis.

(78) Ibid

(79) Phillips to Eady, February 17, 1943, U915/47/70.

"

Unitas

Bancor

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| 1. Initial quotas levied ...
subscribed capital. | 1.... creation of international
credit. |
| 2. Quotas ... a right to purchase..
currencies ... | 2. Quotas .. a right to over-
draw on an international
account. |
| 3. Presumption individuals remain
free to deal in exchange with
one another for 'current
account' purposes. | 3. Requirement that exchange
transactions be centralised
with the Clearing Bank through
national controls. |
| 4. Control of capital movements
in principle but in practice
by ex post facto use of
correctives. | 4. Control over capital move-
ments implying scrutiny of
all transactions and
preventive action. |
| 5. Sanctions provided against the
weaker party. | 5. Correctives deliberately
applied (at least partially)
to the stronger party. |
| 6. General intention to share a
small part of entirely foreign
resources, but to stop short
of expansion, whether general
or particular. | 6. General intention to be
expansionist. |

28. Conclusion:

..... From the practical point of view the most important questions under the S.F. are the nature of the provisions for exchange control, the adequacy of quotas and the workability of the proposed solution for dealing with scarce currencies."
(80)

This analysis was used as the basis for formulating a series of questions which the British hoped would clarify the situation and indicate what they considered to be some of the dangerous aspects of the S.F. (81)

(80) A Comparative Analysis of the British Project for a Clearing Union and the American Project for a Stabilisation Fund, U740/47/70.

(81) See overleaf.

Footnote: (81)

See Tels. 908 and 909. Phillips to Treasury via F.O. February 24, 1943, U861/47/70: N.B. Blum, Op.Cit. pp 237-239, "The 'scarce currency' clause brought the treasuries of the two English-speaking countries close to each other ..." He continues by saying that there were technical confidential conversations in London and Washington until May 1943 - as we have seen, until February 16, these talks were non-existent. He does mention "unresolved differences" over gold and the degree of commitment to international cooperation the S.F. was supposed to embody.

Rees, Op.Cit. Ch.X, largely based on Gardner and Blum, emphasises what he sees as concessions to the British in the White Plan. He suggests that the remaining problems were just drafting and technical ones, pp 150-153.

Gardner, Op.Cit. pp 80-95 sub-divides the areas of remaining difference in the Spring of 1943 into three.

- (1) Transitional problems, which were in fact not a significant point of discussion at this stage;
- (2) The liquidity issue;
- (3) The adjustment issue.

Of the three writers Gardner places the most emphasis on the fact that differences did remain between the U.S. and the U.K., but even he under-estimated their severity.

Before we become engrossed once again in the negotiations in the next chapter, it would be illuminating to give some detailed attention to the British analysis. Not only will this help in the understanding of the complex issues involved, but also of the British attitudes towards those issues. For this purpose the outstanding differences between the two sides have been divided into four areas:-

- a) The position of gold
- b) Controls, quotas and the liberum veto
- c) The active or passive nature of the monetary institution
- d) The transition period.

a) The Position of Gold

As we have seen, the U.S. was the holder of a large percentage of the world's monetary gold, and Morgenthau and White were unwilling to devise or accept a scheme which would dispense entirely with gold. It was far preferable for them to incorporate gold into an international system which would thus endow the U.S. with great economic and political power. Furthermore, the prevailing economic ideas in the U.S. were more conservative than in the U.K. and the large gold holdings were partially symptomatic of this. Obviously someone who held large quantities of a good which had intrinsic value was reluctant to see its utility detracted from which would occur if the I.C.U. was adopted. Britain's goal was to create an international monetary system which would overcome the restraints imposed by her small holdings of gold and foreign currency in relation to her trade and overseas liabilities. The U.S. simply wanted to utilise her enormous gold holdings and dollars in an international monetary system devised to create stability by eliminating short term liquidity crises.

Under the C.U. its authority would be the only legal source and repository of international exchange. Under the S.F. gold and foreign exchange were to be used as of old. The central banks were simply to come to the S.F. when they had a shortage of foreign currencies. The S.F. was to complement the workings of the old international monetary system not supersede it as the C.U. was intended to. Furthermore, the role of gold in the S.F. was still not explicitly clear to the British. For example, under the C.U. collateral for quotas was to be a matter of discretionary choice even in a situation of heavy indebtedness. Under the S.F. there was a requirement that 5 - 7½% of quotas should be subscribed in gold. But once this had been paid into the fund it appeared to serve little purpose.

"These deposits appear to be flummery or fancy dress, to the wearing of which there can be no serious objection, if it is thought to look well. It might however, be argued that to ape first the appearance of a gold standard and second the appearance of a capitalised Bank will not be specially attractive to public opinion." (82)

The Americans claimed that gold subscriptions would create confidence in the new organisation; but they stated that lack of gold on a member's part would not prevent them from receiving the benefits of membership. In fact, the Americans intimated that, after the initial subscriptions, holdings of gold would not be necessary for the member states. There was even a possibility that a re-drafting of the role of gold might be in order. At the same time the U.S. made it clear that they hoped the S.F. would contribute to the maintenance of the gold market.

(82) Comparative Analysis, etc., U740/47/70

They also envisaged that countries would continue to settle their accounts on occasion with gold and that the S.F. should have the option of exchanging local currencies for foreign exchange, gold and newly mined gold acquired by a member nation in excess of the amount it possessed when it had joined the S.F. In short, it was obvious that the Americans intended that gold should have an important role in the S.F. British objections to such a policy were based on political, economic and historical grounds. First of all the control of the Fund was to be directly related to gold holdings which would institutionalise American political influence on an international scale. Secondly, if gold was used in the Fund this would give the U.S. a very important economic advantage because of her enormous holdings of that commodity. Thirdly, the British were bitterly opposed to the re-introduction of a quasi-gold standard after the traumas which were attributed to it during the inter-war years. For many, particularly in the Labour Party, it represented orthodox capitalism, contraction of credit, cyclical depressions and expensive money - things which were to be avoided if at all possible. (83)

b) Control, Quotas and the Liberaum Veto.

The British were deeply worried over the size of the quotas. The Americans had mentioned the figure of \$2B for their initial contribution to the Fund. On this basis the British, although still arriving at the rather optimistic figure of \$20B for the aggregate total of quotas, believed that there was a great danger of this being inadequate. The C.U. had envisaged an initial credit

(83) See paras. 1, 5, 8 and 9. Teles. 908 and 909, U861/47/70 and Memo. U.S. Treasury S.F. Section 2, para. 8, January 1943, U627/47/70.

total of \$40B.

"In March 1943 Keynes, ... expressed to me the opinion that the principle of subscribed capital was academically discreditable but not practically important. He and his colleagues in the Treasury were seriously disturbed, however, by what they considered to be the inadequate size of the fund proposed in the U.S. plan." (84)

The American plan also proposed 150% of one's quota as a limit on purchases of foreign currency during the first two years of the S.F.'s operations and 200% thereafter with certain exceptions. It was mainly the discretionary element involved in the control of withdrawals and the vagueness of some of the proposals which caused the British consternation. For discretion meant that there could easily be an opening for political decisions. The fear of politicisation was compounded by the knowledge that under the extant proposals the U.S. alone would have an unbreachable defence in terms of a liberum veto. Thus, although the Americans pointed out to the British that the Fund if it was initially successful could be expanded to a size more amenable to Britain such an eventuality would depend upon the U.S. In the C.U. there were provisions for automatic expansion and contraction of funds in accordance with inflationary or deflationary tendencies, or^a rise and fall in international trade. In the S.F., on the other hand, an across the board proportional increase in quotas was only possible on a fourth-fifths majority ruling from the S.F.'s control board. Such a majority was only possible with U.S. agreement for she held over 1/5th of the quotas and thus a corresponding position on the control board.

(84) Penrose, Op.Cit. p.51.

One alternative to the expansion of quotas would have been the use of 'unitas' which might loosely be described as White's equivalent to bancor. Unfortunately American replies to questions relating to unitas were vague in the extreme. The British surmised that unitas had been used in previous drafts as a possible means of raising funds by selling securities to the public. It did not appear to offer a viable solution to the problem facing the British. The only other alternative external monetary policy which could effectively counter trade disequilibrium was a provision to alter exchange rates. The British saw little danger in controlled rights to alter exchange rates. In the C.U. there was a provision which allowed a 5% alteration either way. This could be done unilaterally by any chronic creditor or debtor nation. With the S.F. the British again came up against the danger of an American liberum veto. The Americans only wanted to allow exchange alterations with a 4/5th majority of the fund. The only concession they even offered to consider at this stage was that the nation whose exchange rate was to be altered should be part of the 4/5ths majority. To the British the S.F.:-

"would seem to give more assistance to those needing less, and less to those needing more." (85)

The idea behind both the S.F. and the C.U. was to give breathing space to allow adjustments of short term disequilibria in an orderly fashion. An underlying assumption of this was that other provisions for the post-war international economy would bring about fundamental equilibrium. Occasional adjustment, when necessary, could take the form of:-

(85) Comparative Analysis,
U740/47/70, p.1, para.4.

1. unilateral exchange controls, which the Fund was trying to avoid because of their discriminatory effects;
2. exchange rate alterations which would have to be effected in an orderly manner to avoid competitive devaluations;
3. alterations to trade barriers, which the British favoured on the part of creditor nations;
4. internal deflation, reducing the volume of imports.

Both the British and the Americans wanted to avoid the resort to such policies if possible. But the British did not believe that the size of the Fund which the Americans had proposed was adequate to overcome short term disequilibria. In the C.U. the adjustments could be financed by utilising credit balances of countries who were not themselves using them. The C.U. also automatically penalised chronic debtor and creditor countries, with the emphasis on the creditors. It was hoped that such pressures exerted by punitive interest rates would lead to a self-righting process. Obviously in some cases individual countries would have to adopt deflationary policies or reduce tariffs but such policies would be decided on by the sovereign state involved within a general code of practice. Two of the main points of Keynes' plan were that such adjustments would be automatic within the framework of the C.U. and secondly that the main onus for such adjustments should be placed upon those most able to cope, i.e. the chronic creditors. However, the Americans, with their distaste for deficit financing and their abhorrence of penalising free-market economic successes, found such provisions distasteful. Their notion was that the S.F. should embody principles of control which avoid inflationary pressures, hence the contributory and limited liability provisions, and secondly, that it should establish monetary stability. Such policies were not as radical as those of the C.U. and required political

decisions and some interference with individual countries' domestic economies to ensure its success. This problem soon became known as the 'active-passive' dilemma.

c) Active or Passive

As we have seen, Keynes for reasons both of national interest and economic professionalism had emphasised that one of the great attributes of the C.U. was its passivity. There was little doubt in Keynes' mind that the character of such an institution would be beneficial to Britain both economically and politically in the weakened position that was envisaged for her in the post-war period. White and the other American negotiators also saw this. The C.U. would pre-empt the Americans from using her economic superiority politically to further enhance her economic welfare. But, if the Americans would not accept the self-righting mechanism of a closed banking system, then an alternative solution to the problem of disequilibrium had to be found. In the early drafts of the S.F. White had proposed that the member countries were:-

"Not to adopt any monetary or general price policy, the effect of which, in the opinion of a majority of the member votes, would be to bring about sooner or later a serious disequilibrium in the balance of payments, if four fifths of the member votes of the Fund submit to the country in question their disapproval of the adoption of the measure." (86)

(86) Gardner, Op.Cit. p.91. For a fuller account of the genesis of the S.F. see John Parke Young, 'Developing Plans for an I.M.F. and a World Bank' Dept. of State Bulletin, November 13, 1950; Young was a technical expert in the Dept. of State.

This was a clear attempt to authorise interference in domestic economies by the S.F., though once again the 4/5ths voting requirement effectively excluded the U.S. from the possible effects of such a provision. Keynes and the British strongly opposed such proposals and this, and the idea of creditor responsibility, did have some effect on White. By the time the S.F. was published, the provision had been modified so that a member only had to:-

" ... give consideration to the views of the Fund."
(87)

The other concession which White made was the inclusion of a scarce currency clause in the December 12 draft. This had a rather mixed reception in Britain.

"The proposals for rationing (scarce currency) seem unworkable. If, however, some kind of protection to a creditor is thought to be sensible in itself or necessary for political reasons, we will consider suggestions hitherto rejected for limiting liabilities of creditor countries to accept bancor."
(88)

However, as has been noted, Harrod received the scarce currency clause most enthusiastically. The point was though that the proposal and American intentions were somewhat vague. On February 24, the position was clarified. The Americans said that if the scarce currency clause was brought into operation, then trade barriers should be lowered, foreign lending increased, etc. As we shall see later, this was only to apply in the case of shortages within the Fund and was thus nowhere near as effective

(87) Ibid: provisions were worded more strongly if a member wished to exceed purchases of foreign currency which were allowed under the articles of the Fund. This could be done by a 4/5 vote.

(88) Comparative Analysis, U740/47/70, p.3, para. 7.

as the C.U. in terms of creditor responsibility. Still, this was an important admission of some creditor liability by the U.S. Unfortunately the scarce currency clause was still not clear-cut and in the view of many British negotiators, it was doubtful if it could be made an effective means of enforcing creditor liability. The British and the Americans still had a long way to go to resolve their differences on this.

d) The Transition Period

Keynes had originally hoped that his plan for radically re-structuring the system of international payments would enable Britain to embark upon a policy of commercial de-control and non-discrimination after the war. By February 1943 the radical aspect of the C.U. was rapidly disappearing. It could no longer be regarded as a grand strategy by which other economic problems could be solved. It was now inter-dependent upon other aspects of economic re-structuring for its own success. The more limited scope of the S.F. made it reliant upon prevailing economic conditions for its effectiveness. With the knowledge of this and of Britain's growing economic problems the British began to insist on the necessity for a transition period. This was to add yet another problem to the monetary talks.

. . .

The British had been affronted by the U.S. which had unilaterally taken the decision to circulate the S.F. This, and the obvious outstanding differences between the S.F. and the C.U., were causing the British much concern. They believed the problems urgently required discussion. In February they suggested to the U.S. that both plans should be published at an

early date and be described as tentative schemes by experts, to avoid garbled versions of them appearing in public. The Americans evinced no enthusiasm for this⁽⁸⁹⁾. In fact, although the C.U. was discussed in London with foreign representatives, with an American observer present, the U.S. refused to allow the British to circulate the S.F. at such meetings. In return the U.S. said they would not discuss the C.U. with foreign representatives until a general meeting of experts could take place in Washington. The Americans were determined that they should explain their own S.F. in a series of bilateral meetings in Washington.

"... the Americans envisage separate discussions proceeding on C.U. and S.F. in watertight compartments."
(90)

The exasperation and concern in the British Foreign Office and the Treasury by early March was reaching flash-point. On March 2, a joint F.O.-Treasury meeting was held to discuss the problem. Keynes, Eady, Waley, Ronald, Strang and Jebb were all present. Keynes summed up the position by saying Britain had always wanted joint talks with the U.S. in the conviction that this would be the quickest means of progress. However, the Americans, by their actions, appeared to have abandoned this procedure. If this result was intentional then the Americans should plainly tell the British so. He continued:-

"If they were not to be moved, then some general conference would be the next best thing - the "monkey house on the desert island". It would be a bad second best but in any case better than the procedure proposed by Mr. Berle, namely representatives of the United Nations being interviewed individually by the Administration in Washington and then having individuals meet each other.

Even if this did not appeal to the Americans, we should reserve the right to have a conference of our own in London."
(91)

(89) Playfair to Shackle, May 31, 1943, U2505/47/70.

(90) Ibid.

(91) 3rd Treasury-F.O. Meeting, March 2, 1943, U983/47/70.

On March 9, Jebb wrote to Waley that the Americans were going ahead with their plan for wider circulation of the S.F. They were submitting the proposals to Latin America with the exception of Argentina and to all the U.N.'s excepting Ethiopia and Iraq. (92)

Then before further developments had time to materialise, leaks on both sides posed the problem of whether the two plans should be published. The initial leak appears to have stemmed from British consultations with foreign representatives in London. (93) Rumours soon spread on both sides of the Atlantic and questions were soon asked in Parliament and Congress. On March 13 the F.O. informed the Washington Embassy that they thought publication was unavoidable. (94) On March 15, the Washington Embassy replied that the U.S. Treasury had given the go-ahead so far as the C.U. was concerned but publication of the S.F. had to be cleared with Roosevelt. (95) In a memorandum for Roosevelt on March 17, Morgenthau requested permission to give a press release on the White Plan summarising the conclusions of the American technical experts. Morgenthau explained that questions were being bandied around in Congress and he did not want to lose the support of influential Congressmen such as Senator Vandenberg because of

(92) Jebb to Waley, March 9, 1943, U915/47/70

(93) Blum, Op.Cit. p.238, states that the British Treasury only informed the U.S. of this meeting after the event implying that Britain had sole and unilateral responsibility for the leak. British sources, however, indicate that an American observer was present at the meeting; see Playfair to Shackle, May 31, 1943, U2505/47/70.

(94) F.O. to Washington. March 13, 1943, U1031/47/70.

(95) Washington to F.O. March 15, 1943, U1155/47/70.

inadequate communication between the Administration and the Congress. However, it seems that Morgenthau's views were changed slightly by Roosevelt on the 18th.⁽⁹⁶⁾ Roosevelt told Morgenthau to simply explain that all talks had been exploratory. Just over a week later Morgenthau told Phillips that the President had reviewed the situation and in the light of senatorial questions, he thought it would be best not to publish at this stage for fear of the premature formulation of views and opinions which might prejudice an agreeable outcome. Morgenthau also wanted a meeting of experts in Washington before publication. Phillips, rather taken aback at this, said he would inform Kingsley-Wood of the American views but considering that the Chancellor had already made a statement in Parliament concerning publication, further postponement seemed unlikely.⁽⁹⁷⁾ Kingsley-Wood's reply to Phillips confirmed his fears. The Chancellor thought it would be impossible to delay publication for more than 7 - 10 days.⁽⁹⁸⁾ On April 1st,

"... the President was "very emphatic" that there was to be no "publication of the American Plan". "These things are too early", Roosevelt said. "We haven't begun to win the war."⁽⁹⁹⁾

(96) See Blum, Op.Cit. p.238.

(97) Phillips to F.O. March 24, 1943, U1155/47/70.

(98) F.O. to Washington, March 26, 1943, U1332/47/70.

(99) Blum, Op.Cit. p.239; Sherwood, Op.Cit. p.718, records similar views re post-war plans. March 27, meeting F.D.R., Eden, Hull, Welles, Halifax, Strang and Hopkins who said:-

"I thought it would have a very bad effect, both in England and the United States, if the world got the impression that the United States and England were, together, planning the future of the world without consulting anyone else. Eden agreed ... "

Nevertheless, the continuing leaks forced the issue. On April 5, the 'Financial News' carried a front page, accurate summary of the S.F.⁽¹⁰⁰⁾ On the following day Morgenthau now felt obliged to give the outline of the plan to the Senate Committee on Finance and despite British objections characterised it as an institution which would be tied to gold, whose aim was stabilisation, not expansion and over which the U.S. would have a controlling influence. After going this far and with the newspaper reports in mind there now seemed little point in not publishing.

"..., the Secretary had not wanted to show his whole hand, particularly after Roosevelt's instructions. He was therefore distressed by the publication in London of the details of the White plan, which were leaked to the press by the finance ministry of one of the governments-in-exile. "As I said to the President ...," Morgenthau told his staff, "This thing ought to be a lesson for us, that anything that we want to do that is really important, we just can't take all these countries into our confidence!(101)

This was quite true but Morgenthau does not indicate that most of the pressure to 'take all these countries into our confidence', had stemmed largely from his department. Still, it was finally decided that the U.S. should go ahead and publish the S.F. which it did on April 7. In a sense Morgenthau had been hoisted on his own petard. He had wanted the prestige of an international meeting in which a series of bilateral talks could take place, without the S.F. and the C.U. being published. He did not favour publication because of the danger of unfavourable public comparisons of the two particularly with regard to the U.S.'s eminent position in the S.F. But even the preparation for

(100) Treasury to Phillips, April, 5, 1943, U1569/47/70.

(101) Blum, Op.Cit. pp 239-40.

a series of bilateral talks in which the U.S. would be able to throw her weight around had not been possible without publicity. Now the two plans were out in the open and a slightly different approach was to be adopted.

The immediate result of the publications was a temporary pause. Roosevelt in particular seemed somewhat hesitant. At the same time he surprised most people by springing the idea of an International Food Conference on everyone. It was soon gleaned that the outcome of the conference was to act as a barometer for the desirability of discussing other issues. (102) Informal talks did proceed on Article VII issues but at this time Roosevelt was:-

"... opposed to any definite commitments to summon a conference. This applies as much to a conference of experts as to a conference of finance ministers." (103)

The British realised Roosevelt intended to proceed with caution, but they hoped that a favourable outcome of the Food Conference might create an impetus to engage in other talks. (104) The monetary experts in Britain were certainly reluctant to indefinitely postpone further progress on the I.C.U. and the S.F. On May 12 enquiries were made whether Morgenthau would condone a proposal to state in Parliament that the next step would be the summoning of a conference of experts. Morgenthau demurred somewhat and communicated the following statement.

1. Explanatory talks now proceeding with experts of various countries.
2. In the next month or so there would probably be a number of small gatherings of experts.

(102) Campbell to F.O. April 4, 1943, U671/47/70.

(103) Phillips to Treasury, May 6, 1943, U2100/47/70.

(104) F.O. N.American Dept. Minutes R.Ashton
U2100/47/70.

3. There would be an analysis of comments made by non-government experts.
4. Probably in a month or so there would be general talks by experts in Washington to synthesise various ideas.
5. If sufficient agreement could be reached then there would be a move to eliminate the other differences through normal government channels.

"Finally, a conference of Finance Ministers would not be called unless and until it appeared that there was such substantial agreement as would warrant expectation of a successful outcome." (105)

During May, conversations between experts were re-started in Washington and despite the Treasury's previous move away from close bilateral Anglo-U.S. talks the new negotiations soon began to take on such an appearance. To these new talks we must turn to in the next chapter.

(105) Playfair to Shackle, May 31, 1943,
U2505/47/70.

NEW WINE INTO OLD BOTTLES : BRETTON WOODS

In the previous chapter we have seen how the monetary talks developed dramatically during the latter months of 1942 and the early part of 1943. It was only with reluctance that the Americans and the British had published their respective monetary plans which contained many outstanding points of difference. Still, the publication of the documents and the developments which followed this action afforded both sides an opportunity to take stock of the position and prepare for future eventualities. Perhaps it would be as well for us to do the same.

One of the most controversial innovations which the Americans had made in the recent talks was the scarce currency clause. This was an issue which persisted as a problem over a long period of time. In early 1943 it was already providing great food for thought. On the British side Keynes was troubled over the standing of the clause. The problem was that the U.S. Treasury had proposed the clause, and yet, if it was invoked, the rights of trade discrimination which it allowed contravened principles which the State Department had been trying to establish. Furthermore, the authority to determine trade policy was in the hands of the State Department. This infringement on the policy area of the State Department caused considerable concern and this was partly reflected in unfavourable attitudes toward the monetary plans held by some of the leading members of that department.

Adolf A. Berle, among others, felt apprehensive about the development of the C.U./S.F. talks. Berle already had a reputation in London for regarding Britain unfavourably as economically imperialistic, preferential and restrictionist. It was true that he had urged Hull originally to support the S.F. negotiations, because he believed it would be a necessary condition for the liberalisation of trading practices, but his views on the C.U. proposals were somewhat more hostile.⁽¹⁾ Berle bluntly expressed his views on the C.U. to a British diplomat as follows:-

"What it really came to was a method by which American and possibly other goods, could be made available to certain countries, notably Britain, on, what was in fact, though not in form, a credit arrangement ..."⁽²⁾

Herbert Feis was also concerned about some of the economic planning developments. Feis did not want American credit to subsidise British export goods. He felt that the anonymity of character for the S.F. which the British favoured might do this.⁽³⁾ The creditor responsibility principle, and this, were both causes of worry for the State Department, and quite naturally so, with their concern over foreign trade. The department had already fought hard, and long, with the British over discriminatory practices in the negotiations for the Mutual Aid Agreement. Now, the Treasury was proposing a scarce currency clause which could establish a loophole by which the British might circumvent their rather tentative commitments to the abolition of

(1) See Harrod, R.F. 'The Life of J.M.Keynes'; London, Macmillan and Co.,Ltd. 1951, p.541.

(2) Quoted in L.C.Gardner, "Economic Aspects of New Deal Diplomacy", Beacon Press, Boston 1964, p.287, Memo of a conversation by A.A.Berle.

(3) See Feis, H. 'The Sinews of Peace', Harper Bros. N.Y.1944, p.90.

discriminatory practices. The provisions for discrimination under the scarce currency proposals were, however, still indeterminate.⁽⁴⁾ On March 2, 1943, Harrod, who was inclined to be over-optimistic about American proposals, wrote enthusiastically to Keynes regarding the scarce currency clause.⁽⁵⁾

"I should like to suggest that a cable ought to be sent to Phillips and anyone else involved in discussions formal or informal on this paper, stating explicitly that from now on our main object should be to hold the Americans to the principles of S.F.7."

Keynes' reply two days later was a more accurate reflection of the uncertainty of the situation.

"... I agree that, read literally, the interpretation you give to this is the only one that makes any sense. Perhaps I ought to have attached more importance to it. I interpreted it as a half-baked suggestion, not fully thought through, which was certain to be dropped as soon as its full consequences were appreciated. I cannot imagine that the State Department really would put forward as their own solution the rationing of purchases from a scarce currency country. You must remember that the evidence as to the extent to which the State Department have actually accepted this document of Harry White's is somewhat flimsy. I should expect that the moment emphatic attention was drawn to this alternative, it would be withdrawn."⁽⁶⁾

However, the U.S. Treasury were more prepared, than Keynes judged, to push this concession through for the sake of reciprocal British concessions. Concessions which would make the realisation of the S.F. a likelier probability. Not only this, but they achieved a position of ascendancy over the State Department in the

(4) See Harrod, Op.Cit. p.543, though a fairly wide interpretation appears to have been offered by the U.S. Treasury in February 1943, See Telegrams No.908 and 909 questions and answers: Halifax to F.O. February 24, 1943, U861/47/70.

(5) See Preliminary Draft of Proposals for a United and Associated Nations S.F., January 1943, II 7, U627/47/70.

(6) Letters quoted in Harrod, Op.Cit. pp.545-548, dated March 2 and 4, 1943.

monetary talks which enabled them to do this. The wider interest of the State Department was to create a system of liberal, non-discriminatory international trade. The S.F., for them, was simply a possible means to facilitate this end. The Treasury, on the other hand, would be satisfied with a working system, with the potential for liberalisation, even if this meant the sacrifice of State Department principles. The key concern for the Treasury was the establishment of monetary stability through the S.F. This entailed a significant amount of American control in the international monetary field and a pre-eminent role for the dollar in international exchange operations, backed by huge U.S. gold reserves. How the U.S. Treasury sought to bring this about we shall see shortly.

In London the British Government had their own problems besides the difficulty of assessing the effects of inter-departmental differences in the American Government. 1943 was to witness a number of executive and administrative difficulties. The foremost and immediate problem at the beginning of the year was the differences between, on the one hand, people like Beaverbrook, Amery, Kingsley Wood, R.H.Hudson and Hubert Henderson and on the other hand people like Cherwell and R.H.Harrold.⁽⁷⁾ The former group were suspicious and apprehensive of American economic policies, whereas the latter group were far more pro-American. Other ministers, however, including Churchill, were often inclined to be deferential to the U.S. on economic policies for fear of adversely affecting cooperation for the war effort.

(7) At this time Harrod was a member of 'S Branch' under Lord Cherwell. This was a committee which supplied information and statistics on scientific and economic subjects to Churchill. Later in 1943 Harrod advised Cherwell on the Keynes-White talks.

Still, the group opposing, what they considered to be an American economic diktat, was influential and as we shall see inhibited excessive deference to U.S. policies at times. Another complication arose during 1943 with the sudden death of Kingsley Wood in September, though his place was very ably filled by Sir John Anderson. A second loss of personnel was that of Sir Frederick Phillips. Phillips' asperity had caused some difficulties on a personal level in 1941-42, though he had an excellent grasp of the issues involved.⁽⁸⁾ Phillips' departure from the scene in mid-1943 held up the newly re-started talks, though this was mainly because of British hesitancy rather than the sole responsibility of fate. There was also concern, particularly among those inclined to apprehension over American designs, regarding Lord Halifax. We have already noted his inability to grasp the finer points of economic interest in the early months of 1942 and the exasperation this caused to both Keynes and Churchill. In Kenneth Young's 'Churchill and Beaverbrook' the author presents documentary evidence of ministerial considerations concerning the removal of Halifax from his Washington post on no less than four occasions:

(8) N.B. Sir Frederick Leith Ross in 'Money Talks, Fifty Years of International Finance', The Autobiography of Sir Frederick Leith Ross', Hutchinson, London, 1968, p.298, describes Phillips as taciturn and shy. "Even Acheson, who was the easiest man to get on with, told me that he saw as little as possible of Phillips, and when I replied that Phillips seemed to get on well with Morgenthau, Acheson replied 'No doubt - as one pawnbroker with another'. Harry White of the Treasury too, was not on close terms with Phillips"

September 1941, May 1942, January 1943 and July 1943. (9)

Such uncertainties and eventualities that have been mentioned obviously complicated the working relationship between the two countries and blurred the respective images each held of the other. Perhaps this was most noticeable with the problem the British faced in trying to assess the significance of Congress and public opinion, in American policy making. The defeat of Wilson's policy after the First World War, the separation of the legislature and the executive and the continued invocation of the difficulties posed by Congress complicated and considerably handicapped British negotiating freedom. These difficulties were often exaggerated by the Americans and manipulated to further their own purposes. For example the growing Republican criticism, supported by some Southern Democrats, that America was sacrificing her own interests for the sake of idealism, though it was not pertinent there were no serious attempts to arrest such criticisms. On the contrary, the administration indicated sympathy with such comments. Part of the reason for this was administration disquiet over the mid-term Republican Congressional and Gubernatorial successes. They hoped that the line that they had

(9) Young, K. 'Churchill and Beaverbrook - A Study in Friendship', Eyre and Spottiswoode, London, 1966, pp 207, 251, 255. Beaverbrook expressed doubts on Halifax's ability to affect American opinion in a Presidential election year, p.255; concerning the economic issues in 1944 he doubted if he understood them, p.261. It should be remembered however that Young's book was based on the Beaverbrook Archives and that Beaverbrook was prone to take violent dislikes to people. Furthermore, he had had his eye on the Washington Embassy for himself in September 1941 and May 1942 but Halifax remained. On the other hand it was generally acknowledged that Halifax was too deferential to U.S. views. In the Summer of 1944 Keynes said to Morgenthau: "... Ambassador Halifax was hyperconscious of the (U.S.) election, about which he reported to London at every opportunity." "I know Lord Halifax is", Morgenthau said, "because I know he keeps sounding out Republicans all the time as to who is going to win,..." Blum, J.M. 'From the Morgenthau Diaries - Years of War 1941-45', Houghton Mifflin Co. Boston 1967, p.270.

adopted would appease conservative critics and further capital could be gained by making America's businesslike approach to post-war economic problems clear to her British ally. For example, in February Halifax reported that Henry Wallace and more importantly:-

"Welles has recently stressed that interests of United States and not sentimental altruism are to be guides of American Foreign Policy." (10)

At the same time as this, Henry Morgenthau had intensified his flirtation with congressional leaders to involve them more in the monetary talks. Morgenthau paid more attention to Congress than his counter-part in the State Department. His position, after all, was rather more difficult. His concerns were obviously not solely directed, nor even predominantly so, toward foreign relations. He had the major problems of domestic taxation and finance to contend with and possible congressional difficulties in this area. And indeed he suffered a spectacular defeat on taxation in 1944 when Congress rejected his proposals and a Presidential veto in support of them. Still, after the publication of the two monetary plans, Republican congressmen introduced a resolution which called for congressional representation at any future conference involving Treasury officials and members of a foreign country. This was more than Morgenthau had bargained for. On the advice of Hull he collaborated with Sam Rayburn, a leading senator, on this issue and managed to keep arrangements on an informal basis. But, there was no doubt that Congress could be a significant influence on executive policy if it was allowed to be. The questions for the British were still manifold. How far would Congress be allowed to play a role by the Administration?

(10) Halifax to F.O. Weekly Political Summary, February 13, 1943, A1709/44/45.

How far could it insist on its views being adhered to by the U.S. Government? How far did it understand foreign policy issues and what were its actual views? And finally, how far was Congress and views attributed to it by the Administration being manipulated to strengthen America's bargaining power?

In the Spring of 1943 at the conclusion of his trip to Washington, Eden said that:-

"... he had learned of the importance of Congress and particularly the senate in any post-war discussions." (11)

So the British were noting with more and more interest American congressional and public reactions, in particular at this time the reaction to the publication of the monetary plans. But, surprisingly, considering the expressed fears of members of the American negotiating team, criticism appeared subdued both in Congress and among the public.

"7b. Commentary on monetary plans is still thin, and suggestion that British plan favours Britain unduly and seeks to nullify United States advantage as a gold possessing power although occurring here and there, particularly in financial press, has not yet developed into even a minor campaign, ..." (12)

On May 8, the American Department of the F.O. recorded similar disinterested views in the U.S. and added that Presidential caution regarding the monetary talks might be eroded if there was a favourable outcome to the International Food Conference which Roosevelt had recently proposed. (13)

(11) March 29, 1943, Hopkins' final note on the Eden visit, Sherwood, Op.Cit. p.719.

(12) Washington to F.O. Weekly Political Summary, April 21, 1943, A3741/144/45.

(13) F.O. Indexed U2102/47/70 Minutes by R.Ashton, F.O. N.American Dept. May 8, 1943.

It should now be clear, from the above account, that both sides were cautiously feeling their way. Much of the earlier negotiations had been determined by war extremities, but now both sides were moving into the field of post-war planning which intensified caution on both sides. The U.S. was unsure of the approach to adopt in further talks. It was far more complex than a simple bilateral versus multilateral approach. The issue was complicated by State-Treasury jealousies and a genuine conundrum of deciding which was the best policy to further U.S. interests. On the whole there was a general shift towards a more international approach by the U.S. and multilaterally effective solutions to economic and financial problems. One of the reasons for these shifts was that the new situation would avoid conferring a special status on the U.K. which she had acquired in close bilateral U.S.-U.K. talks.⁽¹⁴⁾ However, this is not to say the U.S. adopted open, fully-fledged multilateralism in all its forms by any means. The status of bilateral U.S.-U.K. talks may have been lowered in public eyes but bilateral negotiations to establish multilaterally effective agreements was still the main tool of U.S. diplomacy in this field, despite it being cloaked with an appearance of multilateralism on a number of occasions. Roosevelt's surprise proposal for an international food conference was in fact, as the British were informed, to be a testing ground for America's more international approach. The British were informed that if the Hot Springs' Conference went successfully, then in all

(14) See Harrod, Op.Cit. pp.553-554.

probability the U.S. would push ahead on other economic topics.

1943 was in fact a very significant year in the development of post-war plans. After the lull of 1942, planning for the post-war world began to pick up as the danger of military defeat receded. Still, in early 1943 in deference to American wishes, progress on the monetary talks was arrested during April and May. In accordance with their more international policy the U.S. wanted to resume talks with experts from a broad range of countries which would not be possible until mid-1943 because of the difficulties of travel and the time required to assemble.⁽¹⁵⁾

In early June the U.S. again began to make noises for the renewal of informal talks, this time among the assembly of foreign experts who had gathered in Washington. By June 8th, Phillips had accepted an invitation from the U.S. to participate in purely technical talks due to begin on June 15th.⁽¹⁶⁾ The British were slightly apprehensive of the new talks. The F.O. had collected a number of statements of American bankers and financiers who objected to the monetary plans as incursions into their own domain of banking and finance. This by itself was not too disturbing, especially as these attitudes were strongly opposed by Morgenthau and the Treasury Department. What was disturbing was the opposition to Keynes' over-draft principle for the C.U., which the Americans dubbed the unlimited liability proposal. In point of fact it never was strictly speaking 'unlimited liability'. U.S. liability for example, went up to \$26B under extant C.U. provisions, but there was flexibility for this to be

(15) See F.O. U2505/47/70, May 31, 1943, Playfair to Shackle.

(16) Robertson to Eady, June 8, 1943, U2598/47/70.

expanded further if it was deemed necessary by the C.U.'s control board. However, it was always referred to as the 'unlimited liability principle' so this will be retained for convenience in the subsequent discussion. In fact, it was becoming clear that the Americans intended to push something through on the S.F. model and although Ashton noted that the British Treasury:-

"... are determined not to commit themselves to something which would be unacceptable from our point of view."

J.E. Coulson expressed widely held fears that the U.K. would have to go a long way to meet the U.S. on the question of unlimited liability. (17)

The point at issue here was the diminutive nature of the S.F. compared to the C.U. Its smallness entailed an inflexibility, an inability to change in response to external economic fluctuations without significant political decisions being taken. In short a larger role for political control and management was feared to be necessary by the British. The C.U. had been drafted such that it would be largely under the control of the U.S. and the U.K., with the initial edge going to the latter. However, this 'control' was to be reflected in the institutional nature of the Union rather than in day-to-day decisions. The Union had been so formulated that it would 'automatically' react to economic eventualities. Provisions for coping with new economic contingencies were to be in-built. The S.F., on the other hand, because of its smaller capital, was simply to

(17) See R.Ashton, Minutes N.American Dept. F.O. U2706/47/70, June 17, 1943, and J.E.Coulson, Minutes, N.American Dept. F.O. June 14, 1943, U2651/47/70.

supplement rather than supersede the existing workings of international exchange. This entailed a tighter shepherding of funds, their active manipulation and a greater concentration on stability and avoidance of competitive devaluations, rather than the promotion of economic expansion. It was a conservative conception to restrain harmful tendencies rather than a radical innovation to place international monetary relations on a new footing, which was the goal of the C.U. The danger of this for the U.K. was the possible imposition of rigid directives concerning exchange rates and relaxation of monetary controls which could result in a slower post-war recovery, or even cause a further decline in Britain's economic fortunes.

In March 1943 Keynes still hoped that many of the dangers the S.F. might pose for the U.K. could be avoided. He said to E.F. Penrose in London:-

"...that the principle of subscribed capital was
"academically" discreditable but not practically
important." (18)

Keynes still hoped that the smaller size proposed for the S.F. might still be sufficient to produce a monetary organisation which would function on lines not too different from his proposed C.U. At this time in 1943 there was outstanding an American plan for an international bank with very large amounts of capital involved. There was also a possibility of increasing the aggregate total of subscriptions to the Fund. Keynes thought that loans from the Bank would help to counteract depressions, and if the funds for the S.F. were of a reasonable size, its more limited role would perhaps enable it to function on acceptable lines in conjunction with the Bank.

(18) Penrose, Op.Cit. p.51.

"One can yield on the question of asking security and on the question of limited liability to the creditor without yielding on the main structure. I should much prefer to make both the former concessions and yield on the main structure only in the last resort. While in essence this is mainly a question of appearance, I fancy it comes to much more than that, if one looks forward into future developments and the use of the Union for various general international purposes."(19)

However, as Penrose concludes:-

"White was inclined to reduce rather than to increase the Fund, especially after he and Mr. Morgenthau began to take soundings in Congress." (20)

But more of this, and British compromise proposals to make the Fund tolerable for them, later.

Even in March 1943, Keynes was already aware that the differences between the U.S. and the U.K. on many technical and policy questions were considerable. At the same time there was still a reluctance to evaluate these differences in terms of incompatible conflicts of economic interests. Penrose records Keynes as saying at this time:-

"I now consider the success of the plan depends on the will to cooperate; without that will no manipulation of voting powers will help; with it the details of voting are of secondary importance." (21)

It was almost as if Keynes believed he could abstract the quality of cooperation from the issues involved. But this was not possible. The problems were of a substantial nature. Could Anglo-American economic planning be such as to overcome conflicts of interests and be perceived by both as being

(19) Keynes to Phillips, Quoted in Harrod, Op.Cit. p.532, May 27th 1943.

(20) Penrose, Op.Cit. p.51.

(21) Penrose, Op.Cit. p.52.

mutually beneficial? There was a great reluctance on both sides to allow a total breakdown of active economic cooperation between them, but the extent of that cooperation was dependent upon respective perceptions of gain, and at times both sides, but particularly the British, questioned the pay-off.

During the early part of June American alterations to the S.F. began to distress the British members of the informal conference, namely Phillips, Robertson, Opie and Robbins. On June 13th, there appeared a tentative U.S. quota plan, and simultaneously suggestions emerged which placed more emphasis on the importance of gold, although some relaxation of U.S. control appeared in the form of reduced requirements for a four-fifths majority decision. This change still excepted the value of gold. Still, the new quota proposals, which were the major innovations, ran as follows.

"5, Formula seems to give the United States of America about 21% of the total voting rights and the United Kingdom about 9% and the British Empire 17%. This is very different from our original conception of a C.U. in which United States of America and United Kingdom had the controlling voice. It makes surrender of national sovereignty much more difficult to get across and confirms our view that when time comes for His Majesty's Government to define their attitude, several provisions in S.F. and indeed C.U. also, would have to be made more elastic, e.g. as regards alteration of exchange rates, and if S.F. is basis, apportionment of scarce currency under S.F.3(7) (See memo prepared by U.S.Treasury A.S.F. of the U.N. and Assoc. Nations, January 1943, U627/47/70) and offer of excess gold to the Fund under S.F. 3(8) (Ibid.). " (22)

(22) F.O. to Washington,
June 17, 1943, U26452/47/70.

On June 16th, the Americans went even further, and with very little notice produced a revised version of the Fund, which was largely the format on which the later more formal draft of July 10 was based. (23) Of this version Blum has commented:-

"..., the interdepartmental working committee in Washington rapidly agreed on revisions of the White draft designed to attract British support." (24)

In point of fact, the revisions were primarily designed to elicit concessions from the British, and this caused both a conflict of views and some hard bargaining. In discussion, and from the June 17 supplementary draft, it became apparent that the U.S. was prepared to increase the size of the Fund to \$10B and allow alterations in the price of gold, but only with their concurrence as this required the four-fifths majority rule. Also the U.S. was prepared to allow more flexibility in the alteration of exchange rates. However, even Halifax who believed the Americans were making a genuine attempt to assimilate the S.F. and the C.U. did not think that the Americans went far enough on this last point. On the debit side there appeared no support from the U.S., or elsewhere, for the British over-draft principle being incorporated into the Fund. This principle, though not indispensable; if it was abandoned Keynes would need considerable changes in the S.F. if the general character of his vision for an international monetary institution was not to be lost. (25)

(23) See S.F. dated July 10, 1943, U4193/47/70.

(24) Blum, Op.Cit. p.241.

(25) See Halifax to F.O., June 16, 1943, U2706/47/70.

A further disturbing move was the insertion of proposals, by the members of the Federal Reserve Board, for quotas to be paid in full and that the proportion of gold should be 50% or 50% of a member's gold reserves, whichever was the less. (26)

Halifax advised that this apparent pre-occupation with gold should not be taken too seriously. In fact, Harrod recorded that the proposals on gold received no support from the assembled experts. Nevertheless, the U.S.'s continuing concern that gold should have a large role to play in the S.F. and her policy of gold monetisation by tying dollar value to it, was to cause further trouble later. On the issue of the Bank, which Keynes hoped might render the S.F. more palatable, the U.S. remained elusive. In September of 1942, Phillips had requested White to go into the details of the Bank, but White had avoided doing so. Harrod claimed that this unwillingness was due to fear of the British offering to accept the Bank if the U.S. would accept the C.U., something White and Morgenthau were loathe to do. (27) On June 16, Halifax reported that the American position remained unchanged. Morgenthau had stated that he would only disclose the plans for the Bank after the main points of the S.F. had been decided. (28)

On the 17 June, the 'multilateral' talks ended, but with obvious Anglo-American differences still outstanding. It was thus agreed that the discussion of problems such as the

(26) Harrod, Op.Cit., refers to this as "a variant of the Stabilisation Fund ..." p.554. As far as I can see he is simply referring to these alterations sponsored by the F.R.B. not an alternative draft of the Fund.

(27) Harrod, Op.Cit. p.541.

(28) Halifax to F.O. June 16, 1943, U2706/47/70.

position of gold, limited liability and a renewed American interest in Britain's sterling balances should continue bilaterally between the U.K. and the U.S. on June 22. As we shall soon discover, the cautious reaction of the British to the proposals concerning the blocked balances was a symptom of a growing concern regarding the effects on Britain of U.S. economic policies, and a re-appraisal of British policy alternatives in the light of this. (29)

On June 22 and 23, 1943, the British and Americans engaged once again in bilateral discussions of the monetary problems in an attempt to resolve their differences. The representatives from the U.S. Treasury and F.K.B. were the main U.S. participants, though there were occasional appearances by Pasvolsky and Berle of the State Department. The talks were to the point, though apparently frank and friendly. (30) The onus, in fact, was on the Americans to clarify their position and produce adequate answers to British questions relating to the S.F. This, to a large extent, they did. Halifax hoped British fears that the U.S. would impose too much rigidity on the S.F., particularly in the immediate post-war years, would prove to be unfounded. This issue was pushed strongly by the British, who insisted that Parliament and the public would have to be given assurances that errors in the initial fixing of exchange rates could be rectified, avoiding the need for domestic deflation. White retorted that the Americans must be reassured that competitive devaluations would not recur in the

(29) For above see Washington to F.O. June 16 and 17, 1943, U2717/47/70 and U2747/47/70; June 17, 1943, R. Ashton, N.American Dept. F.O. Minutes, U2747/47/70.

(30) Halifax to F.O. June 23, 1943, U2822/47/70.

post-war world. However, even Halifax, normally deferential to American strength, judged that they would not break off the talks over this. He believed that they would probably compromise along lines acceptable to the British, perhaps on the basis of:-

1. A five-year transition period.
2. A 10% unilateral right to alter exchange rates after consultation.
3. Further changes only with the consent of the Executive Committee but with the four-fifths majority requirement dispensed with. (31)

On June 23, White took the lead in the talks. In response to a request from Halifax, White proceeded to spell out the objections American departments had to the C.U. He did this, as Halifax noted, in a most temperate and reasonable way. Two qualities not always expected of Harry White. Still, the U.S. were asking a great deal of the British and they were hardly in a position to force an agreement down British throats, as they were to later. White in fact laid down the minimum conditions required by the U.S. He added that if they were not met there was so little hope of Congressional concurrence that further discussions would be futile. Although this very much resembled an ultimatum, and brought home to the British American determination to achieve adherence to certain points of the S.F., there was also considerable scope left for the British to amend the S.F. to a form which hopefully would make it acceptable. White's conditions were:-

(31) Ibid

"(i) They must be able to tell Congress that we have no present intention of abandoning existing dollar-sterling rate, if at a later date before inception of the Fund it became necessary either for us or for them to effect such an alteration we or they would be at liberty to do so by (sic.but?) the other party would then be free of any obligation and entitled to reconsider its attitude towards the inception of the Fund.

(ii) Limitation on size of American initial Committee (sic.commitment?) to 3 billion dollars at most ...

(iii)... It is essential for sale of idea to man in the street that this should take the form of a Fund into which all nations are being required to pay something though amount and nature of contribution is tempered to their several capacities ..." (32)

On June 24, Halifax followed up his previous day's telegram with a fairly optimistic appraisal of the situation. For, although the Americans had presented a form of ultimatum, they had softened it with intimations of concessions and shifts of emphases in other areas. Thus the U.S. was prepared to give up her liberum veto, except over the price of gold and quota fixing. They were prepared to commit themselves to multilateral clearing, though only in so far as this was compatible with a currency becoming scarce and a country being 'in good standing with the Fund'; whatever that meant! Halifax was encouraged by the whole American approach to limiting rights of recourse to the Fund's capital resources, though the provisions were still not as clear as they might have been. Halifax was correct, the Americans had moved towards the British position as expressed by the C.U. on some minor points, but they were hardly sufficient compensation for the minimum conditions for which they were requesting British acceptance. As in the Article VII talks, Halifax appears to have been eluded by the finer points involved. The issue now coming to the forefront with ~~the~~ American insistence on the

(32) Ibid.

fund nature of the institution was that the proposals were simply a supplement to the existing system. This would effectively maintain the old gold standard in a slightly disguised and more flexible form, with the goal of maintaining stable currency relations to benefit dollar trade. But this would perpetuate the basic political nature of international money and the dangers to it therefrom. Thus, although Halifax in fact describes one of the dangers of this issue, he does so without any apparent concern over its implications for the U.K.

"Whole technique of American plan appears based on assumption of free arbitrage market in at any rate the leading currencies which would be habitually used by central banks as well as others and only supplement not supplanted by Fund." (33)

In short there were still all the old problems of international trade being conducted with a mixed bag of currencies. The only difference was that the U.S. was proposing an organ which would lubricate the exchange of such currencies, and if necessary impose distributory controls to promote international stability in the exchange field. The U.S.'s main concession to countries like Britain, who would probably suffer an imbalance of post-war trade, particularly with the U.S., had been the scarce currency clause. In June, White gave tentative agreement to British proposals to regulate trade by discrimination and added:-

"... that Treasury might advise in this sense if consulted on exchange clause of commercial treaties, no member of the State Department was present at this point." (34)

(33) Halifax to F.O., June 24, 1943, U2334/47/70.

(34) Ibid.

As we have seen, Keynes was concerned and somewhat perplexed over this scarce currency issue. This perplexity was not alleviated by the absence of a State Department representative at the time of White's tentative proposal regarding discrimination. The Treasury were obviously considering the possibility of offering a right to discriminate to the British in the monetary talks, but this encroached upon the authority of the State Department, who had control of foreign trade and commercial policies. The British thought that it would rest with the State Department whether or not a go-ahead would be given for the incorporation of provisions to enable discrimination against American goods in the event of a scarcity of dollars. In view of the delicacy of this, Keynes was not very optimistic regarding a successful outcome. On the other side of the Atlantic there was little evidence of Halifax giving this much thought, though he was troubled by the American proposal to allow creditor nations to buy gold as a partial solution for the scarcity of its own currency. This was something which was to concern Keynes as well, later.

Halifax had cautioned the Americans that the presentation of minimum conditions might elicit a reciprocal response from the Treasury experts in London, and indeed after careful scrutiny of the June developments this was exactly what Keynes set about doing. Keynes was less than sanguine about the recent developments. The basic nature of the C.U. was now being undermined and was in danger of being lost entirely, though he still held out hopes that an effective rear-guard action could salvage his most basic aims. In a document entitled 'The Synthesis of C.U. and S.F.', he drafted out a

British answer to the American offensive. (35)

Keynes accepted White's conditions; the U.S. formula for voting, quotas, the subscription principle, the \$4 sterling rate and indeed the general shape of the S.F. However, in return, Keynes demanded that five essential British conditions should be met.

"1. The Fund shall not deal in a mixed bag of currencies but only in Unitas, holdings of which shall be acquired by members in exchange for their subscriptions and which will not be redeemable in gold.

2...the gold subscription ..., namely $12\frac{1}{2}\%$ of the quota would be acceptable. If this is to be modified, it must be in such a way as not to give the scheme too pronounced a gold-standard appearance and, more particularly, must not unduly qualify its expansionist possibilities by draining gold from countries whose reserves are relatively deficient already.

3. The balance of the subscription must be in the shape of a non-negotiable Government security.

4. The provisions for elasticity in changing the value of a member's currency and for preserving sovereignty in this respect shall be reconsidered.

5. The greatest objection to S.F. in its revised version is that a creditor country can go on absorbing great quantities of gold as heretofore, before any real pressure is put upon it. ..., a creditor country could absorb \$6,000m in gold before there is any pressure on it." (36)

This last point, as Keynes indicated, left the world largely dependent upon some form of International Investment Scheme to re-distribute what, in practical terms, would be scarce dollars. It would be too strong to say the U.S. were reneging on the scarce currency policy they had outlined to Phillips in February, but there was no doubt that it had been modified. Morton Blum in his biography of Morgenthau says, for

(35) See J.M.Keynes to G.Jebb, June 29, 1943.
'The Synthesis of the C.U. and the S.F.
U2939/47/70.

(36) Ibid.

example:-

"The earlier American proposal on "scarce currencies" (was) ... now somewhat modified to England's disadvantage ..." (37)

To safeguard against dangers which increasingly appeared to be inherently characteristic of the S.F., Keynes drafted out safeguarding provisions for consideration by the Treasury. Unlike the C.U. the S.F. made no real attempt to internationalise the responsibility for imbalances of trade, whether credit or debit, in the sense that any imbalance of trade was a potential threat to international equilibrium, and should thus be the responsibility of all members to amend. The flummery of unitas under the extant S.F. draft meant that national currencies were to be, as before, the means of international transactions. This could entail pressures to adopt deflationary domestic policies as soon as a temporary debit in the balance of payments arose, unless international exchange could be de-politicised in some way, and clear provisions for international action to solve the problem incorporated into the Fund. The use of national currencies laid the weaker nations open to politico-economic pressures, not only from other nations but also, under the present proposals, from the S.F. itself by its control of the local currency proportion of each country's quota. (38) Finally, if exchange stability was enforced to the extent envisaged, then not only did the S.F. supply inadequate

(37) Blum, Op.Cit. p.244. See also previous chapter, Halifax to F.O. February 24, 1943, Tels. 908 and 909, especially question and answer 2.

(38) See Harrod, Op.Cit. p.562.

means of enforcing creditor re-adjustments back to equilibrium, but it also removed a debtor's means of adjustment other than by domestic deflation. To Keynes, and the British Treasury, it seemed incongruous to place the onus of adjustment of international disequilibrium on the weaker debtor countries, particularly by the most unsatisfactory policy of domestic deflation. The proposals Keynes put to the Treasury were designed to avoid such a position, and in fact realise the five minimum conditions he had proposed.

"A4. Every member M engages to convert holdings of its currency belonging to another member N, which arise out of current transactions, into N's currency, unless the two conditions are both fulfilled that N is exercising its option under A3 not to accept unitas (i.e. if its holdings of Unitas less the Fund's holding of its Bond exceeds its quota) and the net gold holdings of M are less than its quota. If both these conditions are fulfilled, country N shall acquire from its exporters their holdings of M's currency at the par of exchange so as to maintain the parity, and this currency shall only be available to pay for purchases of goods and services from M. (This in conjunction with A.5 below comes very near to solving the scarce currency problems.)

A5. The Fund may at its option lend unitas to a member or borrow unitas from it on such terms and conditions as may be mutually agreed.

(This clause is more important than it looks. For it covers up the whole machinery of pressure by which the Fund can make mitigations to the problems both of excess-debtors and of excess creditors conditional on the acceptance of its recommendations)."

(39)

Unfortunately for the British, the desire to reach an agreement with the U.S. over the form of the S.F. led them to compromise a key principle. Keynes in particular had always favoured a "passive" institution, but here because of the dangers he envisaged from the post-war U.S. creditor position,

(39) J.M.Keynes to G.Jebb, June 29,1943,
U2939/47/70.

he was forced to resort to proposing discretionary powers, and thus an "active" potential for the Fund. This was to make it more difficult to press for passivity as a point of principle later. Still to continue with Keynes's proposals.

"B9. The Fund may at its option pay off any part of a member's holding of unitas in excess of its quota either in gold or in the Government security originally subscribed by that member.
(It is of vital importance that action under B9 should be at the option of the Fund. This goes a little way to meet our essential condition V. The Fund might make the handing over of its gold to an excess creditor conditional on that member's taking steps to right its position. If the Fund retains its gold, this remains as security for all net holders of unitas and is not sacrificed in the interests of the least deserving, namely the excess net holder)." (40)

On the alternate side of the coin, to lessen debtor liability problems, Keynes suggested a unilateral right to alter the exchange rate by 10%, after consultation with the Fund, providing the member's proportion of unitas to quota holdings reflected balance of payment problems.

While the British Treasury and the F.O. were sorting out British minimum conditions and means of safeguarding them, the U.S. Treasury Inter-Departmental Committee was busy re-drafting the S.F., largely on lines indicated during the June talks. At the same time the Treasury was also working to establish their unquestioned supremacy over other departments in the international monetary field. The State Department was the main thorn here. Hull's department was more favourably disposed than the Treasury toward some of Britain's monetary problems, particularly regarding the level of Britain's reserves. On the other hand, as we have already surmised, they were less keen on the scarce currency provisions. In early July Morgenthau

(40) Ibid.

complained strongly to Hull over procedural difficulties being caused by A.A.Berle and asked him to specifically approve Treasury leadership in any further monetary talks. Despite outstanding differences between the two departments, both over issues and between personalities, Hull had to agree. The only alternative would have been a political row of unpleasant proportions. Hull said that it was absolutely his desire that the Treasury should be in charge. Shortly afterwards Berle's procedural proposals were withdrawn.⁽⁴¹⁾ The Treasury leadership already implicit was now reaffirmed and consequently the possibility of a more favourable scarce currency clause being adopted, increased.

The Americans soon produced the new draft of the S.F. which was to provide the basis for new talks.⁽⁴²⁾ Unfortunately, for the British, little deference had been given to their views, and on July 19, after Keynes had carefully studied the re-draft he wrote:-

"In my judgement we must be prepared to face a complete breakdown unless important changes are made." ⁽⁴³⁾

This rather dramatic statement was not a reflection of a sudden change of attitudes by Keynes, but more an expression of determination that those 'important changes' should and must be made. Keynes reiterated the acceptable points, as in his letter to Jebb of June 29⁽⁴⁴⁾, including White's minimum conditions,

(41) See Blum, Op.Cit. pp.241-242.

(42) Revised Draft of S.F. July 10, 1943, U4193/47/70.

(43) Keynes to Eady, copies to R.Hopkins, F.Phillips, Waley, Cato, Playfair and Padmore, July 19, 1943, U2939/47/70.

(44) See above.

but he then went on to enumerate the entirely unacceptable features of the new draft of the S.F. There were now six defineable areas of concern, though perhaps rather artificially circumscribed.

- A) The position of gold and the size of the Fund. These were both strong determinants of whether the Fund would be a conservative institution, restraining moderate economic growth policies or not.
- B) Creditor liability and the scarce currency clause.
- C) Debtor liability and exchange rate alterations.
- D) The active and discretionary powers of the Fund.
- E) The inflexibility of the Fund in the transition period and the paucity of commercial and trade policy planning to put the S.F. in a satisfactory context.
- F) A growing concern, though still peripheral in July, with the accumulated sterling balances.

Originally there had been detailed provisions in the S.F. to deal with accumulated balances. However, their enormous size and expected Congressional opposition to the U.S. underwriting their liquidation, albeit under the auspices of an international institution, had rendered the plan less palatable by 1943, though it was still mentioned in the July draft. Opposition to such provisions also came from the influential American Bankers' Association. On June 28, Mr. Burgess of National City Bank said he thought it would be unwise for the S.F. to concern itself with such balances and added on behalf of the Banker's Association that they did not want the U.S. to lose one iota of its national sovereignty over the dollar. (45)

(45) Memo, Opie to Jebb, June 29, 1943,
U3030/47/70.

Such views in fact began to appeal to the British who were somewhat on the defensive in the economic field because of suspicion and apprehensions concerning American policy. Perhaps after all, in spite of the enormous debts, Sterling Area problems should remain the exclusive preserve of the sterling members. We shall see more detailed reasons why later, though from now on one may notice the increased references to the views of the Bank of England and the idea of resurrecting, in some form, a viable post-war sterling association, after its virtual abandonment in the Spring of 1942. Still, let us turn to the more immediate reaction of Keynes to the July draft and his criticisms of it.

Keynes thought the British should concern themselves with acquiring a five year transition period at least, and even then he was unsure if this would make the S.F. acceptable to Parliament. The position of gold was also worrying as it acquired more and more the appearance of a gold standard. The provisions for scarce currency sanctions against creditor countries were still inadequate and finally, and what now appears to have caused Keynes the most concern, was the active nature of the Fund and the discretionary powers attached to it by the U.S.

"..., the Fund would possess a mixed bag of currencies in which it would deal at its discretion. It is true that it would only deal with Central Banks and not with the public. But it would exercise its discretion whether or not to accept or supply particular currencies. It would purchase only those currencies which it decided (on no clear criterion) to be "in good standing" and (also on no clear criterion) the scale of which "is required to meet an adverse balance of payments predominantly on current account;" and it would ration scarce currencies. Moreover it would not assure multi-lateral clearing, since it would not undertake to buy any foreign currency and supply any other needed currency in exchange.

The Bank of England maintain, and with reason, that such a system could be so worked as seriously to jeopardise the international position of sterling. There seems to be no serious argument on the other side why the Americans should decline this very great technical simplification. More turns on this than appears on the surface, since otherwise, there are no clear limits to the active banking functions which the Fund might assume and its power to exercise a discriminatory discretion against certain countries." (46)

Keynes' solution to this was to expand the role of unitas, some of the ideas concerning which have already been looked at in some detail when reviewing Keynes' appreciation of American and British minimum conditions. (47) Basically, the expansion of the role of unitas was to cloak the S.F. with some of the characteristics of bancor, more particularly its neutral ones, thus allowing transactions which would avoid the dangers of active and discriminatory manipulations of national currencies.

By July the informal talks had really progressed as far as they could without a face to face meeting of the two architects of the monetary plans, Keynes and White. However, the Americans had been apprehensive of press leaks during the talks, which had been carried out with the utmost discretion. All the British negotiators were officially in the U.S. on other business, but it was now obvious that something more concrete would have to be arranged. The British, however, soft-pedalled for a while. They were uneasy with the absence of progress in other economic fields when there was a danger of the monetary plans developing rapidly. This was particularly so in regard to some of the implications the monetary talks might have in the commercial field.

(46) Ibid

(47) See 'The Synthesis of C.U. and S.F.' in Keynes to Jebb, June 19, 1943, U2934/47/70: discussed above.

Fortunately for the British the proposal of a visit by Keynes to the U.S. caused a considerable amount of press criticism in America concerning in particular, deficit spending. Although in perspective this was really a minor political issue, it was thought best to postpone Keynes' visit for a while. This, and the untimely departure of Phillips from the scene presented the British with the ideal excuses to dally for a while and organise on a footing which would allow economic negotiations to proceed on a wider spectrum.⁽⁴⁸⁾ In fact, the U.S. in its turn was to ask for a week's delay in the departure of the British negotiators, but this proved impossible because of the complexity of re-organising the travel schedule in such difficult times. Consequently on September 3, the British mission led by Richard Law left for Washington.⁽⁴⁹⁾

Before the delegation departed on September 3, the War Cabinet discussed the problems which would arise in the coming talks. On August 10, 1943, Keynes had written to White substantially accepting the U.S.'s minimum conditions, but at the same time, insisting that there would have to be modifications of other parts of the Fund to make it acceptable to the British.⁽⁵⁰⁾ The Cabinet was thus concerned with what modifications could be effected to protect British interests.⁽⁵¹⁾

(48) See WF(43)329, Memo by Foreign Secretary, Chancellor of the Exchequer and President of the Board of Trade, July 22, 1943, U3116/251/70.

(49) The other members of the team included, Keynes, Waley, Lee Liesching, Shackle, Meade, Ronald, Clauson, K.W.Martin, Robbins, Bastor; and Opie and Robertson from the Washington Embassy.

(50) See Young, J.P., D.O.S.B. November 1950, 'Developing Plans for an International Monetary Fund and a World Bank, p.782.

(51) See extract from War Cabinet Conclusions, September 2, 1943, U4221/251/70.

The Cabinet agreed with Keynes on the desirability of restricting the Fund's transactions to unitas and to disallow those in gold and currencies. The President of the Board of Trade, Dalton, and Bevin the Minister for Labour and National Service in particular, both strongly favoured this. The Chancellor assured them that he had given a directive on such lines to the British delegation, and also that gold subscriptions to the Fund should not exceed 12½% of a member's quota. On the question of exchange rate alterations, Dalton favoured a stance of strong opposition to the maintainance of rigid exchange rates, and again the Chancellor of the Exchequer agreed, but he suggested an objective criterion for alterations should be looked on favourably. He was strongly opposed to a loss of sovereign control over exchange rates, but it was an extremely delicate issue and accordingly he had given the delegation a largely discretionary brief on this point.

In fact, both sides were aware that major mutual concessions were necessary. The impasse of the positions reached in July had to be resolved. As we have seen, there was a reluctant willingness on the British side to make a number of major concessions to the U.S., particularly on the subscription issue. In return, they expected concessions from the U.S. which would patch up the S.F. in such a way as to provide some of the remedies for international monetary problems accorded under the C.U. It was still even hoped that the 'basic' nature of the C.U. could be maintained if adequate concessions were won. On the American side they were well aware that they too would have to modify their position to make the S.F. acceptable to the U.K. government, Parliament and public. Shortly before the Autumn talks, E. F. Penrose, economic adviser to Ambassador Winant in London,

wrote a lengthy appraisal of the British position for White and the State Department. Penrose warned them that untrammelled *laissez faire* and its concomitant the gold standard, were not looked on favourably at all in London, and if pushed too far, particularly in the direction recently proposed by the F.R.B., then there could be very serious problems. Penrose continued with an appreciation of difficulties pertinent to the situation of the U.K. and which in fact anticipated later discussions on the difficulties of the transition period.

"In practice it may not be easy to control exchanges and regulate capital movements without in any way causing hindrances or delays to bona fide current transactions and capital movements that lead to increased total productivity. But experience not only with the British but also with the European Allied governments in London leads to the conclusion that these difficulties will have to be faced and overcome and it will not, at least for several years after the war, be practicable in Britain or on the European continent to retreat into a position in which there is no control over exchanges except that which is exercised by an exchange stabilisation or "equalisation" fund, the manipulation of money rates and open market operations." (52)

Thus, there was a general understanding of the respective difficulties of the two sides as the Law Mission arrived in Washington. Though, of course, the details still had to be thrashed out. In an effort to clarify the details of the monetary talks, it was decided that a private meeting between Keynes and White would be of benefit before the negotiations really got underway. This conversation took place on September 14, the results of which Keynes duly informed the Treasury. White appeared quite agreeable to enlarging the Fund somewhat, as long as the U.S. contribution did not exceed \$3B. Keynes indicated that this would quite conceivably hasten the day of dollar scarcity.

(52) Quoted in Penrose, Op.Cit. pp.53-54.

"He brushed scarce currency difficulty on one side with argument that if the United States appears to be reaching its ceiling it is absolutely certain that they would in their own interests increase it." (53)

On this occasion, in fact, White was uncannily accurate in his prediction. The scarce dollar problem was ameliorated eventually by positive U.S. action, though not with the Fund mechanisms, nor primarily on economic considerations, but through Marshall Aid. Still, in 1943 such a cavalier attitude, and such bald assertions regarding future American policy, did little to assure the British. They wanted more concrete proposals. The British acceptance of a reduced size for the S.F. conferred more importance on the scarce currency clause and on automatic access to the resources of the Fund, which was something they were soon to press strongly for. However, at this stage, rather than attempting to get the U.S. to accept positive obligations such as those envisaged by the U.K. for prospective creditor nations, Keynes was more concerned to modify the inflexibility of exchange rate fixings. In his talk with White, Keynes broached this subject and suggested the establishment of objective criteria under which exchange rate alterations could be effected. This was not an isolated issue. It affected both the transition period and the gold standard appearance of the Fund. Keynes hoped that more flexible exchange rate fixing would undermine this appearance and weaken the tie of currencies to gold via the dollar. Unfortunately, White's reaction to this suggestion was not enthusiastic and Keynes, not wishing to force the issue at this stage, moved on to discuss briefly the

(53) Keynes to Treasury, September 14, 1943,
U4355/47/70.

discretionary powers of the Fund and the transitional period. On this latter point White expressed a view which, again, seemed rather incompatible with the line adopted by the State Department in the talks to establish the Mutual Aid Agreement. Concerning the transition period White said:-

"In our own case, we should be free, he said, under his proposals, to maintain our existing system of sterling area arrangements and special accounts for a period to which no definite term was set. We should not be required to discuss them until we felt strong enough to do without them." (54)

It was all very well for White to glibly say this but the British could not ignore their commitment under Article VII of the Mutual Aid Agreement to work with the Americans towards the elimination of discriminatory practices. Keynes did emphasise in his letter to the Treasury that White had been expressing personal and not official views, but, nevertheless, there was little doubt that the talk with White had added uncertainty to some issues rather than clarity. Finally, the problem of sterling balances was touched on. This was to become of increasing concern as the prospects of trade liberalisation, in a manner satisfactory to the British diminished and the adjustment provisions for the transition period appeared more and more inadequate.

"On abnormal balances I told him that we were anxious to play this down for the time being and to defer for present any serious discussion of it. I pointed out that it might be better to clear up war balances by our own methods as fully as possible, and this might not be facilitated if our creditors felt that there was another easy way out. He readily appreciated our point of view and agreed that clauses about abnormal balances be deferred until we felt ready to raise them." (55)

(54) Ibid

(55) Ibid

During the days following the meeting between White and Keynes, the issue which continued to attract British attention was that of exchange rate alterations. This caused the Treasury in London particular concern, but with the knowledge of the delicacy and importance of the matter, hard and fast instructions were not issued. Nevertheless, on September 22, the Treasury made it clear that they were disappointed with the low key reaction of the U.S. to the British proposal for objective criterion by which alterations could be made. As noted above, not only was the direct problem of inflexibility involved but also the gold standard character of the S.F. (56)

(56) See Treasury to Keynes, September 22, 1943, U4221/251/70.

These points were really crucial, particularly in the transition period, where the position was indeterminable. Not only were the exchange alteration provisions deemed inadequate, but the procedures were also regarded apprehensively. A weakened currency might be exposed to acute speculation during the consultative process, and the British Treasury wished to avoid this. (57)

(57) With regard to pressure from London for liberal provisions for exchange rate alterations, R.F. Harrod in 'The Prof., A Personal Memoir of Lord Cherwell', Macmillan, London 1959, states that in September 1943, while he was advising Cherwell on the White-Keynes monetary talks, an incompletely authorised telegram was sent to Washington. He does not specify the date but it would appear to be 'Treasury to Keynes', September 22, 1943, U4221/251/70. He describes this as "... mischievous and likely to sabotage Keynes' negotiation. Drafted under a temporary shift of emphasis in Whitehall it required Keynes to insist on more liberty for each nation to change the value of its currency than he had himself proposed in his original plan for a 'Clearing Union'. For this telegram the Prof's. assent was required but had been mistakenly taken for granted, since he was at a meeting", p.p. 236-237. Harrod omits to point out that the provisions envisaged under the C.U. had of course now been changed, and adjustment pressure on creditor countries had not been finalised which altered the situation and made liberal alteration provisions more necessary for the U.K. However, as we shall see, there was some unfavourable reaction to this telegram by Keynes and Waley, though one suspects this was not quite the problem Harrod makes it out to be. In fact, although he says "I believe the matter was put right in the end", the Cabinet pressed for more flexible provisions particularly for the transition period.

The British representatives in Washington were rather concerned that the Treasury was pressing far too much here. The problem was to balance exchange stability with freedom to adjust out of fundamental disequilibrium. In fact, as Waley indicated in a letter of reply, September 23, 1943, a letter which was ratified by Keynes, the position was beginning to look quite favourable, both in the monetary and the commercial talks. It was thus undesirable to jeopardise Article VII talks as a whole, by not being too forthcoming in the monetary negotiations. In particular Waley suggested that the Treasury had under-estimated the dangers of depreciation by other countries, for inadequate reasons, if sufficiently concrete criteria and a certain amount of inflexibility was not built into the agreement.⁽⁵⁸⁾ Whereas Britain, because of her close association with the U.S. and her eminent position in international monetary and financial affairs, may find that considerations other than the I.M.F. would inhibit her from depreciating as readily as other countries might.

"Taking a severely practical point of view our proposals give us completely free hand to depreciate to the extent of 10% and another 10% without the necessity of securing committee's approval. Whilst laying down satisfactory rules on circumstances in which countries should or should not be allowed to depreciate further."⁽⁵⁹⁾

This position should not be misunderstood. Keynes was pressing for a relaxation of the inflexibility of American proposals on exchange rate alterations, but he was also aware of the fine balance that was required here. In late September he had persuaded White to concede a unilateral right to withdraw from the Fund. In this, he had been aided by White's number

(58) See Waley to F.O., September 23, 1943, U4221/251/70.

(59) Ibid.

one technical adviser, E. M. Bernstein, who had pointed out that if White did not allow such a right, the U.S. could have trouble with Congress. (60) This emphasised the image of a free association of nations and undermined the more stringent criticisms that the U.S. was imposing a rigid gold tied dollar upon the rest of the members. It was a significant move toward the type of flexibility Keynes wanted for the Fund. Nevertheless, the British Cabinet were still uneasy over the position of exchange rates and passed on to Keynes in the form of a Cabinet Paper the government's views. (61)

The Cabinet agreed with Waley that an untrammelled unilateral right to devalue should be avoided because of the obvious dangers of competitive devaluation. They agreed on the attraction of objective criteria but had some queries regarding the distinction between the rules and procedure for exchange alterations and whether there should be such a clear distinction in the transition period. The point was, that the Cabinet wanted to secure sovereign authority to expeditiously alter exchange rates, if necessary, in the transition period. To make this possible, the suggestion, in effect, was that the 'rules' to be complied with for exchange alterations should consist simply of a consultative procedure. To emphasise the apprehension over this the Cabinet added:-

"We think it quite premature to estimate now whether permissible range of 10% will meet inevitable adjustments of experimental rates." (62)

(60) See Harrod, Op.Cit. p.565.

(61) See WP(43)428 which was drawn up by the Chancellor of the Exchequer, John Anderson, October 2, 1943, U4986/251/70, communicated to Washington, F.O. to Washington, Tel.No.6702, October 5, 1943, U4862/251/70.

(62) Ibid.

Even if such a figure were inserted it would have to be subject to qualifications, though hopefully qualifications which would not be voted on by the management board. The Cabinet requested Keynes et al to urge on the Americans stabilisation in the form of:

1. Definite agreement to accept the S.F. as the basis of economic relations.
2. Exchange alterations should be in accordance with objective criteria.
3. The S.F. should become operational as soon as possible.
4. "There should be agreement in the instrument that no adjustment of exchange rates shall be made except after consultation with the Board though not subject to the Board's approval."
5. A five year transitional period, or less if members agree, then rules should be established for further exchange adjustments. (63)

Thus, in general, the Cabinet was in agreement with the negotiators in Washington, apart from two points: the first was a desire for more complete sovereign control over exchange rate alterations and the second point of concern was that:-

"... the Ministers do not believe that the proposals are really adequate for the immediate post-war period, say about 3 years from the inauguration for the currency organisation." (64)

They suggested that Keynes and Waley should attempt to clarify further such points.

In Washington events developed rapidly. Keynes secured U.S. agreement to a 10% alteration right simply with consultation and a right to a second 10% with the decision of the

(63) Ibid.

(64) Ibid.

Fund being required, but within two days of the application. (65)

Keynes told the Treasury that he had argued strongly against the discretionary control over the second 10% devaluation, but if he had forced the issue further the repercussions could have been very harmful.

"In the course of the discussions we informed them that London felt somewhat strongly that requirements of consultation without requirements of approval by formal voting was more advisable. But all American Departments including Federal Reserve Board reacted violently against this as being a departure from what they regarded as a central principle of plan and an essential condition of American participation. This is one of the few occasions on which we have received no support or sympathy from any American quarter. Federal Reserve Board in particular have frequently supported our views against their Treasury. We feel therefore that we should jeopardise hope of future progress if we were to press this further." (66)

In retrospect, it would appear that Keynes was right for there was a considerable amount of consensus reached on monetary problems during the following days. Perhaps the best way to treat these extremely complicated negotiations would be to abandon, temporarily, the chronological narrative, and deal with the six main areas of concern successively.

The first issue is relatively simple for the provisions which had been drafted by October 7, were those which were incorporated into the final agreement. This was the debtor adjustment problem, on which the Americans had been particularly forthcoming. They had admittedly balked at the idea of a second 10% alteration in the exchange rate without specific acquiescence by the Fund, but British Government fears of the consequences of a delay in exchange adjustments were ameliorated by the two day limit placed

(65) This was in fact the form in which it was incorporated into the Joint Statement, See "I.M.F. Proceedings and Documents of the U.N. Monetary and Financial Conference - Bretton Woods, July 1 - 22, 1944, Vols. I and II." p.1634, U.S. Government Printing Office, 1948.

(66) Keynes to Treasury, October 7, 1943, U4903/251/70.

on the deliberations of a request. In short, even the British officials, especially after reflecting on the dangers of competitive devaluations, were more than pleased with the results. In fact, British views on the exchange problem had fluctuated. Keynes' views had gradually changed to favour greater flexibility as the American goals for the nature of the S.F. clarified particularly regarding its size and its gradual divorce from other economic issues, which were originally envisaged as part and parcel of the C.U. On the flexibility issue Keynes on October 17, wrote to Viner.

"On this point we in London have come round entirely to your point of view. With some difficulty, we have persuaded White to come a long way to meet us. I hope you will find the new formula acceptable. My feeling now is that it goes far enough." (67)

The provisions did appear to safeguard adequately sovereign control over exchange rates and supply a last resort line of action to avoid highly objectionable forms of domestic deflation.

The position of gold and the gold standard appearance of the Fund had also been considerably modified. The new American formula for gold subscriptions, although different in form from the British proposals, was effectively the same. (68) As for the unilateral right to withdraw, Keynes told a meeting of Dominion and Indian representatives, in Washington, that the plan was now simply for the establishment of a voluntary association, which would continue only as long as it was in a nation's interests that it should do so. (69) This was perhaps a rather

(67) Quoted in Gardner, R., Op.Cit. p.114. Keynes to Viner, October 17, 1943.

(68) See Washington to Treasury U5066/251/70, October 13, 1943.

(69) Keynes to meeting of Dominion and Indian Representatives in Washington, October 13, 1943, U76/6/70.

naive characterisation of the Fund. The withdrawal right was certainly ignored by critics who branded the Fund as the imposer of a new gold standard, which to a large extent it was. There were, in actual fact, numerous pressures operative to maintain a nation's association, particularly in regard to Britain with her dependence on trade, the importance of sterling and her close connections with the U.S. Thus, if it was not going to be so easy to walk out of the Fund the question of a rigid gold standard and fixed rates of exchange, to a large extent, remained. Furthermore, Britain's aim for a \$10 - 12B minimum aggregate capital subscription total, now appeared highly unlikely of success. A smaller aggregate capital would further accentuate restrictionist and deflationary tendencies already established by the maintainance of gold as a referent of value. In the final analysis international liquidity was going to be dependent upon confidence in the two major international exchange currencies, sterling and dollars, both of which were tied to gold, one directly and one by pressure from the other. If confidence began to crumble, then once again, gold would be seen to be the only truly international medium of exchange. Dollars would be redeemed in gold and a de facto gold standard would operate. Unfortunately, there was not an unlimited amount of gold available, so international liquidity would be largely restricted by (1) the relation of dollars and sterling to their respective gold reserves; (2) confidence in dollars and sterling.

This could mean the perpetuation of the traditional restraint of international credit creations to tide a country over a short term imbalance of payments. Instead of expanding credit as in the C.U. the 1943 proposals were basically to maintain the conservative nature of the international monetary system.

Credit facilities appeared to be inadequate. Domestic prosperity was once again to be endangered by the need for the stability of international exchange rates. The gold/dollar standard and the relatively small subscriptions for the S.F. (70) meant smaller available credits and the perpetuation of the politicisation of international money, by what the U.S. saw as a need to apply discretionary controls to shepherd the smaller capital available. The British modified alternative was to ensure confidence in international exchange by making access, even to the reduced funds, automatic. Thus there were still dangers involved for the British, dangers which affected other aspects of the S.F. and began to challenge Keynes' basic conception of an international institution. (71)

The Americans were well aware just what a challenge their rejections of the over-draft principle and the smaller fund nature of the proposed institution was to the original ideas the British had put forward. It was largely because of this that White had consistently pressed on the British the efficacy of a scarce currency clause. By mid-October Keynes was far more sanguine than he had been earlier in the year on this creditor liability issue. On June 9, 1943, he had written to Viner:-

"Over here we find this feature of the S.F. rather obscure. Are you clear how it (i.e. scarce currency clause) would work? Do you think that it is a satisfactory way out?" (72)

(70) Only £8.8B in its final form.

(71) See following page - "Harrod, as quoted..."

(72) Quoted in Gardner R., Op.Cit. p.116.

Footnote:

- (71) Harrod, as quoted above, discusses Keynes' commitment to a 'basic structure' for the international monetary institution. Unfortunately he does not clearly explain what this consisted of. One point was the potential for future developments in the fields of reconstruction and development and commodity price controls, but this, I think, was simply a symptom of the 'basic nature' which was a very large pool of international credit and its ready availability. Harrod, Op.Cit. p.561, makes it appear as if the 'basic nature issue' revolved round the use of 'cherokee', Keynes' expression for American technical jargon, or Christian English, which is surely misleading. J.P.Young, D.O.S.B. November 1950, p.783, Op.Cit. says of the Washington Negotiations 1943, "These discussions revealed a fundamental difference in viewpoint between the United Kingdom and the United States regarding the nature of the proposed Fund and its operations.... The British believed that the Fund should operate as an automatic institution with a minimum of discretion on the part of its management, whereas the United States believed the Fund could be most effective in achieving its purposes if its operations were conducted on a discretionary basis." Harrod, p.562, does indicate the dangers of 'discretion' and the danger of inopportune selling of British securities by the Fund, but he does not adequately explain the implications 'discretion' had for the rest of the Fund nor the goals and conditions the Americans had established for the Fund which in their view made discretionary operations necessary. In fact, contrary to Harrod's judgement, Op.Cit. p.561, the evidence indicates that Keynes believed he had qualified the American proposals to an extent which salvaged much of his concept of the basic nature of an international monetary organisation. Though as Keynes had said in early 1943, much depended upon the will to cooperate, which in effect meant could the British and Americans overcome their substantial conflict of interests. In fact, the final answer to this would be how the Fund actually operated.

And this was in spite of the favourable answers the U.S. had given the British regarding the scarce currency clause in February.⁽⁷³⁾ Keynes wanted to incorporate provisions in the S.F. for pressures to be brought on a chronic creditor nation to force it to correct its imbalance by either reducing its own import duties, or allowing foreign countries to discriminate against its goods. The S.F. published in 1943 provided that the S.F. should issue a report to the creditor country, and that instructions should be given careful and immediate attention.⁽⁷⁴⁾ As Keynes discussed these issues with White, he became more and more optimistic and convinced, not only of the need, but also of the viability of the scarce currency clause, particularly in view of the reduced size of the Fund. On returning to London in October, Keynes wrote to John Anderson that the scarce currency clause:-

"... puts the creditor country on the spot so acutely that in view of all of us, the creditor country simply cannot afford to let such a situation arise..... if the Americans really live up to their present proposals, it will be the U.S.A. and not the rest of us which will get into real trouble, if the U.S.A. develops a favourable balance of payments which is not adequately disposed of by foreign lending in some way."⁽⁷⁵⁾

However, there were some modifications effected to the October position. In its final form Article VII section 3(b)⁽⁷⁶⁾ was somewhat different, in particular the recommendatory provisions of Section III paragraph 6,⁽⁷⁷⁾ were abandoned. In fact, as we

(73) See telegrams No. 908 and 909, Halifax to F.O. U861/47/70.

(74) S.F. Section III paragraph 6, July 10, 1943, U4193/47/70.

(75) Quoted in D. Rees, Op.Cit. pp 227-228.

(76) A Decade of U.S. Foreign Policy, etc., Op.Cit. p.282.

(77) See above.

shall see, the position of creditor responsibility became even more equivocal as the issue was discussed in the U.S. after Bretton Woods.

The problems of the transitional period and the accumulated sterling balances were so closely inter-related that it is better that they be considered together. Both issues in fact were not dealt with thoroughly during the Washington talks, but they were both causing the British grave concern. The British position on the whole spectrum of planning for the post-war economy was beginning to shift towards a type of balancing act. At the beginning of 1942, fears had been expressed that the lowering of British prestige, because of her series of defeats, had rendered the idea of resurrecting the sterling area as a trade and financial bloc unrealistic. By the end of 1943, the situation was changing again. The victories of Auchinleck and Montgomery in the desert, the Anglo-American landings in North Africa and R.A.F. Bomber Command's raids on Germany began to resuscitate Britain's prestige. At the same time, the British were becoming suspicious of the U.S. and doubtful about the success of economic cooperation with them. The American capture of British export markets, trouble over oil in the Middle East and the question of the supersession of the Lend-Lease Export White Paper, were all causing serious concern. The Washington talks produced two important results concerning Britain's renewed interest in the Sterling Area. First of all Britain became very reluctant even to countenance a plan for the internationally organised liquidation of the sterling balances. Secondly, though this was not finally sorted out until the Spring of 1944, the transition period was to allow the maintenance of the sterling area exchange controls. British faith in multilateral solutions and the

efficacy of in-depth collaboration with the U.S. was experiencing some serious reservations.

During the Washington talks the transitional problems were only superficially considered and little progress towards details occurred. There was ministerial concern regarding this and for the American acknowledgement of the need for adjustments but without any clear criterion being suggested.

"6 VII now reads, 'because of extreme uncertainties of immediate post-war period and recognising that rates established during such period will of necessity be tentative in many instances, during first three years fund shall recognise that there will be need for many changes and adjustments and shall resolve cases of reasonable doubt in favour of country requesting changes in rates'. " (78)

Such provisions were regarded as insubstantial by the British and did little to allay their worries on a number of issues which would be critical to Britain's economic health during the immediate post-war years. (79) It was true, that the Americans had given way on a number of issues, notably exchange rate fixing, but there were a number of other significant problems. For Britain, one of the key problems was the massive accumulated balances of Egypt and India. It was feared that such balances would put an intolerable strain on sterling once it became freely convertible, unless adequate provisions were made. (80)

(78) Keynes to Treasury, October 13, 1943, U5066/251/70.

(79) See J.M.Keynes to Treasury, October 7, 1943, U4903/251/70; F.O. to Washington, October 5, 1943, U4862/251/70 and J.M.Keynes to Treasury, October 13, 1943, U5066/251/70.

(80) See 'The Overseas Assets and Liabilities of the United Kingdom', September 2, 1943; Approved in Principle by the Chancellor of the Exchequer, AD(43)2, U4500/251/70.

Such provisions could be either:-

1. a major scaling down of the balances and some international assumption of responsibility for their gradual and eventual liquidation.
2. negotiated scaling down of balances to a much smaller extent combined with the retention of sterling area monetary controls to perpetuate a sterling based trade and commercial organisation.

The political decisions involved in these two policy decisions will soon be elaborated upon.

In addition to the above worry, there was also consternation about American prevarication and intransigence over the talks for the supersession of the Export White Paper and American manipulations, under its authority, of the level of British gold and currency reserves, which were seen as threats to Britain's economic prospects in the transition period. In effect British export recovery was being positively inhibited by the U.S., and her reserve position was being rendered most weak. An export led recovery for the British economy was being precluded by the U.S. The envisaged economic stringency of the post-war period and suspicions of American motives were in turn affecting British policies towards the relief organisations such as U.N.R.R.A. and the I.B.R.D. In both these cases the need to restrict Britain's financial contributions, lack of decisive British influence and the danger of interference in the British economy were the decisive factors rather than attempting to design the institutions in such a manner that Britain could receive international aid. (81)

(81) See following page - "The British felt....."

Footnote:

- (81) The British felt U.N.R.R.A. should be restricted to a narrow scope so that British influence by way of the Combined Boards could be perpetuated. See Draft Memo N.B.Ronald for Minister of State, November 10, 1943, U5679/5/73 'If Not U.N.R.R.A. What?'. In paragraph 4, he said, "Taking a fairly long view, say up to the end of six months after the end of hostilities with Japan, that is the period during which we ought to be able to count fairly confidently on continuation of Lend-Lease ..." This type of rather naive confidence was to be rudely shattered later, but of course even until late 1945 Keynes still hoped for a U.S. grant-in-aid, or at the very worst an interest free loan. On November 9, 1943, U.N.R.R.A. was signed and in first session Keynes proposed that U.N.R.R.A. relief should only be for ex-occupied territories, also that any country with external assets should utilise them first before approaching U.N.R.R.A., WP(43)567, December 17, 1943, U6636/5/7: see also Chancellor of Exchequer Memo, 'Finance of Relief', December 22, 1943, U6636/5/73. U.K. contribution to U.N.R.R.A. £80m p.a. approx. 1% of G.N.P. As for the I.B.R.D. the U.K. proposed, at Atlantic City, that the capital contributions should be cut drastically to 20% of each country's quota, i.e. only 20% of a country's quota was to be paid into the Bank: See J. P. Young, Op.Cit. p.786.

The caution the British evinced over the I.B.R.D. and U.N.R.R.A. was very much a symptom of an untoward development in the monetary talks. Basically, the problem was that these talks had progressed far ahead of what the British considered to be the complementary commodity and trade talks. So, although great progress had occurred in the monetary talks, the British still regarded this as only a part of a larger jig-saw, whose overall nature was still unclear. The uncertainty was compounded further by the friction between the State and Treasury Departments and the ambiguity concerning the American position on trade policy which resulted from this. As we have seen, the Treasury had, from time to time, condoned the maintainance of discriminatory practices in its hard bargaining with the U.K., but this was really the preserve of the State Department. In short with the previous problems in mind this ambiguity was something the British felt should be removed. Accordingly on December 18, 1943, Keynes wrote to Harry White about the transitional provisions.

"This transitional clause, as we intend it, would allow us not only to maintain sterling area arrangements, and payments agreements with other countries of general character now in force but to adopt and extend these as for example by concluding payments agreements with any part of the sterling area with which we could not reach an alternative satisfactory arrangement. It would also allow us to make new inter-governmental or inter-Central Bank credit or clearing arrangements on the model for example of the recent Belgo-Dutch agreement or our own Anglo-French Agreement ...

The conditions will be a sequel to the war and the deficiency will in fact be a delayed instalment of the costs of the war and should be handled as a part of the wartime finance and not regarded as belonging to a subsequent peace time regime." (82)

(82) In White Papers P.U.L., and quoted in Gardner R., Op.Cit. p.120, December 18, 1943, Also in F.O. U6539/251/70. J.M.Keynes to H.D.White, December 18, 1943.

This in fact went hand in glove with the call for the specific renunciation by the I.M.F. of any concern with relief, reconstruction or indebtedness incurred during the war. This has perplexed a number of historians in view of the U.K.'s vast overseas liabilities. However, by late 1943 both the U.K. and the U.S. were reluctant to place the responsibility for the liquidation of the accumulated war balances under the authority of the Fund. One reason was their enormous size in relation to the Fund's resources which could have undermined its working viability. As far as the U.S. was concerned, there was also the thought that Congress would not look favourably on further underwriting of foreigners' debts by the U.S. As for Britain, well as we have seen, she was already searching for a possible economic life-belt if American policies proved to be too harmful for the British economy. The sterling debts could act as a major consolidating force in the Sterling Area thus creating sufficient cohesion to provide a working economic framework within which the British economy could function. The alternative policy of drastically reducing the sterling balances followed by the internationally organised liquidation of residue would reflect badly on England's role in the international economy and would cause widespread political and economic repercussions in the Commonwealth and Empire. Repercussions which could destroy for good the viability of the Sterling Area as an association of nations cooperating together on economic and political issues. With the demise of such a policy alternative would also go the

world role of sterling and the profitability of the City.⁽⁸³⁾
This concern for the maintainance of the Sterling Area was consistently maintained at Bretton Woods. At the Conference in New Hampshire the issue of the accumulated war balances was brought up by the Egyptian delegate and later by the Indian delegate Mr. A. D. Shroff on July 6, 1944. We have seen above the reasons of both the British and the Americans for wishing to keep this problem outside the scope of the Fund. And as it was basically a British problem, White had agreed that any initiative on this should be left to the U.K.⁽⁸⁴⁾ However, the British were of course reluctant to spell out in detail their position on the sterling balances and so simply stated:-

"... that this is a matter for bilateral arrangements between the parties and interests concerned." (85)

- (83) Or so it was believed at the time, though subsequent developments have indicated that it is the expertise of the City rather than sterling which is the decisive factor here.
- (84) See J. M. Keynes to Treasury, September 14, 1943, U4355/47/70.
- (85) 'Proceedings and Documents, etc.' Op.Cit. p.424. E. F. Penrose, Op.Cit. p.57, ascribes the reasons for this British insistence on bilateral settling of the debts to a naive belief that the creditor countries would accept "... the overwhelming moral case for writing off a large part of the debts..." In fact little effort was made by the British Government to get the creditor countries to do this.

There were some other relatively minor problems connected with the transitional period such as the inaugural date for the Fund. Most of the problems were regarded by Keynes as soluble:-

"... without excessive difficulty or our giving away what we consider essential." (86)

There was one problem however which was to cause more and more difficulties. This was the question the part 'unitas' was to play in the Fund. In fact the role of unitas was part of the much wider issue of the active or passive nature of the Fund.

The problem of passivity was to pose further ambiguities for the British. The uncertainties of this issue were not so wide ranging as the discrimination question was but it was of vital significance so far as the monetary talks themselves were concerned.

- (86) J. M. Keynes to Treasury, October 13, 1943, U5066/251/70: the remaining problems were contained in reserved passages,
- "A) amount of gold subscription although now American formula of 25% of quota or 10% of gold and free foreign exchange whichever is less, would not work out appreciably different from ours in our own case.
 - B) Whether gold subscription is held as a pledge,
 - C) Whether fund should be given powers in extreme cases to discipline a country having "adequate" gold and free exchange must use this pari passu with facilities of the Fund.
 - E) Whether a country increasing its free foreign exchange must turn over a part of this fund if it is using fund facilities,
 - F) Whether right to change established rate by 10% should be renewed each successive decade,
 - G) Whether a country while using facilities of the fund should be free to employ its reserves held outside fund to finance outward movements of capital for any other purpose without restriction.
 - H) Whether substance of proposals should be expressed in terms of monetised unitas." Ibid.

For example, J. P. Young ear-marks passivity as the fundamentally divisive issue between the U.S. and the U.K. at the Washington talks.⁽⁸⁷⁾ Despite the obvious significance of this issue, it is quite plain that Keynes was unsure of the provisions which would finally pertain, and this is reflected in the varying reports he sent to London. On October 8, he believed that he had:-

"... fully assured the passivity of the Fund, ..." (88)

By October 17, Keynes was less certain of the position and wrote to Viner that:-

"Our view has been very strongly that if countries are to be given sufficient confidence they must be able to rely in all normal circumstances on drawing a substantial part of their quota without policing or facing unforeseen obstacles... (passivity was) one of the matters on which we have not yet reached final accommodation." (89)

For, although the U.S. had accepted the general principle of passivity, the procedures involved still had to be clearly defined.⁽⁹⁰⁾ However, the concession by the U.S., to allow unilateral withdrawal from the Fund did provide an escape route if the S.F. ever did become over-involved in domestic economic affairs and this, to a certain extent, reassured the British. After Keynes' return to England, he was inclined once again to be optimistic. He wrote:-

"It was a very great concession on their part to come round to our view of the Fund as a reserve of resources, entirely passive, except in the more extreme contingencies, where countries were running towards the limit of their facilities in one direction or another." (91)

(87) See Young, Op.Cit. p.782.

(88) Keynes to Treasury, October 8, 1943, U4910/251/70.

(89) Keynes to Viner, October 17, 1943, Quoted in Gardner, Op.Cit. p.113.

(90) See Blum, Op.Cit. p.244.

(91) Quoted in Harrod, Op.Cit. p.570.

While Keynes' view of the passivity problem fluctuated from optimism to pessimism, opinion in the U.S. began to take on a more coherent and solid aspect. In the State Department, Berle and Feis were prominent moulders of opinion on this, not only from the basis of their own personal reservations, but also from fears of untoward public reaction to a S.F. which was 'passive', but at the same time largely financed by the U.S. They envisaged a danger of indiscriminate doling out of money to subsidise foreign competitors, possibly in the field of aviation or oil where the U.S. had strong national interests.⁽⁹²⁾ In addition to these developments in the State Department, Morgenthau's continuing flirtation with Congress led to informal discussions to explain the monetary provisions to Congress on October 5, which was soon to be followed by the establishment of a liaison committee. The introduction of the legislative branch of the government to the monetary talks, the fears of the State Department and Morgenthau's own convictions though tempered with the need not to ruffle the British too much, all added to the ambiguous element in the development of the passivity provisions. In the Joint Statement ambiguity was already present, but it was to become even more pronounced in the final agreement. At this time the qualification for access to the Fund's resources was only expressed in a negative way. Fund resources would be made available if:-

"The Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund...." (93)

(92) See 'Economic Aspects of New Deal Diplomacy', Gardner, L.C., Beacon Press, Boston 1964, p.287; Feis, H. 'The Sinews of Peace', Harper Bros. N.Y. 1944, p.90; Economics and Peace, Foreign Policy Reports XX, April, 1944.

(93) 'Proceedings of the U.N. Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1-22, 1944', U.S. Government Printing Office, 2 vols. 1948, Appendix IV, pp 1631-1632.

Still, even before the Joint Statement the passivity principle became inextricably intertwined with British proposals for a monetised version of unitas. They hoped that this would increase international liquidity and help to de-politicise the financial workings of the Fund, thus strengthening the passivity principle. Furthermore, a direct consequence of this would be the undermining of the key role the gold/dollar standard was intended to play by the Americans. During September and October Keynes had tried to reduce the role of gold in the Fund, and as we have seen was partially successful. However, the restrictions the U.S. wished to impose on unitas were such as to prevent it competing with gold. As Blum records:-

"In particular, the British opposed any reference to White's unitas, because they were defined in terms of grains of gold." (94)

What the British did not object to, and in fact strongly favoured, was a monetised form of unitas. Keynes presented a memorandum 'Suggestions For The Monetisation of Unitas' to the Americans during the Washington Conference but little progress was made at that time. (95) Nevertheless, there was strong support for Keynes' idea in the U.K. and in January 1944:-

"After further consideration Treasury greatly prefer unitas version because it is much more clear and simple. Moreover despite safeguards introduced for keeping fund passive, view is still held in some quarters here that fund in Stabilisation Fund shape must inevitably develop technique of dealing in exchange with danger that sterling held by Fund would constitute a live liability." (96)

(94) Blum, Op.Cit. p.247: $\$10 = 37\frac{1}{2}$ grains of fine gold, 'Monetary and Finance Conference', Op.Cit. pp 1619-1628.

(95) See Young, J.P., Op.Cit. p.783.

(96) Secretary of State to Indian Finance Department, January 5, 1944, U6406/251/70.

During the next three months, this problem continued to plague Anglo-U.S. relations. Furthermore, in October 1943, as we have already noted, Morgenthau had encouraged the establishment of a bipartisan congressional liaison committee, to which monetary questions could be continually referred. Whether this was a ploy by Morgenthau to attempt to keep Congress sweet and avoid the pitfalls that President Wilson stumbled into, or whether it was designed to increase backwoodsman pressure to help consolidate American interests in the S.F. and ward off pressures from Britain for further modifications is difficult to judge on the evidence available. It was certainly unsuccessful in curbing Congressional criticisms, though they were confined to a fairly small but vocal opposition. Nevertheless, there was an increase of criticisms of the developments in the monetary talks at this time, of which much was made by the U.S. Treasury. On January 17, 1944, White expressed fears to Kedvers Opie that Congress whipped up by conservative Republicans could create trouble for the Fund. Also, if progress was not speeded up and an early conference held then things would have to be postponed for a considerable time because of the November Presidential elections.⁽⁹⁷⁾ By the end of January, the unitas question had still not been resolved. At this point the influential President of the American Bankers' Association, Mr. Hemmingway, added his voice to the critics of British policy. He indicated the incompatibility of British and American policies, particularly in view of the facts that the U.S. was turning more toward Republicanism and Britain toward a state-controlled socialist economy. A further symptom of the differences between the U.S. and the U.K. was Britain's reluctance

(97) See Opie to F.O. January 17, 1944, U410/6/70.

to tie sterling value to gold. Under such conditions, Hemmingway alleged, there were dangers of sterling's value being manipulated to the detriment of the dollar.

There was concern on the other side of the Atlantic as well. On February 21, 1944, Beaverbrook presented a paper to Churchill expressing his worries over the oil, aviation and, as he termed it, the gold standard conference. Agreement on all of these topics, under extant proposals, he believed, should have been resisted. He added:-

"That we should pursue friendship and collaboration with the United States is an unchallengeable principle. But in seeking that friendship we should aim, with an equal consistency, at maintaining and strengthening our own position as a world power. The two objectives are not irreconcilable....." (98)

Beaverbrook, Lord Privy Seal at this time, strongly represented the views and fears of the Bank of England regarding the Fund. His comments, although they went further than the predominant Treasury and Foreign Office opinions, they did reflect the rationale behind the safeguards which were being inserted by the British into politico-economic discussions, which would enable a resurrection of a modified post-war sterling area. In a War Cabinet Paper of March 6, Beaverbrook wrote:-

(98) Quoted in Young, Op.Cit. p.261.

"The Bank (of England) take the view that it is essential to sustain and strengthen faith in sterling. To do so, the Sterling Area must be persuaded to believe in its own currency. Any doubt or misgiving will result in a flight from sterling, with holders, trying to sell for any other currency.

Para. 5: If we keep faith in sterling, the Bank believe that it is possible, although not easy, to sustain the Sterling Area in future in the face of the debit balances in India and Egypt." (99)

This was an alternative to accepting the Fund as it stood.

The Bank's view was that the Fund would be an institutionalisation of a dollar/gold standard, which would eventually usurp the role of sterling as the predominant currency of international exchange. In April 1944, Ambassador Winant explained to the Secretary of State the opposition to the Fund from the Bank of England and British imperialists such as Amery. The opposition was such, he said, that Churchill had expressed reluctance for making a decision on the proposals as they stood. (100)

(99) WP (44) 148 Memo by Lord Privy Seal, March 6, 1944, U1972/6/70: even Churchill who rarely involved himself in economic issues did so at this time, and for example memoed. a month later, 'We should not be prepared to submit to an economic, financial and monetary system laid down by, say, Russia or the United States with her faggot vote China', May, 1944, Quoted in Cadogan, Op.Cit. p.627, Editorial Comment.

(100) Winant to Secretary of State, April 12, 1944, Quoted in Gardner, Op.Cit. p.123: in fact Winant's information may have been defective; it was more with regard to the commercial talks that Churchill expressed a reluctance to allow a decision to be made.

During the first week in March, White reported to Morgenthau that there was only one outstanding issue of importance between the U.S. and the U.K., obviously referring to the unitas question. He added that the British had promised to transmit a decision on this within two weeks. Still, by the 21st, there was no response from the British, and at this point White expressed his concern over the timing of the proposed monetary conference. If it was to be in June 1944 they would require a decision on unitas by the end of the month. (101) On the 23rd, Grant wrote the British Treasury describing White's impatience and disappointment. White apparently wanted speedy results, partly to rebut Congressional criticisms and partly to brand opponents as negative out-and-out isolationists. (102) In early April White again appealed to Morgenthau to bring pressure to bear to expedite matters, which he agreed to do. On April 5, in response to a joint plea by Hull and Morgenthau, Roosevelt agreed to endorse the proposed conference but only if the British agreed.

The Americans now really turned on the pressure. On April 7, Winant wrote to Anderson enclosing a letter from Morgenthau which contained a thinly veiled threat.

"If it is not held then (i.e. the conference in May 1944) there is no saying if and when a conference can be held."
(103)

Anderson sent a personal message to Morgenthau via the Embassy in Washington which explained his concern over Britain's probable post-war financial position and the possible dangerous consequences for the U.K. if it adhered to the Fund in its present form. (104)

(101) See Blum, Op.Cit. p.246.

(102) Grant to Treasury, March 23, 1944, U2401/6/70.

(103) Winant to Anderson with Morgenthau's letter enclosed, April 7, 1944, U2934/6/70.

(104) Anderson to Morgenthau, via Halifax, April 7, 1944, U2906/6/70.

However, as we shall see, Halifax had much to say regarding the wisdom of delivering such opinions to Morgenthau.

By April, the Americans were making much of the dangers of Republican opposition. The Republican banker, C.S.Dewey, with the support of the New York bankers, was proposing to introduce an alternative draft for a monetary institution into Congress, which was an emasculation of the Anglo-U.S. Joint Statement. The U.S. Treasury now argued that they wanted to pre-empt hearings on the proposed Dewey Bill scheduled for April 25, by Morgenthau presenting the Joint Statement proposals to Congress prior to that date. The British tried to explain the possible difficulties for the government with Parliament, the press and public opinion if they agreed to the Joint Statement as it stood, but such arguments at this time impressed the Americans little.⁽¹⁰⁵⁾ The U.S. Treasury continued to press hard, for British agreement. On April 12, Morgenthau wrote to Winant.

"Unless we hear, that the Joint Statement can be published next week then it is my personal opinion that we shall not be able to hold a conference this year". (106)

Morgenthau added that even opposition from Beaverbrook and the Bank of England was now no longer sufficient reason for further delay. The American stance was also reinforced by a personal letter from Halifax to Anderson of April 12, 1944.⁽¹⁰⁷⁾

(105) See Harrod, Op.Cit. p.560.

(106) Morgenthau to Winant April 12, 1944, Quoted in Blum, Op.Cit. p.247.

(107) See Personal, Halifax to Chancellor of the Exchequer, April 12, 1944, U3157/6/70.

Halifax expressed the opinion that the British position was now unreasonable, and he considered the Chancellor's letter to Morgenthau of April 7, unwise. First of all, because it gave the impression that Anderson had only just been informed of the U.S. position on unitas, whereas, according to Halifax, the U.S. had made it clear since the Autumn of 1943 that this would constitute a breaking point in the negotiations, if the American position was not met in some form. Secondly, the U.S. had been very forthcoming on the transitional issue and thirdly because of the time factor imposed by the impending Presidential elections. (108)

Due to this, and pressure from Morgenthau and Winant, the British decided they would have to rely on American verbal assurances of passivity regarding the workings of the Fund. On April 14th 1944, the Foreign Office informed Opie in Washington, that Anderson expected to communicate with the Americans on the following lines within forty eight hours. The British would agree to the non-unitas version of the Fund provided that it was indicated that the Joint Statement was a tentative plan of experts, that the proposed institutions were to be part and parcel of a broader scheme for international economic recovery which would allow transitional safeguards and finally, really reiterating this last point, the Fund was to go into full operation in stages. (109)

(108) Even Morgenthau admitted to Keynes that Halifax was hypersensitive to the coming Presidential election, See Blum, Op.Cit. p.270.

(109) F.O. to Washington, April, 14, 1944, U2906/6/70, See also Blum, Op.Cit. p.247.

That really, as far as the Joint Statement was concerned, was that. Morgenthau still had to perform some rather sharp tactics to get Russian acquiescence for the statement on the 21st, but Anderson's decision of the 14th, was really the green light. Unfortunately, British prevarication concerning the go-ahead for the statement did cause some resentment and suspicions on the American side of the Atlantic, but these were largely cleared up in the ensuing weeks. (110)

The setting was now virtually complete. The British had committed themselves to a conference. There was little possibility of drawing back. The best would have to be made of the outlines already drawn up. At Atlantic City, New Jersey, for two weeks in June the British and Americans hammered out the final technical details and differences between them. Some minor concessions were made, both here and at Bretton Woods, largely by the British, but the major controversies had been resolved before the Joint Statement, or put into verbal limbo, only to be finally decided in the practice of the Fund. The Americans were in fact reasonably pleased with the Fund proposals and even some of the conservative opposition to the Fund began to shift to a more favourable opinion.

"By the time of the Bretton Woods Conference, U.S. support for the Fund was well-established, particularly in the Congress, and the opposition of the American Bankers' Association could be almost (but not entirely) ignored, so that the U.S. technicians were less concerned about a larger Fund. (which was one of the U.S. concessions)." (111)

(110) See Halifax to Chancellor of Exchequer U3799/6/70, April 30; and May 2, Chancellor of Exchequer to Halifax, in which he agrees to a June Conference and suggests that Halifax might have a frank talk with Morgenthau to clear up misunderstandings, U3799/6/70.

(111) Quoted in Rees, Op.Cit. letter to the author from E. Bernstein, dated April 17, 1971.

Reactions in Britain after the Joint Statement was published were, however, somewhat more caustic. During May the British Parliament debated the proposals and the criticisms that arose there and those put forward in the British press were conveyed to Washington.⁽¹¹²⁾ The Secretaries of State and Treasury were informed by Mr. Casady, an official of the U.S. Embassy in London, that:-

"... the outstanding psychology of the debate seemed to be, first the fear that a post-war slump in the United States is inevitable, and second, the fear that the United States does not allow Britain and other countries to adopt the necessary measures of self-defence and that, consequently, the United States will drag the whole world down with her into the abyss." (113)

The Americans knew that they had pushed the British a long way from their original vision of a C.U. and at the time of Bretton Woods were careful not to press them to concede anything more at this stage. Ned Brown, an influential Chicago banker and a member of the U.S. delegation at Bretton Woods, said to his fellow delegates:-

"... The British have a very strong bloc at home which believe they are better off keeping the sterling bloc.... Any plan that is put up is going to have very rough sledding in the House of Commons. They may give something, but they will break off if we insist on too much." (114)

White also warned the U.S. delegates in a similar manner and Morgenthau added the point that Britain had enormous sterling debts which:-

"... governed their approach to economic issues." (115)

(112) See House of Commons Debates 399, 1935-2046, 1944.

(113) Letter dated May 13, 1944, Quoted in Gardner R. Op.Cit.p.124.

(114) Blum, Op.Cit. Quoted in, p.258.

(115) Ibid. p.259.

However, before we finally turn to consider the kind of Fund the British accepted, despite or because of their general economic position and prospects, we must briefly consider one or two alterations between the Joint Statement and the Bretton Woods Agreement.

First of all, there was a continuing unease experienced by the British, on the issue of passivity and discretionary powers. They had agreed to drop their plans for the monetisation of unitas, which would have gone a long way to ensure the passivity of the Fund and multilateral clearing, but early in the conference at Bretton Woods the U.S. appeared to be renegeing once again on its commitment to a passive policy for the Fund.

"... Keynes objected to a provision in the American draft permitting the Fund to inform a nation that it was pursuing inflationary policies. 'How would you like it', Keynes asked White, 'if the Fund informed your government that the O.P.M. wasn't doing a good job and as a result of that you had rising prices?' In reply White suggested empowering the Fund to make informal reports at any time, but allowing the publication of formal reports only with the permission of the government whose affairs were under consideration. Under that scheme, Keynes could assure Parliament that the Fund could not butt into British domestic politics." (116)

There were also minor issues of difference such as the site for the Fund headquarters, the subscriptions to the I.B.R.D. and the problem of the sterling balances. These latter two points have been dealt with above. On the former point, the issue was resolved by a formula that specified the country with the largest quota, rather than specifically naming the U.S., would be the home of the Fund. This was sufficient to appease British pride which had to look on while the U.S. appropriated the monetary and financial importance once the preserve of the City of London. (117)

(116) Blum, Op.Cit. pp 267-268.

(117) See Blum, Op.Cit.

Let us now draw to a close for the moment the consideration of the monetary and financial talks by briefly summarising the positions of key importance reached in the Bretton Woods Agreement.

First of all, the size of the Fund and the position of gold. Well it was obvious from the story of the negotiations from early 1943 that the British knew they would have to give way to the Americans on the subscription issue and, thus, indirectly on the size of the Fund. The final agreement was a slight compromise by the Americans but, all in all, it was consistent with the initial U.S. vision of a more conservative stabilisation programme linked to gold. On the gold issue the British had also to concede much, with again minor concessions in return, particularly on the gold and foreign currency proportions of the quotas. Once the Americans had basically won their way on these points, it was a matter of the British attempting to gain counter-concessions in other areas which would impart to the S.F. some of the characteristics of the C.U. Unlike Harrod, I do not think that Keynes ever gave up on the fundamental character of the monetary institution. This fundamental character was free access, albeit to a reduced pool, of international exchange. In its reduced form and more limited character, the S.F. entailed a requirement for certain provisions if Keynes' fundamental goal was to be realised. These were, more flexibility, especially in the transition period, the acceptance of creditor responsibility and safeguards against the over active use of discretionary powers. The narrower scope of operation in combination with what appeared to be general trends in American policies also led to specific declarations that the Fund was not to concern itself with relief and reconstruction. There were other factors operational here, such as Britain's partial disillusionment with America's idea of

multilateralism, and the methods to be employed to reach such a state. There was also the paucity of funds in the British camp for international relief and reconstruction and the renewed concern for the Sterling Area.

As we have seen, on the passivity issue, the battle continued right to the final negotiations. And in fact, even that was not to be the end. With such fundamental differences of opinion on this issue it was in a way, unavoidable that their temporary resolution would be an embodiment of ambiguity. Although a member was 'entitled' to foreign currency from the Fund if it was consistent with the Articles of Agreement,⁽¹¹⁸⁾ Article V, section 5, added:-

"Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member the Fund may limit the use of its resources or may, after giving reasonable notice to the member declare it ineligible to use the resources of the Fund."⁽¹¹⁹⁾

In addition, Article VIII, Section 5, required that any nation, on request, would supply information to the Fund concerning gold and reserve holdings, gold production and figures on the domestic economy. The U.S. had given a number of commitments not to impose 'the school mistress' style, as Keynes dubbed it, on the Fund and yet it was fairly obvious from the wording of the agreement that there were sufficient provisions, of sufficient vagueness, to allow the Fund to exercise both discretionary powers and interfering influences upon the national economies.

(118) See Article V, Section 3a, 3a(1), 'Basic Documents 1941-49..' Op.Cit. p.278.

(119) Ibid. p.279.

The key to this would be the nature of the Fund's executive and this was not decided upon until the inaugural meeting at Savannah in March 1946, when British expectations were rudely disappointed.

On the transitional issue, the British had had a clearer success; for the time being anyway. Although the provisions appeared incompatible with the expressed aims of the State Department, and this was to tell significantly later, under Article XIV, section 2, a country was allowed to maintain war-time restrictions for three years. After the three year period, and this was a notable concession, gained by the British at Bretton Woods, there was to be a further two-year extension when restrictions would simply be subject to an annual review by the Fund. After the five years, restrictions would be subject to Fund sanctions under Article XV, section 2a, if they were inconsistent with the purposes of the Fund. These provisions largely allayed British anxieties in the monetary field regarding the transitional period, particularly so far as the Sterling Area was concerned. In addition to this the procedure for exchange rate adjustments, both in the short and long term, seemed reasonably acceptable.

On the issue of creditor responsibility, the Americans appeared to have been most forthcoming, more so than the British had really expected. The Fund was not only authorised to ration scarce currencies, but members were also allowed complete jurisdiction in imposing temporary limitations on freedom of exchange.⁽¹²⁰⁾ However, this would depend largely upon the acceptance of the notion of 'creditor responsibility'. As Richard Gardner has pointed out, there could be a danger of

(120) See Ibid, Article VII, Section 3(b).

scarcity arising outside the Fund. For example, the U.S., particularly with the limited size of the Fund, could increase its quota to supply more dollars to the Fund and technically there would be no shortage if it increased its quota to the limit of the aggregate total of all other members of the Fund. In effect even this would be dependent upon the U.S. accepting total responsibility for the disequilibrium. It would be far more likely that the U.S. would argue that the imbalance was due to irresponsible acceptance of debit balances of trade by certain members, and allege that this was contrary to the aims of the Fund under Article V, section 5.⁽¹²¹⁾ Thus, a lot would depend on the interpretation of the clause. Once again, we shall see much was said in the U.S. when the Fund was discussed before Congress and the public which was to cast a doubtful shadow over the workings of the scarce currency clause and the balance between creditor and debtor responsibility.

And so this was the outcome of five years of talks, primarily between the U.S. and the U.K., on monetary problems. We have seen a great deal of the problems specific to the monetary and financial talks and some of a more general economic nature. We have also seen the concern directed towards fitting the monetary institutions into a wider context of economic planning for the transition period and for the longer term problems of trade and commodity controls. To these problems we must now turn back to and attempt to fill in a more comprehensive picture of the economic differences, the plans and the aspirations of the two sides and the stage that they had reached as the war drew to an end.

(121) See Ibid.

CHAPTER 5.

Trade and Reserves: The Distortions of War and the Price of Help.

After 1940 the whole basis of the British economy was altered. Until 1940, as we have seen, the U.K. attempted to pay for the war effort by an export drive, the reduction of her gold and reserve holdings and the liquidation of her overseas assets. Despite these drastic policies by the Autumn of 1940 British orders for American supplies were at a standstill due to scarcity of dollars. Some interim measures, such as the R.F.C. Loan, the sale of the Viscose Corporation, Canadian generosity, etc., were partially and temporarily successful, though unpalatable to the British. Indicative of this was the reaction to Jesse Jones' 'war disaster clause' in the R.F.C. Loan, and the low return on the pressurised sale of the Viscose Co. It was not until the inception of the Lend-Lease arrangement that a long term solution to the supply problem was discovered.

The Lend-Lease supply mechanisms had a number of important implications for Britain. A large proportion of her foreign trade was now on a non-commercial basis. She was supplied by the U.S. with material necessary to wage war against Germany and her allies. The export drive was now abandoned by the U.K. and domestic industry geared to war production. The mobilisation of the U.K. for war production was proportionally far higher than the U.S. While Britain abandoned her export markets the U.S. began to step into her place, supplying particularly in Latin America countries which previously had been the preserve of the U.K. export industries. Not content with this, restrictions were also placed on Britain's remaining export potential.

The Americans did not want Britain to effectively subsidise her exports by the use of materials obtained on Lend-Lease. As the war continued the British became very concerned with these restrictions. In effect they would inhibit the resuscitation of British exports and it was feared that their continuation would seriously prejudice the chances of British reconversion and post-war economic recovery. The details of the Lend-Lease saga and talks for the supercession of the export white paper will be considered shortly. First, however, part of the consideration for Lend-Lease should be looked at. We have already studied the progress of the monetary talks. Their complement was the commercial talks which took place over a similar period of time. The U.S. decided that if the U.K. could not pay in kind for Lend Lease then some political and economic concessions of a slightly different sort would have to be made. In the commercial talks this consisted of reducing trade barriers to the advantage of the U.S. and opening Imperial and Commonwealth markets to the U.S. The authority for such demands stemmed from the principles embodied in Article 7 of the Mutual Assistance Agreement. However, at the same time the U.S. were prepared to perpetuate anomalies, and even support the introduction of such anomalies, if their inception was to the advantage of the U.S. Still, the Mutual Assistance Act was followed by months of inactivity on the American side with little progress on post-war planning except for the preliminaries to the financial talks. However, on both sides of the Atlantic, thoughts were being directed towards the policies of post-war trade and commerce. By 1943 both the British and the Americans were turning towards the idea of an informal exchange of ideas in the context of the Article 7 provisions. As Lionel Robbins records:-

"... we had signed the Lend-Lease Agreement; and, whatever the strict interpretations to be placed upon the exact wording thereof, no one could deny that we had pledged ourselves to a joint exploration of the possibilities of creating a more satisfactory framework for international economic relations. To anyone at all acquainted with the political scene in the United States, the danger to our future if we renounced this undertaking and began an intensification of all those practices which the Lend-Lease agreement was intended to diminish was not encouraging to put it mildly. It would have been regarded as a plain declaration of economic warfare." (1)

There was considerable concern in the U.K. over American enthusiasm for a rapid restoration of trade, commercial and monetary laissez-faire. The British concurred in this policy provided that the economic situation was appropriate. Certain conditions would have to be met if the dissolution of economic and monetary controls were to be possible. Keynes, as we have seen, was greatly annoyed by Pasvolsky's references to him as a proponent of economic controls without qualification and regardless of conditions. (2) The Americans appeared reluctant, or perhaps unable, at times, to recognise the problems which would face Britain in the reconversion period. The British consistently argued that in the face of the loss of overseas assets, shipping, export markets and reserves, her own and the international problems of reconversion to a peace-time economy, the U.K. would have to rely on a vast expansion of her export trade, to pay her way in the world. Even as late as August 1944 this was still

(1) Lord Robbins, 'Autobiography of an Economist', Macmillan 1971, p.195. The Economic Section of the War Cabinet Offices in 1940 was headed by John Jewkes. The section was invigorated under the leadership of Sir John Anderson, Lord President, October 3, 1940-September 24, 1943. Shortly after October 1940 Jewkes was moved to the Ministry of Aircraft Production and was succeeded in the Economic Section by Lord Robbins.

(2) See 'The Pasvolsky Memo.' in Halifax to Eden, December 16, 1941, W367/81/49, and Keynes's notes on it, January 5, 1942, W367/81/49.

Britain's answer to her economic problems. (3) In British opinion this could best be effected by multilateral reductions of trade barriers over an extended period, such that there would be a qualitative change in the whole sphere of international transactions. Only as a very inferior second best was a system of protection based on the Sterling Area considered at this time. Support was added to a slight extent to this alternative by the political requirement that any export led recovery should not be at the expense of domestic deflation, a consequence protection was thought to avoid. Nevertheless, there was a clear preference in the Board of Trade, the Treasury, the War Cabinet Economic Section and Lord Cherwell's group of economists referred to as 'S' Branch, for multilateral trade and monetary arrangements on a liberal basis. There were opponents to this across the spectrum of ministries and particularly from the Burma Office, the India Office, the Agricultural Ministry and the Dominions Office. Nevertheless, the prevalent wish was for multilateralism, provided complementary conditions and policies were also in evidence. Thus, in February, Shackle at the Board of Trade in a memorandum wrote the following:-

"1. Ideally, the Board of Trade regard a multilateral system as the desirable basis for this country's trade and for international trade generally. They take this view both on economic grounds and on general grounds. Economic because (a) under favourable conditions a multilateral system should render possible a greater volume of trade than (sic. than?) any system of bilateral payments arrangements.... (b) because a multilateral system would favour some restoration of this country's position, as a centre of merchanting, shipping, insurance and finance." (4)

(3) See note on the meeting between Anderson and Morgenthau, August 11, 1944, UE/765/5/71.

(4) Board of Trade Memo, Shackle to F.O. February 12, 1942, W2317/27/49.

At the same time the Board of Trade noted that there were a number of unsatisfactory points in the U.S. proposals to move towards the establishment of such a system. The M.F.N. principle which the U.S. had advocated so fervently could simply mean equality of treatment before a high tariff wall. The U.S. concentration on preferences as the main evil of international commerce was also too simplistic. Reductions in this field would also have to include tariffs as well, and at that time in 1942 there were few suggestions as to how to deal with the very complex and time consuming procedures, to date necessary, for their reduction. In the face of these problems, the Board of Trade expressed the opinion that the U.K. would probably have to continue with the economic controls and bilateral arrangements after the war for some time, particularly in the transition period. (5)

The Board was thus aware of the need for some pragmatism in its approach to post-war planning to ensure the necessary flexibility in the morass of fluctuating economic and political contingencies. No one economic issue or policy could solve Britain's economic difficulties. The problem had to be attacked on a broad front. In the Autumn of 1941, Keynes drew up proposals for a buffer stock scheme. In this he was motivated partly by pressure from Harrod and his strong reaction to the U.S. wheat proposals and the conference which he described as:-

"... a shameless example of 'discrimination' against countries which were not parties to it ..." (6)

(5) for above see Ibid. in which para 15 states that this is the "... general outline of the Board of Trade's views in the matter of commercial policy..." The Board of Trade at this time was experiencing a number of changes in its ministerial leadership: Sir A. Duncan, June 29, 1941-February 4, 1942; Llewellyn to February 22, 1942; Dalton to 1945. These changes especially to Dalton do not seem to have radically affected the Board's policies.

(6) See Harrod, Op.Cit. p.531.

Also in the Autumn of 1941 the British were considering the 'Gulick-Hansen proposals.'⁽⁷⁾ The proposals, sponsored by the State Department never became of central concern though they reflected the multilateral approach and their ideas were later incorporated in the U.S. commercial convention plan and also in the British commercial union instigated largely by J.E.Meade. Yet, despite the concern over various aspects of commercial policy, as we have seen in chapter two, there was little progress made in terms of negotiations between the two countries during 1942. This is not to say there was a complete void. Often, in the gradual evolution of the monetary talks towards the end of the year, some of the commercial problems likely to arise were touched upon and there was still a continuing, though desultory, exchange of views on the supplementary trade agreement proposals. The delay on the American side to enter into Article 7 talks⁽⁸⁾ allowed the U.K. some time to draw up detailed plans for commercial policy. Hugh Dalton, who had become President of the Board of Trade the day after the signing of the Mutual Aid Agreement, established a group of economists to draft out what was to become the proposals for a commercial union. The preparation of the study was entrusted to Sir Percival Liesching⁽⁹⁾ and the economist's brain behind the planning was to be that of J.E.Meade. Meade was seconded from the Economic Section of the Cabinet Offices for this.

(7) Professor Alvin Hansen was a well known U.S. economist and government adviser. Gulick was a consultant of the National Planning Board and an expert on T.V.A.)

(8) See Chapter 2.

(9) Who had been in the Dominions Office 1941-42, 1942-46 Second Secretary Board of Trade.

By January 1943 planning on commercial, commodity and monetary policies had progressed in the U.K. to a fairly advanced stage. The procedure for furthering these plans in the international field, however, was still in doubt. N.B. Ronald⁽¹⁰⁾, on January 26, 1943, wrote to Liesching on this question. Ronald was inclined to be rather apprehensive about Britain's economic future and of American policies. He expressed the hope to Liesching that the commercial talks would be held after the monetary ones and ideally after the commodity and investment talks:-

"... and any how not before we have reason to fear that we are about to be confronted with a set of American proposals so unacceptable to us as to put us on the bad tempered 'defensive'." (11)

Ronald was doubtful about the practicality of any British commitments to multilateralism for some time to come, and deprecated the possibility of entering into formal commitments at such an early stage while hostilities were placing in question all existing relationships. His procedural proposals only went as far as an informal conference, transitional provisions, collaboration within existing provisions and the rest was effectually restricted to statements of aspirations. He concluded:

"It seems to be impossible to foresee with any degree of accuracy what the considered response of the U.S. will be to the Plan. Their initial reaction is fairly certain to be tinged with suspicion coupled with extreme reluctance to contemplate so large a sacrifice of fiscal independence as is demanded by the scheme." (12)

(10) Assistant Under-Secretary at the F.O. in charge of the Economic and Reconstruction Department, which was concerned particularly with post-war problems 1942-47.

(11) Ronald to Liesching, January 26, 1943, U215/47/70.

(12) Ibid.

However, Ronald was by no means an extremist on this. Sir Hubert Henderson⁽¹³⁾ was even more pessimistic and suspicious of American motives. These doubts were also partly shared by Sir F. Phillips. Phillips thought that the U.S. would not be very pleased about the proposed definite shelving of the supplementary trade agreement talks and a move to more general discussions. The British proposals, as far as the Americans were aware of them already, appeared to go beyond what was acceptable to the Administration or Congress. Indeed, Phillips cautioned London that some of the proposals could prove embarrassing to the U.K. if conditions were to change somewhat. He suggested that a more tentative line should be adopted, including the insistence that a satisfactory monetary arrangement should be a sine qua non for the adoption of a laissez-faire commercial policy.⁽¹⁴⁾

Both Ronald and Hopkins saw the position in the light of securing safeguards to enable Britain to recoup its trade losses before being committed to any hard and fast trading principles which might, as conditions changed, prove prejudicial to that recovery. Hence their reluctance to see the commercial talks advance ahead of the monetary commodity and investment planning. After all, this would have a direct bearing on the type of commercial policy that Britain could adhere to. Liesching on the other hand while recognising the need to advance on a broad front, believed Ronald had gone too far. He argued that it was the very inter-dependence which made it necessary that a full spectrum of preliminary talks be carried out so that priorities

(13) Economic Adviser to the Treasury, 1941-44.

(14) See Phillips to Sir R.V.N.Hopkins, January 13, 1943, U215/47/70.

could be clearly established in a general picture⁽¹⁵⁾. In fact, one of the things that was worrying Ronald and Phillips, the abortive attempts during 1942 to begin Article 7 talks began to be eroded in the early Spring by American initiatives particularly in the monetary talks.⁽¹⁶⁾

In fact, early in 1943, Ambassador Winant suggested to Eden that the two countries should attempt to make some progress on Article 7 issues and Eden responded favourably. Phillips and Opie in Washington began to engage in exploratory talks. It was obvious that the Americans had been doing some work on similar lines to the British and in mid-February Pasvolsky said to them that in his opinion, regardless of the eventual procedure adopted, account would have to be taken so that all the international arrangements hang together. Unfortunately, at the same time, A.A. Berle added that although they had made some progress on investment and commodity schemes interest was far from universal and enthusiasm lacking. So the reassurance from one that a comprehensive approach would be considered was immediately qualified by the other in terms of political practicalities.⁽¹⁷⁾

In Britain by early February, a detailed draft of a commodity scheme had been produced and was issued in the form of a Cabinet Memorandum from Sir William Jowitt, the Minister without portfolio, on March 5. The scheme was intended to stabilise the prices of some basic commodities by means of buffer stocks held by a central international council, which were to be bought and sold contra-cyclically. In cases of chronic instability this

(15) See Liesching to Ronald, January 28, 1943, U463/47/70.

(16) See Chapter 2 and in particular Ronald to Campbell, February 18, 1943, and Campbell to Ronald in reply, April 4, 1943, both U671/47/70.

(17) See Phillips to Eady, February 17, 1943, meeting at State Dept. on post-war currency proposals Phillips, Opie, Berle and Pasvolsky, U915/47/70.

was to be combined with production regulation. One of the more controversial points was the maintenance of subsidies to ensure an adequate standard of living for home producers; but they:-

"... should be confined within moderate limits and limited to produce which is consumed as well as produced at home."
(18)

The British Government had given a number of assurances that the expansion of domestic agriculture would not be simply a war-time expedient. This entailed government financial support in one form or another, in this case it was to be subsidies. On the other side of the Atlantic the Americans were eagerly looking for markets in which to sell their Western Hemisphere surpluses. We have already seen their unscrupulous waiving of their own trade principles during the abortive wheat talks so they were obviously going to have some reservations over these new British commodity proposals. The U.S. were also unlikely to approve of proposed powers in the commodity council to invite countries under certain conditions - to abate tariffs, nor of the allocation of power within the council which was to be similar to the provisions in the C.U.

During March there again appeared to be trouble with the Americans and their desire to proceed with the U.K. on Article 7 talks.⁽¹⁹⁾ Apart from the monetary talks, the Americans appeared somewhat ill-prepared and the ever recurrent internal jurisdictional difficulties were causing additional problems.

On May 13, Robbins in a letter to Eady expressed concern over submitting the British document on commodity controls to the U.S., particularly in view of the proposals for voting rights

(18) International Regulation of Primary Products dated February 5, 1943, Memo by Minister without Portfolio, Sir W. Jowitt, WP(43)97, March 5, 1943, U1716/810/70.

(19) See Ch. 2, especially March 2, 1943, Keynes in third Treasury/F.O. meeting U983/47/70.

which had already caused trouble in the monetary talks. Robbins suggested that more innocuous proposals should be put forward and submitted to the Americans if a suitable opportunity arose. On May 16, a memorandum on buffer stocks was handed to Acheson and Pasvolsky to help the State department familiarise itself with British thinking.⁽²⁰⁾ This in fact was becoming of more concern because of the Hot Springs Conference on food. By May 21st, after talking with Pasvolsky, it appeared to the British that he was in favour of discussing principles of commodity control at the conference, but not the details, and he suggested that the detailed British document should only be produced after the conference, if at all. This was a fair indication of the reservations the State Department had developed about some of the provisions the U.K. had submitted to them. Before we progress any further it would clarify things somewhat if the Hot Springs' Conference was briefly studied. The conference was very much of a surprise package from F.D.R. The idea was to organise a multi-lateral conference on a fairly non-controversial topic as a testing ground for this type of procedure. The U.S. intimated that if the outcome of this conference was auspicious then the U.S. would be more disposed to proceed with dispatch to the consideration of other economic issues.

The Conference May 18-June 19, was regarded by the State Department as very much of a side show, organised by the President in his and Morgenthau's growing inclination for multilateral conferences. Hull also favoured this approach, though other members of his department were less enthusiastic, nevertheless

(20) See Wright to G.Jebb, Minute of a conversation U2974/810/70.

even he was concerned with wider commercial plans. Acheson's comment on the conference was that:-

"... nothing of much account happened..." (21)

The conference was chaired by Judge Marvin Jones of the U.S. Court of Claims, with Appleby under-secretary of agriculture and W.L.Clayton, assistant secretary of commerce as the main U.S. participants. On the British side Law and Robbins were the two most prominent delegates. The American notice for the conference was particularly brief and indeed was postponed for a while due to U.K. and Soviet protests. The British at least did have some informal exchanges, particularly with Pasvolsky, over some of the problems that were likely to arise, and they were also allowed a preview of the agenda. The U.K. was concerned that the conference might lead to a premature consideration of problems connected to other areas of economic activity. The Ministry of Food, now under Lord Woolton⁽²²⁾, did however receive the invitation eagerly. They saw it as an opportunity to press for the expansion of world food production. Even Woolton saw problems though. The main vulnerability of the U.K. in this area stemmed from the fact that she was a major importer of food-stuffs. Britain wanted to put forward the argument that there would be a great food scarcity after the war. This of course would enable the British to argue for a reasonable productive capacity for her own farmers and to safeguard it in the form of subsidies. However, if the point was pushed too far, there was a danger of foreign requests to make rationing stricter and for

(21) Acheson, Op.Cit. p.75.

(22) May 13, 1940-November 11, 1943.

insurance for the major suppliers against a slump. Thus, the cleavage between the importing and the exporting countries, which had already been demonstrated at the wheat negotiations, could be exacerbated rather than ameliorated by the talks. There were also doubts about the character of an international controlling body. However, the British, in the face of a possible onslaught from the producers, decided some positive initiative on their behalf was necessary.

"It was felt therefore, that the United Kingdom delegation ought rather to take the lead in proposing that a new organisation be set up; but should endeavour to secure that it be endowed with no executive powers, and indeed that no attempt be made by the Conference itself to draft a constitution. Rather should some continuing committee be left with the task of working out plans for bringing it into use." (23)

In fact, the outcome of the conference was extremely tentative. On the whole the British delegation fared well, and Richard Law in particular. There were lively discussions of the problem of raw materials according to E.F.Penrose, and somewhat divergent opinions within the British delegation on the issue of buffer stocks as a partial solution to the problem of commodity supply fluctuations. Appelby was more sympathetic than Clayton to the British proposals, but there was general agreement that further consideration of the problem was necessary, and the detailed British paper was withheld pending further talks. (24)

(23) History of the Second World War, U.K. Civil Series Food I, W.K.Hancock, London 1951, HMSO and Longman's Green & Co. p.358. See also Ch.28 for further details. The British delegation was to concern itself with formulating the aims of the organisation in terms of short term post-war duties, research and nutritional standards. On April 22, 1943, the above was approved by the War Cabinet with one amendment. The U.K. delegates were not to propose the continuation of rationing post-war, but, to support the U.S. on this if they took the initiative.

(24) See Penrose, Op.Cit. p.76.

Both Appelby and Clayton thought that more attention would have to be paid to the actual control of production to make the buffer stock idea work. The general tentativeness and avoidance of detail indicated that little substantial progress was made at Hot Springs, indeed this was epitomised in the generality of Article 25:-

"International commodity arrangements may play a useful part in the advancement of these ends." (25)

but further study is necessary to establish the precise forms which these arrangements should take and whether and to what extent regulations of production may be needed. (26)

The thirty resolutions of the conference consisted of rather platitudinous general recommendations, criticised harmful restrictions, called for better use of resources and distribution of products and called for an interim commission to be set up not later than July 1943, to execute the aims of the conference. As W.K.Hancock notes (27) the measures of more immediate concern were recommendations pushed by the British for the interim period, which encouraged a cereal production drive and perpetuated the international organisation and allocation of food and shipping. (28)

Although all seemed well at Hot Springs, and indeed it did give some encouragement to the U.S. to speed things up somewhat in other economic spheres, the conference itself had been rather

(25) i.e., more even flow of produce, equitable returns and prices, etc.

(26) Cmd. 6451, 1943, U.N. Hot Springs Conference, Final Act.

(27) Op.Cit. pp.361-362.

(28) The interim committee which is of little further interest to us did come into effect and was the nucleus from which the U.N. F.A.O. gradually emerged. For further details on food policy see Hancock, Op.Cit.

devoid of substantial issues. The problems of British agriculture had not been dealt with fully and indeed any detailed consideration of the key issue - the control of commodity fluctuations had been virtually ignored. More detailed and specific talks were required. This was slowly appreciated and gradually the on/off status of the Article 7 talks began to change. On June 18th, Phillips, Robbins, Pasvolsky, Hawkins and Stinebower dined with a British Embassy official, M.R.Wright, to discuss the problem of buffer stocks and the future of Article 7 talks.⁽²⁹⁾ The British were already aware that there were some differences of opinion between the State and Agricultural Departments on commodity controls. The Agricultural Department favoured a separate control body for agricultural products and raw materials. The Agriculture Department was less consistent on the issue of decontrol and reduction of trade barriers, particularly as they were likely to suffer from such measures under certain conditions, and the department for this and prestige reasons wanted a more autonomous control of what it considered to be its own affairs. The State Department on the other hand, always jealous of incursions into its control of the foreign relations of the U.S., took a different line. State wanted a single body with perhaps a specialised agency to deal with such matters, or a larger wider ranging body dealing with all related matters. The surprise on June 18th came from Stinebower from State who, unlike Pasvolsky and Hawkins, took the Agriculture Department's line on commodities and also questioned the

(29) See Wright to Jebb, Minute of a Conversation, June 18th 1943, U2974/810/70.

feasibility of buffer stocks. The British elaborated on this latter point and explained their ideas more carefully, but it was obvious that there was going to be more widespread opposition to British commodity control proposals than had been thought at Hot Springs. It was agreed that some bilateral exploration of the commodity problem should be carried out before introducing other countries to the issues involved. Also, the possibility of combining commodity and commercial policies was considered and thought desirable, though the basic commercial arrangements would have to be made first as they would largely determine the nature and extent of the commodity arrangements. On both sides of the Atlantic the preparatory planning on various aspects of international economic life continued and it became more and more obvious that closer and wider discussions between the U.S. and the U.K. was both necessary and desirable. The main impetus for this came from the monetary talks discussed above.

During mid-summer Eden, Kingsley Wood and Dalton drew up a memorandum on economic policy and the course of action the U.K. should adopt. (30)

During June the U.K. had carried out a series of talks with the Indian and Dominion governments over a two-week period ending on the 30th, which had proved satisfactory. The main outcome was the assimilation of views on commercial and related policies, which were embodied in amendments to the extant British documents on such economic issues. (31) The British were in fact feeling

(30) WP(43)329 Memo by the Chancellor of the Exchequer, Foreign Secretary and the President of the Board of Trade which was approved by the War Cabinet before the end of July. Dated July 22, 1943, U116/251/70.

(31) See aide memoire annexe 'B' approved by the U.K. Government, dated 6 August 1943, U3414/251/70, dispatched by F.O. Jebb to Halifax.

strengthened by recent developments. The talks in June had strengthened and consolidated the Dominions and India and the Hot Springs conference had also been quite a success for the U.K. Thus they were now prepared to begin a fresh round of talks from what they considered to be relatively a position of strength.⁽³²⁾ They did not want the monetary talks to progress too far ahead of other economic issues under consideration; in addition there was concern over a rumour that Roosevelt was thinking of calling a conference on the lines of Hot Springs to discuss metals. The British⁽³³⁾ were not favourably disposed to such an idea and preferred integrated talks on a wider range of subjects. Furthermore, such an approach would place authority squarely on the U.S. State Department, who were more amicably disposed and had more expertise than some of the other departments who would become involved otherwise. The British were even prepared to delay talks if they could secure an across the board consideration of economic problems. There was a danger that the Southern Dominions might prejudice the adoption of a multilateral economic policy favoured by the U.K. as they still had the possibility of gaining from the U.S. under the R.T.A.A., which Canada and the U.K. did not, and this might encourage the U.S. to continue with bilateral and piecemeal talks. On the other hand, a temporary delay to enable a comprehensive approach, would enhance the possibilities of success for Britain's commercial policies. In fact, at one stage, this approach is described as having overwhelming advantages. Britain also had an available excuse for temporarily delaying the talks

(32) WP(43)329 quoted in full above.

(33) Who had heard of this privately from a member of the State Department.

while they finalised their documents for discussion. Sir Frederick Phillips was seriously ill in Washington. This, in addition to a straight-forward request to the U.S. for a delay to complete the organisation of the British delegation would enable the talks to coincide with developments which hopefully would strengthen the British bargaining position.

"We hope shortly to settle with the Americans a number of outstanding points connected with Lend-Lease and reciprocal aid. As part of our contribution to this settlement in the course of which we expect to obtain substantial relief from the limitations imposed on our export trade, we intend, if the War Cabinet approve, to agree to provide raw materials from the British Empire as part of reciprocal trade. It is desirable to take advantage of the favourable atmosphere which these arrangements are likely to produce." (34)

On August 4th, Halifax handed a note to the U.S. suggesting the full renewal of talks on Article 7 and by the 21st, the U.S. agreed to the preparation of an orderly agenda. They insisted on one proviso which was that the money talks should continue on their present basis between the two Treasuries. (35)

During August, preparation for the talks with the U.S. intensified and London began to instruct the Embassy in Washington of the line to adopt. The June talks had been particularly helpful in clarifying the position and on August 6, an aide memoire was sent to Halifax setting out the U.K. broad policy outlines. (36)

(34) Ibid. We shall in fact see the result of these intentions regarding Lend-Lease in the second part of this chapter.

(35) See Dom. Office to Canada, N.Z., Australia and Republic of S.A. August 21, 1943, U3188/251/70.

(36) See F.O. to Halifax with especial reference to enclosed annexe 'B', August 6, 1943, U3414/251/70.

The British stated their aims to be the creation of a high level of domestic and international economic activity with currencies freely convertible and the international situation governed by strategic planning for international security. On the commercial issue bilateralism, although not abandoned, was relegated to secondary importance. The primary method of commercial collaboration should be, in the view of the British, multilaterally effective agreements. They had developed the view that if they were committed to the abolition of discriminatory policies, their main type of protection, then the U.S., should commit herself to a type of policy that would ensure a drastic reduction of her tariffs. This was something the British feared might come in for strong opposition from the U.S. They still relied very much on the R.T.A.A. and the M.F.N. principle, both pet policies of Secretary Hull. Still, although the British document appeared to strongly favour rapid liberalisation of commercial policy, and surprisingly so for some Americans, with the position still so uncertain the British continued to add safeguarding qualifications.

"Any qualifications we may have to make will be due to the special difficulties of the immediate post-war period and the present uncertainty as to what in fact will lie within our power and other countries." (37)

The British indicated a willingness on their part to accept a limit of moderate height in combination with the consideration of infant industries. This latter point had much to do with the developing commonwealth countries. (38) Quantitative restrictions were not to be used to support domestic industries but would be

(37) Ibid, point 3.

(38) See para 7 in mins. of meeting with reps. of Doms. and India in Washington, September 22, 1943, U76/6/70.

admissible for special purposes, e.g. the adjustment of balance of payments problems. Quantitative import restrictions in particular should be on a mutually non-discriminatory basis, and it was hoped that export subsidies could be avoided. The point with the greatest potential controversy, however, was point six which dealt with preferences.

"Quite apart from our own position a general plan should leave room for special arrangements within political and geographical groups, since these are likely to be asked for and could be properly conceded in many cases. As part of a comprehensive scheme for the betterment of the trade of the world as a whole, we should be prepared to play our full part in any general scheme for reducing preferences."
(39)

As may be remembered, this was slightly different to the commitment under Article 7, as the Americans were soon to point out.

Before finally moving on to the Washington negotiations of September and October 1943, it would perhaps help to consider the general British perceptions of their economic difficulties. The concern with Britain's post-war balance of payments cannot be over-stated. So much hinged on Britain's export performance. The success of the export drive was to:-

- a) strengthen the U.K. and her financial position especially vis-a-vis the U.S.A. and the Commonwealth.
- b) enable Britain to participate fully in plans for the liberalisation of trade and monetary clearings.
- c) facilitate reconversion to a peace-time economy without resort to the most objectionable types of economic control.

And yet all these goals, to a large extent, depended on the stability and viability of sterling as a post-war medium of international exchange. Unfortunately sterling's position was being undermined by the accumulation of large debts backed with only small reserves. As has already been indicated in the monetary talks, one of the main concerns as they reached a climax in 1944,

was with the provision of adequate safeguards for the U.K. during the difficulties of the post-war transition period. On September 2, 1943, just prior to the Washington talks, the Treasury produced a lengthy document on the 'Overseas Assets and Liabilities of the United Kingdom'⁽⁴⁰⁾. This document clearly indicated the problems and the vulnerability of Britain's trading position, her lack of assets to support sterling and the inter-related problems of the dangers of inadequate reserves and a diminished trading base. Not a strong position to launch an export drive from nor divest oneself of economic protection without alternative provisions. Still, this is more directly linked with the problems of the Lend-Lease White Paper which is to be dealt with in the second part of this chapter.

The talks finally got underway on September 17th, after an attempt, this time by the Americans to delay them for another week which however proved too troublesome due to the problems involved of altering the complex British plans for transport and security.⁽⁴¹⁾ On the British side the Board of Trade was particularly anxious about their hopes that an agreement could be hammered out bilaterally between the two countries which would be multilaterally effective. Still, by September 22, the issues involved were beginning to emerge and after the second plenary session Liesching showed a full draft of British ideas on commercial policy to Hawkins who to their surprise accepted it as a basis for negotiation.⁽⁴²⁾ The document was in fact discussed paragraph by paragraph, in a series

(40) AD(43) 2, September 2nd 1943, U4500/251/70.

(41) See Campbell to F.O. September 1, 1943, U4058/251/70.

(42) These were in fact the ideas contained in Annex 'B' drawn up after the June consultation with the Dominions U3414/251/70.

of meetings. The U.S. were proving to be surprisingly amenable to British ideas. On the issue of subsidies, something of great importance to British farmers, the Americans appeared all set to accept the subsidisation of domestic production as a safety valve in the absence of other types of restrictions. However, on the question of export subsidies things were not quite so straightforward. The Agriculture Act of 1935 had provisions for thirty % of gross customs duties to be used to encourage exports. It was thought that there would be strong opposition to any measures which would impede the sales of Western Hemisphere surpluses. Tariffs and preferences were considered together, but the differences on tariffs was such that it was decided to postpone detailed discussion on this. On preferences, again the Americans were less than forthcoming, they referred to the provisions of Article 7 and:-

"... free and frank discussions on this topic had taken place, in the course of which it had been made clear to the U.S. authorities that pressure for the immediate abolition of Imperial Preferences would create political difficulties in the United Kingdom not less great than those that surrounded the tariff issue in the United States." (43)

On a number of other matters there seemed a considerable amount of agreement, e.g. quantitative import controls, state trading, export taxes and international controls. Still the British recognised that:-

"Although progress had been encouraging it should not be forgotten that there were differences of opinion among the U.S. officials participating whether the technical and political difficulties which would have to be surmounted in putting into effect a multilateral convention on the lines suggested could be overcome. In particular different views were taken as to the probable reactions of Congress. It should not, therefore, be assumed that all was likely to be plain sailing." (44)

(43) See minutes of a meeting in the Ambassador's room, Washington, with Indian and Dominion representatives, September 22, 1943, U76/6/70.

(44) Ibid.

By the second week of the commercial talks, R.I. Campbell⁽⁴⁵⁾ was able to report satisfactory progress though as was expected, there was some tough argument over tariffs and preferences. The ambiguities of the 1942 Mutual Aid Agreement now began to tell. For the discussion the British proposed 25% tariff ceiling, 25% cut below ceiling and a 50% cut in preferences. The Americans strongly objected and pointed to the commitment in Article 7 to abolish preferences. The British replied that there was also a clause which called for joint and agreed action, furthermore, if the U.S. continued to act as if preferences should not exist there was a danger of adverse Commonwealth reaction. It appeared that this did have some affect on the U.S. negotiators, but it was obvious that there was going to be further controversy over these issues in the next round of talks.⁽⁴⁶⁾

Perhaps the issue which caused the British the most surprise was the American response to the suggestion of a multilateral solution to the problem of tariff reduction. The British had expected the U.S. to reject this in favour of a continued reliance on R.T.A.A. and the M.F.N. principle, partly in deference to Congress, but mainly because such bilaterally negotiated agreements gave more scope to the U.S. to mobilise her economic and political power in her own interests. However, as intimated above, the Americans were prepared, or so it seemed, to seriously discuss an across the board reduction of tariffs and some maximum and minimum ad valorem figures.⁽⁴⁷⁾ As Robbins, one of the chief

(45) British Minister in Washington, 1941-45.

(46) Campbell to F.O., October 4, 1943, U4813/251/70.

(47) See Gardner, Op.Cit. pp 107-108 and Penrose, Op.Cit. pp92-93.

British economic negotiators commented:-

"In the beginning the American negotiators were not averse to this suggestion." (48)

On October 28th, the informal talks were completed and Campbell was able to report on the progress made. No clear cut decisions had been taken on the informal level of the meeting of experts. However, there was reason for guarded optimism on some points though the issue of preferences was undoubtedly a very sensitive problem. The British hopes for an agreement with multilateral effects on tariff reductions, in terms of American reaction, did not appear as hopeless as was first thought. Although no selection of a formula had been taken, there had been considerations of such formulae. Considerations were also made of other trade restrictions, subsidies and methods for implementing future decisions on such topics, in the form of an international body. The only area where any substantial progress had been made however seemed to be on state trading.

"... it was apparent from discussions that this problem should present no great difficulties." (49)

Still this had been very much a conference to break the ice and it was only to be expected that many problems would remain in evidence. Even on state trading, in fact, things were perhaps not quite as straightforward as at first appeared. On October 8th, Keynes wrote to Liesching:-

"Thanks for your note on State trading. If in this matter you leave loop-holes in your scheme, it will not upset me. Indeed, the more loop-holes you leave the wiser you will be in my opinion. As you know, I am, I am afraid, a hopeless sceptic about this return to nineteenth century laissez-faire, for which you and the State Department seem to have such a nostalgia." (50)

(48) 'Autobiography of an Economist', Lord Robbins, Macmillan 1971, p.201.

(49) Campbell to F.O., October 18, 1943, U5193/251/70.

(50) Quoted in Harrod, Op.Cit. p.569.

However, concerning the above, Harrod comments that it should not be taken 'au grand sérieux' but Robbins writes of these talks:-

"At this stage Keynes was not deeply involved: indeed he took a captious delight in emphasising his detachment and his deficiency of sympathy for the underlying outlook." (51)

At least views had been aired and it was now up to the politicians to decide on further progress.

Closely allied, if not really an integral part of the commercial talks were discussions on commodity controls, cartels and employment. The British soon ran into trouble over the commodity control plans. As we have seen, the key to the British proposals was the buffer stock scheme, but the British ideas were opposed by the two most vociferous members of the U.S. commodity committee on separate grounds. First of all Appelby from the Agriculture Department opposed the idea on the grounds that it would tend to bias the market in favour of the consuming countries, and though he was in favour of some form of control, his major concern was that it should raise the average level of agricultural prices: a goal definitely frowned upon by the U.K., as the largest world importer of food. Clayton from the Commerce Department was opposed to commodity controls of any kind, preferring the operations of the free market economy and broad measures of support for it such as the IMF. There were hopes that the State Department representative, at that time ill, would lead the Commerce and Agricultural Departments to a middle line, which would hopefully be an approximation of the British position.

(51) Robbins, Op.Cit. p.200.

It was hoped, in particular, that Clayton could be persuaded to accept this as a pis-aller. But the State Department representative was Stinebower whose reservations we have already come across regarding Britain's buffer stock idea. The U.S. on the whole seemed somewhat confused about the U.K. proposals and as they were preparing a lengthy document on the subject, it was decided to submit the full British document to the U.S. with the advice that it was not to be considered as representative of HMG and that the experts who had drawn it up had subsequently moved closer to the U.S. position, i.e. restrictions should only be introduced in exceptional cases, and as a final resort. (52)

By October 2, the British had received the U.S. document on commodity controls and had produced a document comparing it with the British proposals. (53).

In the British document which compared the U.S. and the U.K. proposals, it was clear that there were a number of points of diversion in their views. Particularly on the issue of buffer stocks the British wanted to go into more detail than the U.S. was prepared to. The British proposed the establishment of an equilibrium price which would only be allowed to fluctuate by 10% either way, and if argument arose over the original price then the general executive of the international controlling body would decide. They also proposed export quotas and import rationing in

(52) See Campbell to F.O., September 24, 1943, U4-598/251/70.

(53) See F.G. Lee, Board of Trade to Magowan, October 2, 1943, Appendix, 'Differences between the proposals for the regulation of raw materials in the British and American documents U74/6/70: Lee was later to become the head civil servant in the Board of Trade, at this time he was in charge of commercial and cartel talks at the Embassy in Washington. Redvers Opie was in overall charge of the Article 7 talks in the U.S.

times of falling prices and rising prices respectively. On these three issues the U.S. had no parallel provisions or only very vague ones.

In fact it was clear from the joint statement issued later, that there was a very large area over which there had been a tacit mutual agreement to differ at this time. Campbell had noticed during the drafting of the statement that differences were still in evidence among the U.S. representatives; and the British were reluctant to be too insistent in case they tore the frail fabric of agreement, temporarily established, on the U.S. side. For example, Campbell decided to accept the position on quantitative regulations though it was far from definite:-

"... it will be satisfactory from our standpoint, particularly in so far as schemes involving quantitative regulation will be declared to be in effect to be emergency measures to be applied only under special circumstances and subject to specific safeguards designed to protect consumer and in harmony with general conception of an expanding world economy." (54)

It was clear from the joint statement, completed at the final meeting on October 16, that there was general agreement on the broad aims and principles, mitigation of price fluctuations, facilitating orderly exchange of goods, and so on, but over the means of achieving such goals there was considerable controversy. On buffer stocks as we have seen the position of the two countries diverged significantly and in the joint statement further studies were recommended:-

"... too much must not be hoped from such arrangements if extreme conditions recur such as those which were experienced more than once in the inter-war period." (55)

(54) Campbell to F.O., October 12, 1943, U5027/251/70.

(55) Joint Statement on International Commodity Policy, October 16, 1943, U74/6/70.

There were also serious divisions on quantitative arrangements and subsidies.

"There is a certain difference of emphasis between the two groups in regard to such schemes. The U.K. group is hopeful that in practice it will be possible in the case of most commodities to allow long-term price trends to follow supply and demand and to constitute the primary means of effecting adjustments in productive capacity to balance demand. The U.S. group consider that it may well be necessary to have greater recourse to quantitative regulation schemes than is envisaged by the U.K. group, in order to mitigate the hardships which would fall on producers during transitional periods and to facilitate orderly shifting of production by governmental action during such periods." (56)

This was a blatant attempt by the U.S. agriculture Department, represented by Appelby, to safeguard American producers. As we shall see shortly, British reluctance to press the issues was to prove tactically very serious domestically, for on discussion in the U.K. the British Agriculture Ministry protested most strongly over the trend of the recent talks. Appelby had adopted a line of policy similar to that used during the wheat negotiations, and now, as then, it appeared as a rank digression from the principles the U.S. was attempting to press the U.K. to adhere to. Furthermore, British agriculture was to be denied what was considered, particularly by Hudson, the best means of carrying out British Government pledges to sustain a healthy post-war agricultural system in England, subsidies. The U.S. argued that subsidies would reduce the free market area available for competition for more efficient producers and could undermine the buffer stock idea if countries could dump subsidised commodities onto the market in large quantities. The U.S., thus, proposed very limited subsidies and only then if tied to quantitative controls on the basis of some previous production base. Even then it would be

(56) Ibid.

preferable in American opinion if there was a gradual movement to reduce subsidised production below that base. Of course, the problem here was that British agriculture had expanded enormously during the war and previous base levels would be hopelessly inadequate and make the pledge to British farmers very difficult to redeem after the war. The introduction of quantitative controls in the British view would raise serious political difficulties in other areas. Thus, countries who had previously relied on tariff and quantitative import restrictions, which would be largely if not wholly renounced under the proposed commercial convention, were hardly likely to do so if they could not use moderate subsidies to enable staple industries, and especially agriculture, to continue. In effect, the British hoped that pressure from tax payers would keep subsidies down to moderate levels. Of course the differences between the two countries reflected British primary concern as a consumer and the U.S.'s. as a producer. So although Robbins might express surprise at U.S. apparent amenability towards quantitative controls as this was contrary to the prevalent view of liberal, laissez-faire economic policies it was not all that surprising really considering previous diversions from dogma when it had been in the interest of the U.S. to do so. In fact, the type of quantitative controls favoured by the U.S. were concerned with production controls to raise the prices of agricultural products, whereas the British were more concerned with the perpetuation of controls to correct, albeit as a last resort, imbalances of trade.⁽⁵⁷⁾ The report on the commodity talks concluded with an expression of hope that the talks could be resumed after

(57) See Treasury Meeting, December 31, 1943, Robbins' views U100/6/70.

ministerial consideration, in four to five months. We shall see shortly what the result of these considerations was.

On October 21st, Liesching, Meade and Shackle completed their report on the commercial talks September 20-October 6th. (58) They reported that the central concern during the talks had been with the British multilaterally effective proposals. The bilateral talks between the U.S., New Zealand and South Africa, at this time suspended, were not broached until the end of the talks. Such bilateral negotiations if they reached an agreement stage would require bilateral concessions from the U.K. which Hawkins was told the British had little enthusiasm for, not only on principle but also because they might undermine the multilateral approach favoured by the British. Hawkins was understanding but indicated that nothing could really be decided until Hull's return from the Foreign Minister's Conference in Moscow. (59)

(58) See Report on Commercial Policy signed by Liesching, Shackle and Meade, October 21, 1943, U5690/251/70.

(59) October 18-30. This was Hull's major appearance in international conferences during the war and was of tremendous prestige value to him. The immediate results of the conference seemed most successful and the relations between the three allies harmonious. The U.S. in particular tried to establish closer relations with the Soviet Union partly in the hope that they would commit themselves against the Japanese out mainly because Hull believed Russia's participation in the post-war world was essential for economic prosperity and security. He hoped that the 'Four Power Declaration' he succeeded in getting would be the basis for this. This close cooperation with the Soviets however did entail a diminution of the close bilateral working relationship the British had had with the U.S. For a brief but adequate account of the Moscow conference see J.W. Wheeler-Bennet, Op.Cit. pp 103-121.

In fact, already in formal talks with members of the State Department, it had become obvious to the British that there would be problems with Hull regarding the feasibility of a multilaterally effective agreement. Particularly with the 1944 Presidential election beginning to loom large, pressure was already beginning to be felt which was indicated in terms of some reluctance by the Americans to be forthcoming on certain commercial issues. All the U.S. officials had acknowledged that a multilateral agreement was ideally preferable, but they declaimed its practical possibility. There were various shades of opinion on this going from some members of the State Department who were the least sceptical, to strong reservations but still open to persuasion, the position of Wheeler from the Agricultural Department. The third group consisted of very strong opponents like Paul Appelby also from the Agricultural Department who intervened from outside the committee dealing with the problem to stress the practical difficulties, and Mr. Ryder, Chairman of the Tariffs Commission, who held similar views.⁽⁶⁰⁾ After the U.S. had explained their difficulties over tariffs they listened very attentively to the British explain their problems over preferences. But, the British proposals for a 50% reduction in preferences for the imposition of a 25% ad valorem limit seemed unacceptable. For the acceptance of such a limit the U.S. had intimated that they expected the abolition of preferences.

The other major issue which was also tied in with the commodity control plans, was over the protection of agricultural products. The British favoured subsidisation but the U.S.

(60) See Report Liesching, et al, October 21, 1943, U5690/251/70.

quantitative restrictions. The British report on this certainly did not attempt to disguise these differences:-

"To us it appeared that direct subsidisation of production was the least objectionable method. In particular we argued that the limitations proposed for the use of tariffs, of quantitative import restrictions and of state trading would severely restrict the United Kingdom. It was essential, therefore, that the subsidisation of agricultural production should be permitted." (61)

Perhaps the most significant development from the Washington talks was the political pressure from both sides which distorted what consensus had been reached. At first this came from the U.S. in the person of Cordell Hull. Something which, on the whole, was not entirely unexpected, though not in the form that it took. First of all the State Department had presented to the Russians, apparently on behalf of themselves AND the U.K. a summary of the Washington negotiations. The note included the phrase 'substantial abolition of preferences' in return for unspecified reductions in tariffs. This was totally unacceptable to the British, particularly in view of the long and careful discussions of the tariff/preference issues and the attainment of an understanding on both sides of the delicacy of the matter. Secondly, Hull, with his penchant for an international security organisation, and others, of an economic nature, was determined to befriend the Soviet Union, which he considered a prerequisite for their success. This, and his desire that such international unity should not be disrupted by Anglo-U.S. exclusive collaboration, had already on a number of occasions, inclined him towards multilateral negotiations, and in Moscow he suggested just such a procedure. This again was contrary to the Anglo-U.S. understanding of early October that

(61) Ibid.

talks should proceed after a few months on a continuing bilateral basis. On October 25, 1943, F.O. wrote to the British Embassy in Moscow:-

"We attach great importance to our wording of paragraph 5, President of the Board of Trade feels strongly and I agree with him, that we must not (repeat not) be associated with any communication to the Russians which commits us to the wording in the American note and especially to the phrase 'substantial abolition of preferences'." (62)

According to Liesching, the agreed wording had been:-

"Action directed towards the elimination of preferential treatment - relation to reduction of tariffs." (63)

Liesching asked Magowan to draw American attention to the differences in wording between this and paragraph 5 of telegram 4720, (64) which was the form of the American note to the Russians. As Liesching emphasised, the British wanted to avoid language like this and they had in fact disassociated themselves from the wording of the American note.

Still, as late as December 17, the Cabinet was not completely disillusioned nor out of tune with the guarded optimism of the members of the Law mission. The Cabinet noted the problems and the progress as presented by the leaders of the mission and resolved on further informal Anglo-U.S. talks. (65)

However, there was already opposition growing to the idea of further talks. Opposition was strongly voiced by Hudson, and the neglect of British agricultural interests at Washington

(62) F.O. to Moscow, October 25, 1943, U5193/251/70.

(63) See enclosed letter to Magowan in Liesching to Coulson November 17, 1943, letter dated November 23, U5851/251/70.

(64) Campbell to F.O. October 18, 1943, U5193/251/70.

(65) WP(43)559 December 17, 1943, U6687/251/50.

was made much of. Beaverbrook and Amery were also loud in condemnation, the former wrote to W.S.C. a couple of months later and put in writing his opinion of the relationship with the U.S.

"That we should pursue friendship and collaboration with the United States is an unchallengeable principle. But in seeking that friendship we should aim, with an equal constancy, at maintaining our own position as a world power."
(66)

And it was fairly obvious that Beaverbrook did not believe that further talks on commercial policy at this time with the Americans would in fact strengthen Britain's position. As the position deteriorated even further the differences in the Cabinet widened.⁽⁶⁷⁾ The British had considerable worries over Lend-Lease at this time over the export white paper and whether the S.F. would be brought to fruition in an acceptable form in the face of growing criticisms in the U.S.⁽⁶⁸⁾ All of which factors obviously had a direct bearing on the position of Britain as a trading nation and the type of trade and commercial commitments she could enter into. Cause for further concern came from Halifax on January 11, who forwarded Robertson's account of the U.S./Canadian commercial talks to the F.O. According to Robertson, the U.S. now appeared to be retreating from the position they had adopted at Washington and were evincing signs of sharper splits on the political practicalities of some of the issues on which a tentative consensus for at least further discussion had apparently been reached.

(66) February 21, 1944, quoted in K. Young, Op.Cit.

(67) See Chp3; and also R.W. Gardner, Op.Cit. p.145 and Penrose Op.Cit. pp 101-106.

(68) See Opie to F.O. on a conversation with White, January 7, 1944, U410/6/70, and Opie to J.M.K. January 10, 1944, U470/5/70.

- " 3) The Americans who side with Hawkins will advocate a 50% reduction through a multilateral agreement provided substantial elimination of preference is assured by provisions for giving up (a) virtually non-operative preferences, (b) certain preferences on politically important commodities, (c) preferences given by colonies (particularly those which were 'open door' areas prior to 1932). They were inclined - although grudgingly - to modify their proposals for a straight 50% reduction of tariffs by conceding a 10% 'floor'.
- 4) They rejected as politically impossible Canadian suggestion of a multilateral agreement for a 50% cut all round in the first instance (thus effecting some reductions and this suspicion would mitigate against their accepting the multilateral agreement). The Tariff Commission representatives were throughout sceptical of even the possibility of obtaining Congressional support for one multilateral scheme of the magnitude proposed.
- 5) As regards commodity agreements the Canadians obtained the impression that the Americans were divided among themselves and had receded from their previous qualified approval of buffer stocks. Department of Agriculture representatives looked at the problem largely in terms of persisting surplus production which would need continuing restrictive agreements to correct, though they admitted the desirability of limiting their term. "

(69)

The British were exceedingly worried by these developments and division within the British Cabinet deepened. The British were in somewhat of a dilemma. There was a developing belief that the U.S. did not fully appreciate the dire straits which the U.K. economy would be in after the war and yet in the face of the ruthless pursuit of its own interests by the U.S. it was considered perhaps unwise to expose the full weakness of the British position to the U.S. (70)

(69) Halifax to F.O. reporting Robertson's account of the U.S./Canadian commercial talks January 11, 1944, U437/6/70.

(70) See Opie to J.M.Keynes, January 10, 1944, U470/6/70.

In a memorandum of February 7, Richard Law perhaps unwittingly put his finger on this dangerously close interconnection of Anglo-U.S. economic relations. Law indicated the clause in the Mutual Aid Agreement which stated that the repayment of Lend-Lease should not burden the commerce of the two countries and added that this:-

"... is going to be our sheet anchor when we come to the final settlement of Lend-Lease." (71)

This, while partially true, was not the whole story by far. Lend-Lease had involved Britain in serious complications by commitments to commercial principles, and while many ministers, and not just those who were opposed to an early continuation of the talks, believed that a liberal settlement of Lend-Lease while absolutely necessary was not a sufficient condition for Britain's future economic health. Some positive safeguards and possibly further aid in some form would be necessary which could abrogate the principles the U.S. had gained. Britain's technical adherence to. On May 13, Bucknell of the U.S. Embassy in London, recorded symptoms of such fears.

"Grave concern is felt here, regarding the absence as yet of any specific measures to fill the gap between the end of Lend-Lease and the re-establishment of the British export trade, and such absence makes prohibitions of quantitative controls appear to be an ideal which is remote and academic." (72)

There was indeed concern generally among British ministers regarding the solution of such problems. It was the methods that were divisive. As we have seen already in the monetary talks, the imperialists and those suspicious of American intentions,

(71) Memo by Law on the Washington Conversations, WP(44)81 February 7, 1944.

(72) Bucknell to Secretary of State, May 13, 1944, White Papers PUL quoted in Gardner, Op.Cit. p.145.

were making their fears tell in the form of safeguards and transitional provisions to protect Britain's weak position. However, this led to a compromise in the sense of U.S. acceptance of such provisions. On the commercial issues the differences were much sharper and were threatening to divide the British Cabinet. Churchill decided that the strategic position of the war was so critical he decided to side-step the issue. The whole question of commercial and trade negotiations was firmly placed to one side for the time being. Robbins writes:-

"... Substantial progress had been made ... But then came a halt. For more than twelve months there was silence on our side; we were forbidden to say anything to our opposite numbers. Even after that, conversations were only resumed in London in the most informal way on the most strictly hypothetical basis." (73)

In addition to the problems with the Cabinet, the progress in the Washington talks also had to be discussed with the Dominions and India, which it was: February 23-March 21. (74) This provided a good excuse for the initial delay, and was of some genuine concern. There was particularly concern over the lack of enthusiasm from Australia and New Zealand regarding Imperial Preferences. The Australian High Commissioner informed Law on February 24, that Australia would only regard Imperial Preference as significant in conditions such as those experienced in the depression years. (75) So the U.K. position was further weakened by lack of united Commonwealth support for the preferences the Americans so vehemently desired to be abolished. Still, these were all rather peripheral matters. The more significant worries

(73) Robbins, Op.Cit. p.203.

(74) See ASD(44)16, March 21 1944 for a summary.

(75) See F.O. minutes on visit to R.Law by the Australian High Commissioner, February 24, 1944, U2119/6/70.

and reasons for delay on the British side were considered by Anderson later in the year and he enumerated the criticisms made within the Cabinet which had threatened to cause a split in the government as follows:

1. Preclusion of transition measures to safeguard Britain's balance of payments;
2. Tariff formula would be advantageous to pre-war high tariff countries and would preclude the introduction of new tariffs except for infant industries.
3. If only partial state trading was employed there would not be the same scope allowed for bulk purchasing as for a country that used state trading universally.
4. Preclusion of quantitative regulation of imports as an expedient to correct balance of payment problems.

(76)

The talks in fact had put into further doubt issues the British had hoped to gain clarification on. First of all their doubts about the reduction of tariff barriers in the transition period. Even if the Americans accepted proposals for an across the board reduction of tariffs such measures would still favour pre-war high tariff countries. On the other hand, the U.S. had made it clear that the virtual elimination of preferential tariffs would be required in return. The British as we shall see, demurred somewhat on this and still believed that they could maintain Empire Preferences to some extent on the basis of the F.D.R./W.S.C. exchange of letters in 1942, though they recognised that this would probably affect the size of the American tariff reductions. The Americans persisted on the line that there should

(76) See CCP(44)I, note by the Chancellor of the Exchequer, Anderson, September 12, 1944, UE1334/143/53.

be no differentiation between discriminatory trade practices and that Britain was in fact committed to the abolition of Imperial Preferences.

On agriculture the U.S. appeared reluctant to allow a degree of subsidisation in the U.K. which would ensure a healthy British agricultural industry something all political parties were committed to. R.S.Hudson proved particularly obdurate over this. To some extent the problem tied in with the differences on commodity controls. For of course Britain's proposals to stabilise primary and agricultural prices by means of buffer stocks was very much in her own interests as the world's major importer of such commodities. The U.S. on the other hand wanted to actively promote a higher price for such goods as a major surplus producer, by means of quantitative production controls. This was again seen by the British as a threat to their balance of payments position by raising the price of imports.

Thus, the talks were temporarily abandoned. This was symptomatic not of indifference but of grave concern by the British. Throughout the later months of 1944 the British continued to worry over the envisaged post-war problems. Although at this time active negotiations with the U.S. centred on the Export White Paper and the monetary talks, naturally enough the commercial were still of vital concern, but developments were forcing the British to be even more cautious. The Lend-Lease talks in particular complicated the position; added to this was growing popular, Parliamentary and industrial unrest, which forced Britain very much on the defensive. In April, Churchill in the House of Commons made a statement, the authority for which lay in the confidential exchange of letters between

him and Roosevelt immediately prior to the signing of the Mutual Aid Agreement, that Britain was no more committed to the abolition of her Imperial Preferences than the U.S. was committed to the abolition of her high tariff policy. This while a bold statement that Britain was not going to be railroaded by the U.S., perpetuated and caused a renewed interest in the ambiguities of Britain's undertakings regarding Imperial Preference. It was soon to receive a reply from Hull who stated at a press conference shortly after:-

"It is not to be assumed that this statement was intended to imply abandonment of the view that the United Kingdom and all United Nations, each in accordance with its own constitutional processes, should be both disposed and able to press forward strongly in cooperation for economic advancement and prosperity with measures which will expand international trade rather than restrict it." (77)

However, there was to be no strong forward movement for some time. It had already been virtually shelved by the refusal of Churchill to allow his Cabinet to make a decision which would be divisive at a critical stage in the war. In a telegram of May 2, dealing with the monetary talks, Anderson said quite clearly that:-

"I think that delay on the Commercial and Commodity Policy may be inevitable..." (78)

We have already noted above the reasons given for opposition to the document embodying the outcome of the Washington talks. Anderson, in September, circulated a review of the objections drafted by the Commercial Policy Committee. On the whole it agreed that there was some substance to them, with the exception of the lack of freedom in the transition period, but suggested that there had been considerable exaggeration.

(77) Washington to F.O. April 26, 1944, report of Press Conference, U3169/6/70.

(78) Anderson to Washington, May 2, 1944, U3799/6/70.

"This being so, the important question is not to decide whether the Washington document as it stands is acceptable but to consider whether it is possible at the same time to obtain real advantages for our export trade and to safeguard our right to give to British agriculture that measure of support which we shall have to give to it after the transition period, without abandoning the conception of a multilateral commercial convention or going back on the general principles of Article 7, to which we are pledged. It is our considered view that it is possible to do so." (79)

The solution was seen in the use of protective measures which the multilateral convention would not abolish such as bulk purchases, levy subsidies and so on, so long as they were not discriminatory and did not result in more than a 25% price increase above the market price. The British hoped that this could be agreed to with the Americans on the basis of some objective criterion. Despite these rather optimistic views the group was prepared to concede that the problem of non-discrimination was still most problematical.

"In the exchange of letters between the Prime Minister and the President it has been made clear that we do not regard this clause (i.e. Article 7 of 1942 Mutual Aid Agreement) as requiring the elimination of Imperial Preference. There can, however, be no doubt that express arrangements for directing our purchases to those countries which buy from us would be 'discriminatory' in the sense of Article 7 and are therefore ruled out by the Mutual Aid Agreement. On the other hand, tariffs which select special categories or classes of goods for heavy duty, although it is well known that these goods come predominantly from a few specialised suppliers, have not been regarded hitherto as 'discriminatory'. It follows that it is not easy to draw the line, especially in the case of bulk purchases and import regulation, and the doctrine of non-discrimination is not one which (can?) conveniently be pushed to a logical conclusion." (80)

Reviewing the report in a note dated September 18, Anderson strongly warned against the line of thought developing in the press and Parliament that the U.K. should fall back on bilateralism and bartering to recoup her economic losses after the war.

(79) CCP(44)I, September 12, Committee on Commercial Policy Report of :- UE1334/43/53.

(80) Ibid.

Anderson explained that the adoption of such policies would have serious consequences because:-

1. It would be contrary to Article 7.
2. Lend-Lease would have been obtained under false pretences.
3. It would be contrary to the 1938 Anglo-U.S. Trade Agreement, Articles 4 and 5.
4. It would cause serious opposition from Hull and the State Department, and Britain would in effect get no support from anywhere in the U.S. for a trading bloc which would be a competitor to her. In fact it was also doubtful in the light of this whether many countries would support Britain in such a position of competition.
5. Canada was too dependent upon the U.S. to oppose her in commercial policy.
6. Even disregarding objections 1-5, there were serious dangers in bilateral and discriminatory policies of a rebounding nature.

In view of the above, Anderson thought that a de facto break with the U.S. which the adoption of discriminatory policies would mean must be ruled out. Furthermore this should be made known and a viable alternative policy of collaboration worked out.

However, in the final analysis Anderson equivocated.

"To avoid any possible misunderstanding, let me make it clear:

- a) That the above does not apply to the transitional period:- the Americans have already agreed at Bretton Woods to allow us temporarily to continue discriminatory practices until we have escaped from our immediate post-war balance of trade difficulties, and we are not likely to (sic likely to?) need any other instrument than that, since it enables us to require those from whom we buy to spend with us.
- b) That the above does not apply to non-discriminatory bulk purchases or import restriction which remain matters for discussion.
- c) That if the arrangements for a saner world which we are hoping to organise in collaboration with the United States and the British Commonwealth and others also, do ultimately break down then unquestionably, we have got to think again on this and many other matters." (81)

On the other side of the Atlantic Hull had in fact been pressing for the renewal of commercial talks after the Bretton Woods Conference but Law had had to refuse this.⁽⁸²⁾ The British were still concerned over the problems that had emerged at the beginning of the year but Law told Hull that the British would be ready for fresh talks in the Autumn and moves were being taken in this direction. By November 16, the Chancellor's Committee had produced yet another War Cabinet Paper which covered what was by now familiar ground.⁽⁸³⁾

In a note on what had been the main obstacle to the continuation of talks which was because:-

"... the Agriculture Ministers feared that proposals for a multilateral Convention previously discussed with the Americans might prevent our redeeming our pledge to maintain a healthy and well balanced agriculture after the war." (84)

However, since early 1944, things had improved somewhat on the strategic front and if such economic problems were to be resolved, then it was obvious that new talks had to be undertaken. In late November tentative talks began to get underway once again. The last lap had begun.

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Almost as soon as Lend-Lease became operational on March 11, 1941, allegations were made in the U.S. that it was being misused. Although section four of the act forbade the transfer of articles from the British Government to other agents without the consent of the U.S., it was, of course, impossible to exercise absolute control. There were inevitable opportunities,

(82) Hull, Op.Cit. p.1477.

(83) See CCP(I)44 and WP(44)661, November 16, 1944, U2313/143/53.

(84) Note on WP(44)661 by J.E.Coulson, U2313/143/53.

during the distribution of articles and their incorporation into export commodities for profiteering. In response to this situation, the U.S. demanded assurances that British private industry would not make exorbitant profits, nor, more important, effectively subsidise exports by the use of Lend-Lease goods. Despite the already substantial sacrifices Britain had made in liquidating overseas assets and converting her economy to war production, thus starving her export markets, the U.S. still seemed fearful of the utilisation of Lend-Lease articles in Britain's paltry remaining export capacity.

By the summer of 1941, U.S. accusations of the misuse of Lend-Lease by the British had become quite serious. On July 9, Representative O'Connor tabled a resolution for the investigation of Britain's remaining trade, with Latin America. Although Keynes on the tenth, and Roosevelt at a press conference shortly afterwards denied these allegations of misuse, it was obvious that something further would have to be done and in fact negotiations on the issue were already underway in Washington and London. On August 1, 1941, a draft statement referred to as the 'Burn's Letters', after General Burns the executive officer in charge of Lend-Lease was cabled to London. It contained suggestions on restrictions which could perhaps be placed on British exports to prevent improper use of Lend-Lease materials. However, in London, in late July, Ambassador Winant had taken up the issue in London and had handed a memorandum to Churchill and the Lord President on the subject. He also hinted to the Chancellor of the Exchequer that he feared the President foresaw difficulties over Lend-Lease supplies. As a result of

this on July 28, ministers, badly briefed and with the President of the Board of Trade absent, met with the Americans and conceded on virtually all the points raised. Unfortunately in the confusion of simultaneous talks in London and Washington, the British had not realised that the Burn's Letters were supplementary to the July 28th talks, and were not excluded by them. In effect the Americans had restricted British exports to goods which the U.S. did not compete with such as Scotch Whisky, Harris Tweeds, etc. A rather insulting and Dickensian caricature of Britain's true export potential in peace-time.⁽⁸⁵⁾ The British, in no position to be argumentative, did not renounce the accord reached, despite the misunderstandings, but simply prayed for the day when the U.S. would become a co-belligerent. The accord was formalised in a unilateral statement of policy by Foreign Secretary Eden on September 10. The phrase which most clearly indicated the nature of the agreement, and of course 'agreement' it was de facto to be, was that:-

"..., the United Kingdom export trade is restricted to the irreducible minimum necessary to supply or obtain materials essential to the war effort." (86)

There will be occasion to look at the restrictions in detail shortly.

Even before the close of 1942 the British were concerned over the export restrictions, but for a while little was done in the hope that her bargaining position would improve. Unfortunately it did not do so. By the Spring of 1942 Britain's immediate tactical position had deteriorated seriously and political

(85) See Sayers, Op.Cit. pp 401-404 and Hargreaves and Gowing, Op.Cit. pp 145-151.

(86) See Cmd. 6311, September 10, 1941.

difficulties in the U.S. had developed in an almost symmetrical relationship. (87)

The British hoped to persuade the Americans that Britain's reserves should be allowed to grow proportionally as her liabilities grew. This would entail a relaxation of the export restrictions and at the same time the growth of reserves would alleviate the economic problems of the post-war transition period by providing a sound basis for an export led recovery. At the same time, the British were reluctant to supply the Americans with full details of their financial embarrassment, for a number of reasons. First of all, they did not wish to expose their economic weakness to the full in case it weakened their bargaining position in forthcoming monetary and commercial talks. Secondly, for obvious reasons they did not wish to put into question their position as a good credit risk so far as Lend-Lease was concerned. And thirdly, they wanted the accumulation of sterling debts within the Sterling Area, to remain a 'domestic imperial economic problem', as preferences were to be. Still, in April 1942 they had heard unofficially that O.L.L.A., although wishing to retain the White Paper, was prepared to give it a more liberal interpretation, (88) and so Britain's general economic problems were set out in a formal memorandum presented in Washington on April 18, 1942. The problem stated simply was that, excluding liabilities to the U.S. and Canada, Britain's accumulating war debts exceeded by four times the annual gold production of the Sterling Area. It was

(87) For details see Ch.II and G.C.Wrigley and H.D.Hall, History of the Second World War, U.K. Civil Series. Studies of Overseas Supply H.M.S.O. and Longman's Green and Co. 1956, p.121.

(88) See Sayers, Op.Cit. p.404.

thus suggested that the U.S. might allow the U.K. to hoard the Sterling Area gold production while at the same time a limit would be placed on the accumulation of U.S. dollars. (89)

In fact a clear 'no' was not given by the U.S. Treasury until October when predictably they pointed out that gold and dollars were interchangeable. In that month both Morgenthau and White came to England primarily to deal with the currency problems involved in the allied invasion of North Africa, though it was also an opportunity for Morgenthau to observe, at first hand, the British economic position. Prior to leaving Morgenthau had an interview with Roosevelt who discussed with him British exclusion of U.S. trade from some of her colonies; and British oil concessions. Roosevelt commented that he wanted all these colonies opened up for U.S. trade after the war. (90) So, right from the start, Morgenthau had hardly set out sympathetically disposed to Britain's economic plight and after talks in mid-October with British Treasury officials, believed he had his worst fears confirmed about British finances. Morgenthau decided not to relax the restrictions but to tighten them despite White's assurances to the British that there would be no further active reduction of British reserves. (91)

On his return to the U.S. Morgenthau with Wallace, Hull, Stimson and Stettinius, reported to Roosevelt on January 3, 1943, that the U.K. had accumulated \$1B in reserves and that this would continue to grow unless alterations in Lend-Lease supplies

(89) See Sayers, Op.Cit. pp 429-431.

(90) See Blum, Op.Cit. p.127.

(91) See Sayers, Op.Cit. pp 431-432.

were effected. They proposed a limit of \$600 - 1000m on Britain's reserves. To expedite this the U.S. should discontinue civilian goods supplies to South Africa and only supply military goods on a basis of equivalent reciprocal aid. Australia and New Zealand would require further study. Also a new committee chaired by the Secretary of the Treasury should be established to overlook Lend-Lease and obtain information about allied monetary reserves. On January 11, Roosevelt approved. (92)

On January 19th, Kingsley Wood wrote a personal letter to Morgenthau on the Lend-Lease problems. Morgenthau replied that he was always ready to discuss problems but the Administration was coming under criticism on the details of the Lend-Lease Agreement and the matter had been referred to the President. Morgenthau did not feel able to confide to the Chancellor that from January 3, it had been U.S. policy, decided unilaterally, to limit the U.K. reserves to a maximum of \$1B. Not even content with this flagrant violation of Britain's economic independence the U.S. began to urge the abandonment by Britain of certain export production lines such as bicycles and agricultural hand tools, to allow her to concentrate more on war production. It was pointed out that U.S. surplus labour could take over such production instead. (93) This was strongly resisted by the U.K. and in May, the President of the Board of Trade, deeply anxious, told his colleagues that:-

(92) See Blum, Op.Cit. p.131; Sayers implies that Morgenthau was not responsible for the decision to limit British reserves as he was absent from the Cabinet meeting which technically took the official decision but as can be seen from the above, in particular the report of January 3, he was in fact most instrumental in this decision. Sayers, Op.Cit. pp.431-2.

(93) See Hurstfield, Op.Cit. p.306.

"... he fully accepted the policy of combined Anglo-American planning to meet the minimum civilian requirements of the non-axis world, but he pointed out three dangers in the current situation. First, there was the increasing restiveness of British industrialists arising from the feeling that their traditional markets were being handed over to American exporters. Secondly, there was uncertainty as to whether the Americans would be able to supply the requirements of the non-Axis world as they became more fully mobilised. Thirdly, there was evidence that the Americans were using the White Paper as an instrument for pressing their point of view in the formulation of joint export programmes. He himself wished to see the supersession of the White Paper as soon as possible and its replacement by a joint declaration ..." (94)

In the same month Halifax began to make complaints to the Americans about policies which were gradually capturing British export markets in South America. Halifax proposed the adoption of the following understanding:-

1. That exports from either country should be determined by the principle of the best use of resources.
2. That sacrifices of export markets because of war production should not be taken advantage of in the post-war world.

Halifax also urged the withdrawal of Article 4 of the White Paper which forbade Britain to export, Lend-Lease goods or their similitude, nor goods which were in short supply in the U.S. with a few minor exemptions. The reasoning on pre-war markets was embodied in an aide memoire which was handed to the Americans, but little response was forthcoming. On August 2, the State Department was again asked by the British to reconsider and agree to the propositions in the July aide memoire. The State Department demurred. It was "unduly restrictive", they said, and would have to be tied to increases in reciprocal Lend-Lease if agreement was

(94) Hargreaves and Gowing, Op.Cit. quoted p.160.

to be reached.⁽⁹⁵⁾ This particular line of approach was now abandoned by the British.

As August of 1943 approached, the British gradually began to realise that decisions had been taken by the U.S. which were affecting the flow of Lend-Lease goods to Britain. O.L.L.A. officials were becoming increasingly petulant about the supply of certain commodities and in the new 1943 appropriations £48m worth of civilian tobacco was removed from the supply lists. However, back in October 1942 during the London talks with White and Morgenthau the possibility of Britain extending Reciprocal Lend-Lease raw material supplies worth \$130m had been mentioned. During June and July of 1943, the U.S. again began to press for such raw materials. The British now looked on this favourably for a variety of reasons. First of all it could be publicised to quell American critics, secondly it could be used as a lever to press the Americans to relax export restrictions, thirdly, it would emphasise the concept of 'pooling resources', and finally, it was hoped that it would create an atmosphere favourable to Britain that could be taken advantage of in other negotiating fields.⁽⁹⁶⁾

During June and July the negotiations on reciprocal Lend-Lease appeared to make good progress. Both the British and Stettinius with his immediate associates in O.L.L.A. favoured the publication of statistics on, and the expansion of, reciprocal aid. There were some difficulties and delays with India and the Dominions, with whom separate talks had to be held. But, as far

(95) See Ibid, also Kolko, Op.Cit. and F.R.1943 III 61-62,74.

(96) See above and WP(43)329, July 22,1943. Memo by Eden, Wood and Dalton. U3116/251/70.

as the U.K. and Colonies were concerned, approximate quantities of supplies and the commencement date, October 1, had been decided on. During the first days of August, the talks were in the process of finalising details for the publication of the White Paper on August 5th.

Unfortunately, unknown to the British, Stettinius had kept the talks secret from the U.S. Treasury Department until the last minute. This was partly due to his personal rivalry with Morgenthau and also because, he, like the State Department, was more sympathetic towards Britain's financial difficulties. Literally hours before publication, Morgenthau said that he would publicly disassociate himself from the agreement if it was published. In the face of such a threat there was only one course of action; publication was postponed.

R. S. Sayers in his account of this episode is uncertain of the motive behind Morgenthau's reaction. He puts forward a number of considerations, all of varying relevance. For example, one of Morgenthau's objections was that the delivery of supplies to government departments, as proposed by the U.K., would lead to inefficiency and would usurp the job of the great American free-enterprise system. This argument was reinforced in October with the reorganisation of America's foreign economic relations. There had been confusion for some time over decision-making authority in this field and on October 26, it was finally centralised under the authority of Leo T. Crowley and the F.E.A. This appointment of new officials, particularly Crowley, was favourable to the interests of private enterprise and supported Morgenthau's line on the Reciprocal Lend-Lease issue. It also, incidentally, disrupted the rapport that had been previously established in this field between English and American officials.

Morgenthau also objected to the level of reciprocal aid which he claimed was too low. He not only suggested absolute increases, but also that it should be back-dated to July 1, thus making Britain retrospectively liable to repay dollars from that date. Morgenthau claimed that Congress expected reciprocal aid of the magnitude \$1½B and that unless this was forthcoming, he expected net Lend-Lease, July 1, 1943 to June 30, 1944, to be limited to \$200-300M. (97) In September the Chancellor wrote to Morgenthau that such suggestions of retrospective liability had no place in the free exchange of raw materials between the two allies, and attached a statistical memorandum to indicate the dangers of the British reserve position. To this, Morgenthau made no reply. (98) John Anderson, Kingsley Woods' successor, re-emphasised the dangers and added that the U.S. proposals would put too great a strain on the Sterling Area. (99) The U.S., however, remained unmoved and continued to demand a delay in publication using the nonsensical argument that it would provoke trouble on the eve of a Congressional enquiry into Lend-Lease. The investigation had been instigated due to the much publicised allegations of five senators, who had toured the war zones, that Lend-Lease was being mishandled. To the British this seemed a most eminent reason for publishing, as at least a partial defence of the U.K. position. Plans went ahead for the revision of the

(97) Blum, Op.Cit. p.132.

(98) See Sayers, Op.Cit. pp 432-433.

(99) Blum, Op.Cit. p.132.

White Paper with both Keynes and Beaverbrook in full accord for once, helping in the re-draft. Meanwhile, British hopes received another setback on September 17th, when Roosevelt went out of his way to repudiate an official's bold enunciation of the pooling principle. In reply to the statement:

"The Congress in passing and extending the Lend-Lease Act made it plain that the United States wants no new war debts to jeopardise the coming peace. Victory and a secure peace, are the only coin in which we can be repaid: "

Roosevelt said:-

"He would not have worded the second sentence the way it had been ... There were all kinds of coin, whether or not they jingled." (100)

And still, the U.K. was not wholly without support for its position on reserves. Some members of the State Department, particularly Acheson, thought that adequate reserves for Britain were essential if she was to participate in the post-war liberalisation of trade, so favoured by all U.S. Departments. Furthermore, if the U.S. pressed the issue too far, the U.K. might insist on reciprocal obligations being placed on the U.S. with regard to the re-export of goods containing raw materials obtained on reciprocal Lend-Lease. So at the:-

"... 'working level' - Harry White (Tr.) John McCloy (War) and myself (St.) - the battle continued over the level of British gold and dollar reserves which might be accumulated under Lend-Lease. McCloy and I would accuse the Treasury of envisaging victory where both enemies and allies were prostrate-enemies by military action, allies by bankruptcy. We finally worked the British reserves up from rock bottom to double the Treasury's minimum,..." (101)

(100) See Sayers, Op.Cit. Footnote p.425. But see Holborn, Op.Cit. Vol.I. Quotes House Doc.No.799, 77th Cong. 2nd Sess. p.21-23, F.D.R's 5th Rep. to Cong. on L-L Ops. when in fact he did.

(101) Acheson, Op.Cit. p.23.

But Morgenthau was not to be persuaded. In fact, as shall be seen, he suspected the State Department of collusion with the U.K. contrary to the interests of the U.S., the free enterprise system, and perhaps most important the U.S. Treasury Department. Morgenthau became even more recalcitrant and later in November blocked Acheson's proposal for a proportional basis of assets to liabilities for the British reserve level.⁽¹⁰²⁾ This, of course, was the real issue, British reserves. In July 1943, despite the policy of sinister control unilaterally adopted in January, the British reserves had begun to rise. Relaxation of the export restrictions, which the British were known to favour strongly, would accelerate this trend. Such relaxations in exchange for de facto acceptance of a freely offered extension of reciprocal aid would be tactically and politically difficult to oppose. Objections had to be made before publication and this is what Morgenthau had done. Although this is somewhat conjectural, what is not, was Morgenthau's determination to keep British reserves down, and this seems the only reasonable explanation of his opposition to the reciprocal aid agreement, which would, on the face of it have deprived the U.K. of a certain amount of dollar earning capacity. The problem was that under the extant provisions, Morgenthau did not believe the loss would be substantial enough. Furthermore, the British were insisting that similar restrictions should apply to reciprocal Lend-Lease as to Lend-Lease. This was something the U.S. was very reluctant to agree to but which in August seemed the only alternative to relaxing the export white paper restrictions. Morgenthau was determined not to allow this because of the consequent rise in British reserves, which was bound to follow.

(102) See Kolko, Op.Cit. p.282.

Despite figures from the British indicating that her quick liabilities exceeded by 700% her quick assets⁽¹⁰³⁾, Morgenthau on November 1, submitted a memorandum to F.D.R. suggesting that more active steps should be taken to reduce British reserves to \$1B as Roosevelt had approved in January. They were now \$1.3B - \$1.7B, according to U.K. and U.S. respective assessments.⁽¹⁰⁴⁾ Morgenthau said he wanted to avoid criticism from Congress which was either facile sophistry or evidence of gross incompetence in political assessment. As we shall see the Congressional enquiry was a damp squib. In addition Morgenthau alleged that the British were using Lend-Lease in private business to an unfair advantage. The F.E.A., and the War Department concurred in these sentiments and on November 6, Roosevelt in discussion of the British reserves:-

"... told Crowley to keep them as they were, not to let them get any higher."⁽¹⁰⁵⁾

In the U.K., plans were now going ahead for unilateral publication. After the white paper had been revised, the War Cabinet decided publication should go ahead after W.S.C. had made a personal appeal to Roosevelt for his support on the issues involved. Before this happened, Keynes returned from the U.S. with the news that the much vaunted Congressional Enquiry had gone "off at half cock"⁽¹⁰⁶⁾ and that the more favourable views of the State Department now prevailed and the U.S. was in favour of immediate publication. The reasoning behind this sudden

(103) For full and detailed figures and the method by which U.K. accumulated some reserves, see 'The Overseas Assets and Liabilities of the U.K.' Approved in Principle by the Chancellor of the Exchequer AD (43) 2, dated September 2, 1943, U4500/251/70.

(104) See Kolko, Op.Cit. p.283.

(105) Blum, Op.Cit. p.133.

(106) See Sayers, Op.Cit. p.425.

change is not entirely accurate or comprehensive. First of all the State Department's views were not so prevalent as to gain a proportional basis for British reserves, and secondly, and most important, Morgenthau had persuaded the President to agree to further action on the British reserve position. The decision had been taken to hold the British reserves where they were - the reciprocal aid could now flow.

The new arrangements for raw materials supplies to the U.S. were announced in the House of Commons on November 11, 1943, by the President of the Board of Trade. (107)

Dalton commented that in the view of the changed circumstances the Government considered that:

'the unilateral undertaking contained in this White Paper (Cmd.6311, September 10, 1941) should be replaced by a new statement. His Majesty's Government and the United States Government are now engaged in negotiations as to the form which a new joint and reciprocal declaration should take." (108)

Unfortunately circumstances were not very auspicious. Most, if not all, of British hopes in June/July 1943, had been thwarted. Roosevelt's statement had put into question the principle of pooling resources and Morgenthau's violent opposition and the re-organisation which resulted in the emergence of the Foreign Economic Administration had soured the negotiating atmosphere. The British had not so far succeeded in having the export restrictions relaxed, in fact quite the opposite

(107) See 'Survey of International Affairs 1939-46, America, Britain and Russia, Their Cooperation and Conflict 1941-46', W.H.McNeil, R.I.I.A. O.U.P. London 1953, Appendix II by Sir David Waley, 'The Philosophy of Lend-Lease', p.782.

(108) House of Commons Debates, Vol. 393, Col. 1312, November 11, 1943.

had happened. Britain was now still faced with export difficulties but also had the additional burden of raw material supplies to the U.S. Her attempts to impose similar export restrictions upon the U.S. were never seriously pressed, the political uproar in the U.S. would have been too much to bear and the administration an over-load on British capabilities, though in the white paper the key paragraph read:-

"... in furtherance of the general policy of pooling resources, His Majesty's Government have decided to extend reciprocal aid to raw materials and foodstuffs purchased by the Government of the United States from the United Kingdom and the Colonial Empire which would thus be made available on terms analogous to Lend-Lease."
(109)

It was merely an equitable notion held by the British but abandoned in the light of political realities.

Certainly on the other side of the Atlantic, despite growing apprehensions in the State Department, there was little thought of revising the Lend-Lease White Paper. On November 14, Morgenthau explained to Halifax the feelings of the Treasury, the F.E.A., the White House and the Truman Committee. He said there was a dislike of Britain's use of Lend-Lease to increase her reserves. Morgenthau disparaged the collusion, as he saw it, with the State Department to achieve this and confided that:-

"After all, if you people would only agree with me that your balances should be cut down, I would be glad to tackle your other post-war problem of what you're going to do with your big sterling balances."
(110)

Unfortunately as Morgenthau said, he did not know if he had a solution to the U.K.'s problems but what he did know was that Lend-Lease was not to be used as it had been by the British for this was never the intention of the Lend-Lease Act. The British

(109) Cmd. 6483, 'Report on Mutual Aid', November 11, 1943.

(110) Blum, Op.Cit. p.133.

were not to be drawn however by such insubstantial bait. Sir David Waley strongly opposed such suggestions. On November 17, Morgenthau was even more candid with Halifax and admitted that he could not commit the U.S. to any post-war commercial policies to help Britain. His previous offer of help now seemed even more vacuous.⁽¹¹¹⁾

Shortly after this White reviewed the recent talks and in a memorandum intended for Roosevelt, recommended the discontinuation of certain kinds of non-military Lend-Lease materials to bring the British reserves down to \$1B. In fact there was opposition to the proposed technique of doing this from Oscar Cox, Crowley's deputy at the F.B.A., who on November 23, proposed that the reductions should be effected by administrative objections to British supply requests. He pointed out that this would avoid a sharp British reaction and possible difficulties at ministerial level if White's proposals were adopted. Both Morgenthau and Crowley supported this, though the latter was not sanguine about its effectiveness in reducing the balances adequately.⁽¹¹²⁾

Meanwhile, in December, the very eventuality Cox feared, occurred at the Cairo Conference. Churchill broached the subject of reserves with Roosevelt who apparently agreed that the U.K. should not be treated differently from France and Russia. At the conference a memorandum on the reserve issue was also handed to Harry Hopkins for consideration. In actual fact there were two immediate issues involved:

- (1) which the British were prepared to accept for negotiation was the gradual elimination of politically controversial Lend-Lease articles.

(111) Ibid, p.134.

(112) See Blum, p.134.

(2) the issue of unilateral U.S. action to limit British reserves by manipulating Lend-Lease.

At Cairo it appeared that Churchill had gained Roosevelt's acceptance of the British views. (113)

Yet still the saga continued. On December 15 Crowley complained to Morgenthau that the State Department were still supporting the British position and that F.E.A. were encountering stiff opposition to the elimination of specific Lend-Lease transfers. (114) On December 31, Hull at an inter-departmental meeting, expressed fears of British retaliation over U.S. attempts to interfere with their reserves in the way Crowley and Morgenthau were doing. Crowley retorted that the U.S. Government would be in a serious situation if the American public discovered the size of the British reserves. Consequently Morgenthau and Hull produced a joint memorandum for the President, and Hull an additional one incorporating the views of Acheson. Hull agreed with Morgenthau on the gradual elimination of specific Lend-Lease transfers but wanted to instigate further talks on the issue of Britain's gold and dollar reserve levels. Morgenthau objected vehemently to this because of the renewal of acrimony and possible British ministerial intervention which would cause serious trouble when, for the time being, the tension had subsided somewhat.

(113) See Chancellor of the Exchequer to P.M. February 24, 1944, U1834/12/71. N.B. There is some confusion over the date of the WSC/FDR talks on the reserves issue, which ought to be cleared up. On March 9, 1944, W.S.C. in a letter to F.D.R. refers to the date of the talks as December 8, 1943. As Wheeler Bennett has pointed out this was impossible as F.D.R. left Cairo on December 7, 1943. See Op.Cit. p.653, Note 68, ch.8. In fact the mistake originated with Anderson in a note to P.M. February 24, 1944, U1834/12/71, where he refers to a letter from W.S.C. to himself concerning the conversation on reserves which was dated December 8. Anderson in February 1944 simply assumed that the talks took place on that day and as he drafted the telegram to F.D.R. of March 9, for W.S.C. this is how the incorrect date appeared. The talks probably took place on the 7th or the 6th.

(114) Blum, Op.Cit. p.134.

On January 5, 1944, Roosevelt agreed on the issue of specific Lend-Lease transfers and compromised on the second issue. He suggested further talks between the British and the State Department but with February 7, 1944 set as a deadline for a decision.⁽¹¹⁵⁾ Roosevelt's position on the British reserve position appeared to be very changeable and vacillated according to the political pressure brought to bear. His stance in January certainly seemed to differ from that adopted at the Cairo Conference.

As far as the F.E.A. was concerned, Crowley's fears concerning the course of action proposed by his deputy Cox seemed to have been substantiated by British resistance to F.E.A. administrative pressure and on January 4, they attempted to remedy this by handing to the British a unilaterally decided list of goods to be removed from Lend-Lease.⁽¹¹⁶⁾ All Commonwealth and Empire missions in Washington were informed and all agreed such action was intolerable. On January 7, Hull called Halifax for talks on the subject with Morgenthau, White, Crowley, Cox, Acheson and Lauchlin Currie. Halifax was accompanied by Waley and Ben Smith.

At this meeting on the 7th, Crowley handed the list of politically controversial Lend-Lease items to Halifax who accepted them with the comment that they would have to be examined and added that of course the U.S. would not really go ahead with such eliminations unilaterally! Mr. Ben Smith, the British Resident Minister for Supply⁽¹¹⁷⁾ pointed out Parliamentary difficulties for H.M.G. if it was discovered the U.S. was taking unilateral

(115) See Blum, Op.Cit. pp. 135-6.

(116) See Washington to F.O. January 4, 1944, U204/12/71.

(117) November 11, 1943 - 1945.

decisions which placed a maximum limit on British reserves. Waley continued by reminding the Americans of Stettinius's promise in July 1943 that the principle of pooling resources, spoken about so much by F.D.R. in his early Lend-Lease reports, would be more acceptable if Britain was to increase her reciprocal Lend-Lease. However, she had done so, only to be met with more restrictions on her exports. The restrictions were even harder to bear when no such regulations applied for example to Russia.

" Mr. Morgenthau said that the policy is to eliminate item by item those items of Lend-Lease which raise political difficulties. He (group undecided? clearly) implied that it is not at present intended to reduce our dollar balances in any other way." (118)

On the whole, Halifax expressed himself satisfied with the talks except for the lack of an explicit written acceptance of the British position on her reserve balances, which was he admitted 'profoundly unsatisfactory'. Still, the U.S. now seemed to have abandoned temporarily her attempts to unilaterally remove items from Lend-Lease and interfere with the level of British reserves. According to extant U.S. proposals for the removal of materials from Lend-Lease the resulting loss of dollars would be smaller than the expected increase of dollars from the expenditure of the expanding numbers of U.S. personnel in the U.K. It was still disconcerting though for the British that conflicting and uncoordinated views should exist among the U.S. departments because this rendered all possibility of concrete assurances about British reserves next to worthless. Fortunately, at this time, the reserve position seemed somewhat less assailable and

(118) Washington to F.O. Special for Treasury, January 7, 1944, U145/12/71. See also Blum, Op.Cit. p.136.

the goods to come off Lend-Lease had in fact been clarified somewhat. In October 1943 the U.S. had indicated that as from November 15, certain goods, i.e. capital goods, would have to be paid for when not requisitioned for strictly military purposes. By January 7, the list had been extended to off-shore purchases of Icelandic fish and Caribbean sugar and oil, civilian goods for Jamaica, Southern Rhodesia, the Middle East, etc., tobacco for the armed services and certain other controversial items. (119)

On January 17, T.W.Childs wrote to the resident minister in Washington that although F.E.A. had not clarified the whole list of goods to come off Lend-Lease he proposed that the U.K. should agree to 'A' - the capital goods list and 'B' - off-shore purchases limited to Caribbean sugar and molasses and Icelandic fish. (120)

In fact it was recommended to all Empire Missions in Washington and to London that this should be accepted. However, other parts of the list still required clarification and were proving troublesome.

In London the F.O. was still rankled by the high-handedness of U.S. action despite their partial climb-down on January 7.

On January 24, N.B.Ronald cabled R.I.Campbell:

"The American Administration are attempting to reduce lend-lease to the lowest possible figure, that is to say, they bleed us as near as possible white and just contribute enough to prevent our passing out of existence. They never refuse lend-lease on the grounds that America is unable to afford it, but on the ground that we are getting all we need to keep us going and anything further will be unacceptable to American public opinion." (121)

(119) Washington to F.O. January 7, 1943, U187/12/71.

(120) T.W.Childs to Resident Minister, January 17, 1944, U10791/12/71.

(121) Ronald to Campbell, January 24, 1944, U145/12/71.

According to Blum's account, based on Morgenthau's diaries, the negotiations on this issue continued in 'futile debate' until January 27, 1944, when the Chancellor of the Exchequer wrote to Morgenthau on the subject. This seems hardly accurate with regard to the partial agreement over articles under the heading A and B, as we have seen. (122) Anderson wrote:-

"My financial anxieties arising out of prospective external payments are increasing as the war advances ... and it may be advisable that we should have an early exchange of views about what the position will be in the early period. (I am confident that in the future, as in the past, we can rely on your friendly cooperation)." (123)

According to Blum, this confidence was not misplaced and by the end of January, Morgenthau had:-

"... come almost entirely to accept Acheson's attitude toward the negotiations." (124)

What he had decided in fact was to leave in abeyance for a while, insistence on a maximum figure for the British reserves. Instead of this he decided to concentrate on the really substantial and effective issue, what was to be and what was not to be removed from Lend-Lease. On February 2, Blum relates that Morgenthau agreed to a programme, also acceptable to Crowley and the British, to eliminate Caribbean molasses and sugar, Icelandic fish, Canadian alcohol and petroleum products; and, subject to detailed discussions, some other non-military goods. This would amount to approximately \$288m., or about half Morgenthau's original goal. The F.E.A. also had to compromise, much to Crowley's disgust, and agreed to continue supplying tobacco,

(122) 10791/12/71, Childs to Resident Minister January 17, 1944.

(123) Anderson to Morgenthau, January 7, 1944. Quoted in Blum, Op.Cit. p.136.

(124) Ibid.

certain paper products, agricultural machinery and various shipping services. Blum gives the impression that this concluded satisfactorily for a while the controversies over Lend-Lease reductions, but this was far from the case.

On February 3, 1944, the F.O. sent a lengthy cable to Washington indicating serious differences with the U.S. even over their more recent proposals. Effectively there was little consolation for the British in having succeeded in postponing for a while the use of a limit on British reserves. The issue which would substantially determine the level of British reserves was still outstanding; the question of the removal of goods from Lend-Lease and the operations of the White Paper. It was true the British were becoming increasingly inclined to incur dollar expenses for some raw materials and capital goods to enable them to renew the export of products containing such materials, but even here there were problems.

The F.O. reported to Washington increasing signs of political pressure in England regarding the White Paper issues.

"This pressure might at any time become so acute as gravely to embarrass Ministers, prejudice negotiations and poison political atmosphere, not so much because of the limitations which the White Paper now imposes, as because of the limitations which it would still impose on the employment of capacity when the European war is over." (125)

For example, the British were not allowed to obtain anything from the U.S. that could be obtained from the Sterling Area. But the U.K. was not allowed under the White Paper to export goods such as trucks and hurricane lamps now readily available in the U.K., to the Sterling Area to pay for such imports. The U.K. had originally asked the Empire in 1941 to obtain such goods from the U.S., but now the reversal of such policies seemed inequitably

(125) F.O. to Washington, February 3, 1944, U718/12/71. It was approved by the Chancellor of the Exchequer, Minister of Production and the President of the Board of Trade.

difficult. Another objectionable case was in French, North and West Africa, where the F.E.A. were effectively insisting that:-

"... the White Paper should be interpreted on the spot by their own representatives, and that the United Kingdom should be excluded as the source of supply of any article which F.E.A. or its local representative deems to fall within the limitations of the White Paper." (126)

In effect the U.S. were taking the White Paper which Dalton had explained in Parliament to be a unilateral U.K. declaration of policy, as an agreement between the two. Not only this, but also an agreement for which the U.S. held the prerogative to interpret. The F.O. thought American proposals were far from satisfactory or even approaching a basis for agreement.

"... particularly ... (one proposal which) ... appears to involve joint agreement in advance on exports containing materials which were not scarce and notwithstanding that we should have paid for them. We could not possibly accept such a provision." (127)

The situation was considered so serious that the F.O. informed Washington that Sir Samuel Beales and Stirling would be leaving for Washington about February 8, to sort things out unless there were strong objections. (128)

So, despite the increase in reciprocal Lend-Lease it was obvious that the F.E.A. and the Treasury were still determined to keep the British reserves at around the \$1B mark. In addition, British attempts to gain acceptance by the U.S. of the 'pooling reserves' principle despite the President using

(126) Ibid.

(127) Ibid.

(128) Ibid. Mr. Robert Hall was to assist Beales in Washington and Liaison with London was to be via Sir Henry Self who was minister's deputy in Washington and British representative on Combined Production and Resources Board, 1943-45.

such notions in his early Lend-Lease reports to Congress, proved a failure. During the latter part of 1943 and early 1944, the U.S. had also shifted the emphasis away from the criterion of scarce materials for controlling British exports to that of manufactured articles received on Lend-Lease, or identical or fully substitutable therewith. This made Britain's position potentially even more difficult. In the U.S. the State Department was becoming even more concerned over F.E.A. and Treasury policies, and in February warned Roosevelt that the British:

"... must finish the war with enough assets to carry through such a program (i.e. of multilateral trade). Even as things stand now, it would be difficult for the British to consider unfreezing sterling at or near the end of the war, or giving up many of their other economic controls ... we thereby reduce our chance to achieve the basic economic policy we want and need." (129)

On February 18th, at a Cabinet meeting from which Morgenthau was absent because of influenza, Crowley again brought up the issue of the British reserves. Roosevelt said that the F.E.A., the Treasury and State Department should draft a letter jointly which he would then send to Churchill. Now Blum in his account puts forward an apology for Morgenthau and almost makes it appear as if Morgenthau was content with the situation as it stood. In fact, Morgenthau was simply worried that any new approaches made at this time would cause repercussions such that British ministerial intervention might undermine U.S. attempts to limit British reserves. According to Blum, the letter F.D.R. sent to W.S.C. on February 23, was drafted by Stettinius but was not authorized by the F.E.A. or the Treasury. The peculiarity of the letter lies in the fact

(129) Quoted in Kolko, Op.Cit. p.284.

that the issue of limiting British reserves to \$1B, was again raised by a member of the department most sympathetic to Britain's position. Furthermore, Blum himself comments:-

"... (Stettinius) hoped to minimise rather than to increase Anglo-American tension." (130)

In fact it appeared that Beales had been making some satisfactory progress with the Americans. He was discussing the problems with Acheson and had access to Stettinius if it was necessary, (131) and on the details of Lend-Lease reductions, some consensus was beginning to emerge. Then on February 24, the letter drafted by Stettinius was sent to Churchill.

"May I ask your help in solving a troublesome problem which is of deep political concern for both you and us? Officers of our Government have lately discussed with Lord Halifax, Mr. Ben. Smith and Sir David Waley, the possible termination of certain Lend-Lease transactions which we have found to be embarrassing and no longer necessary. Your people have, as I understand it, promptly agreed to take over the purchase of goods which cost about four hundred million dollars. Final agreement on the whole list of articles is expected soon, and the negotiations, in view of their complexity, have gone very well.

Quite apart from these Lend-Lease negotiations, I have been wondering whether it would be feasible for you to consider so ordering your financial affairs as to reduce your gold and dollar holdings available in this country to the neighbourhood of about one billion dollars.

What do you think can and should be done?" (132)

It was left to Anderson to deal with this. He wrote a lengthy memorandum for W.S.C. describing the history of the issues involved. Anderson pointed out that the second paragraph was yet another attempt to discuss some limit on British reserves.

(130) Blum, Op.Cit. p.137.

(131) Stettinius was now Under-Secretary of State after Welles's "resignation" in September 1943.

(132) Secret and Personal, F.D.R. to W.S.C. dated February 23, 1944, U1753/12/71.

An issue which had been banded about with Morgenthau, for over a year. On September 3, 1943, Kingsley Wood had sent a long letter to Morgenthau on this problem to which only a simple acknowledgement was received. The issue had been raised with Roosevelt and Hopkins at Cairo and again with Morgenthau on January 7. (133)

At the last meeting Morgenthau himself had said that the present policy was to reduce item by item those goods on Lend-Lease of a controversial nature and clearly implied that it was not his intention to reduce U.K. dollar balances in any other way. So, on the basis of this and Roosevelt's opinion expressed at Cairo, that the U.K. should not be treated differently from France or Russia, the British had begun to agree to the elimination of items from Lend-Lease. Anderson was understandably furious. Here were the Americans bringing up the whole issue of reserves again. Anderson wrote:-

"This is altogether unreasonable. If we were to accept the President's proposals, we should have lost our financial independence, in any case, precarious, as soon as Lend-Lease comes to an end, and would emerge from the war, victorious indeed, but quite helpless financially with reserves for inferior not only to Russia but even to France and Holland." (134)

Not only was there the issue of placing Britain's reserves in question again, but it appeared very much as if the U.S. had procured U.K. agreement on Lend-Lease reductions on false pretences. In fact, Churchill toned down the draft reply Anderson sent him by omitting the last sentence, though he did say it was inequitable and incompatible with the equal treatment

(133) In Chancellor's document he gives the date incorrectly as January 8.

(134) Chancellor of the Exchequer to Prime Minister, February 24, 1944, U1834/12/71.

of allies. He went on:-

"Since our talk, Lord Halifax met Mr. Hull and Mr. Morgenthau as late as January 8, (in fact January 7), when the matters mentioned in the first paragraph of the telegram under reply were discussed (i.e. F.D.R.'s letter of February 23). Lord Halifax reported to us that Mr. Morgenthau clearly implied to him that it was not at present intended to reduce our dollar balances in any other way. It was in reliance on this personal assurance to Lord Halifax that we agreed to the exclusion of the politically difficult items from Lend-Lease." ("If therefore, this matter is reopened, it is clear that the associated matters where agreement has been so happily reached, would also have to be reconsidered.") (135)

At a Cabinet Meeting on March 10, despite his apparent irritation over Stettinius's letter which had reopened this delicate subject area, Morgenthau reiterated his view that British reserves should be restricted to \$1B, though he said that he thought it was bad tactics to pursue such a line openly at this time. (136) Churchill's testy reply had certainly caused concern in the U.S. and Morgenthau was irritated by what he considered State Department inept interference in this matter. On March 13, Hull promised to stand on the Treasury commitments of January 7, and although it appears from this episode that it was the State Department who was pushing for a \$1B limit on British reserves, this may not in fact have been the case. It certainly contradicts the policy promulgated by the State Department up to this time if it was the case. What seems most likely was that the crisis was caused by a genuine mistake, or misappraisal of the situation by Stettinius.

(135) The last sentence was omitted in letter of March 9, WSC to FDR, See 'Closing the Ring', W.S.C. Cassel and Co. 1950, p.697, and Anderson's draft reply, February 24, 1944, U1834/12/71.

(136) See Blum, Op.Cit. p.137.

As has been seen above, according to Blum, he had intended to ameliorate not aggravate the situation.⁽¹³⁷⁾ The most significant point however is that both Morgenthau and Crowley still favoured limits on British reserves and after this departmental debacle of February/March, Hull and Morgenthau were told by F.D.R. to get together and sort things out. The result was that responsibility in this area was squarely placed on Morgenthau's shoulders, much to his satisfaction and British concern. Roosevelt eventually replied to Churchill on March 25, and was less than conciliatory or helpful. It did not deny Morgenthau's commitment of January 7, but did point out that there was no commitment to indefinitely postpone the issue. The ending of the letter was, to say the least, peremptory.

".../I am sorry if my message caused you anxiety. There is no dispute as to the understanding on the handling of questionable items under Lend-Lease which was reached between Mr. Crowley, Secretary Hull, Secretary Morgenthau and Lord Halifax, and to which I had given my prior approval. As Secretary Morgenthau stated at the meeting, this understanding did not deal with the dollar position question and did not preclude the possibility of our reopening that question in the future should the situation seem to call for it.

In any further discussions of these matters, the Treasury would be the normal centre of such conversations."
(138)

(137) Opinions of Stettinius's capabilities were not very flattering, see Vandenberg, Op.Cit., Jebb, Op.Cit., who describes him as "... naive and badly informed." and Cadogan, Op.Cit., p.717 who in a letter to Halifax said that Stettinius had let them down a number of times at Yalta, but this was not intentional, he just didn't understand what was going on.

(138) F.D.R. to W.S.C., March 25, 1944, U2518/12/71.

Despite the tenseness of Roosevelt's reply, the issue of putting an actual maximum figure on British reserves was now dropped, though the negotiations with Beales on reductions in Lend-Lease continued.

By March 12, Beales in fact believed he had reached some form of acceptable agreement with the U.S. There was no denying that there had been serious problems not least of which was the unreliable opinions of U.S. representatives due to the constant shifts brought about by the competing views of various departments and groups. Nevertheless, Beales wrote to the Board of Trade on March 12, summarising the position that had been reached. It was obvious from Beales' report that he and his colleagues had been forced to make concessions which would make the job of the Board of Trade more difficult when it came to resuscitating the British export trade. Beales had come to accept the contention that Lend-Lease would be vulnerable to political attack if the British did not provide a document which could be used as a defence against such criticism, and thus he had conceded a number of points. There had arisen three main substantial and technical problems.

1. Beales believed that Britain would be on indefensible ground unless they agreed that there would be no export of articles like those received under Lend-Lease, without the consent of a combined body. Beales was obviously in favour of conceding this to the U.S.
2. The main substantial difficulty was over the export of materials in short supply. The Americans did not appear entirely opposed in principle to such exports, but to meet their domestic critics they wanted an arrangement so that the export of such articles could be shown to be with prior knowledge, and agreement of and by the U.S.

3. This again Beales was prepared to concede as long as there was a satisfactory solution to technical problems of presentation.

"Our main struggle has been over the means whereby they could be put in a position to claim (repeat claim) that they had considered in advance a programme of the debatable field of exports without (a) our surrendering sovereignty over a wide field of our export trade and (b) our undertaking to produce programmes and estimates in greater detail and profusion than the manpower resources of Board of Trade would allow." (139)

The draft compromise solution was that the U.K. should give forward estimates and retrospective figures for her exports of materials under Lend-Lease restrictions. These figures were then to be submitted along with corresponding U.S. estimates to the Combined Exports Committee (C.E.C.). It would then be open to either government to ask for further export details though it would be left to the C.E.C. to recommend suitable action. The agreement was to be embodied in a joint declaration and safeguarded by an interpretative document which would not be published, but whose substance would be made public. (140)

Thus, by mid-March, it at last looked as if the British were going to be successful in removing the unilaterally imposed restrictions on her exports. The agreement was to be reciprocal, though Britain's greater reliance on the U.S. made the restrictions of more practical effect in the U.K. The U.S. still would not

(139) Washington to F.O. Beales for Board of Trade, March 12, 1944, U2047/12/71.

(140) For Beales' report see Ibid. The only topic of remaining concern at this time was the position of the Combined Boards and existing area committees, where the U.K. already had entrenched positions of power which they did not want to be weakened by innovations. Apart from this, all British Washington Missions agreed with Beales on the acceptability of the proposals.

recognise Britain's need to export as an export-dependent industrial country, but only "in order to support the common war effort" and to "obtain from third countries goods required for the prosecution of the war." Goods like those received on Lend-Lease were not to be exported without consent. Raw materials used in exports had to be paid for and such materials that were scarce. Finally, a combined committee was to be set up to overlook the whole application of the agreement. In addition articles removed from Lend-Lease Supply could still have restrictions maintained on them for up to 6 months, depending on the levels of supply of the material over the previous 6 months.⁽¹⁴¹⁾ On the penultimate point there had been some confusion. There had been hopes on the British side that paying in full even for scarce materials would enable the U.S. to allow complete freedom to export. But it soon appeared that this was not to be. The Americans demanded prior knowledge of such proposed exports, and that the position could be clearly explained to the American public. The British managed to extract some concessions on this, for example, that materials should not be considered scarce if caused by excessive U.S. domestic consumption; but even so, this remained a troublesome issue. As late as September 1944 there were uncertainties in the U.K. as to whether export of a scarce material meant that that export material would have to be paid for or all supplies of such material⁽¹⁴²⁾. Beales obviously had

(141) See Note by Mr. Helmore, P.G. Annex. 'Points of Interpretation on the Quebec Conversation Relating to Exports - Historical'. September 30, 1944, UE1554/5/71.

(142) See Ibid.

to modify his hopes⁽¹⁴³⁾, and although it appeared that there would gradually be greater export freedom, the Americans had insisted that the relaxations would have to be in line with consideration of the war effort, programming, etc.⁽¹⁴⁴⁾

The Lord President's Committee on April 21st authorised Dalton to accept the proposals, though with some attempts to gain minor amendments which were not to be pushed for if opposition was encountered. So, in return for the increase in reciprocal aid, since July 1, 1943, and the supply of statistical information about the British economy, finally an acknowledgment from the U.S. had been gained that Anglo-U.S. supply relations should be placed on a truly reciprocal basis. At the same time, largely as a consequence of this, the U.S. had loosened the restrictions on British freedom to export. On the whole, the position looked promising. On April 17, Dalton in his prefatory remarks to the presentation of the Declaration and Procedural Supplement had said:-

"I recommend ..., that we should now tell the United States Government that we are ready to sign; but that, before signature, our negotiators should try, very cautiously, for a few clarifying amendments, with firm instructions not to press for these, if it seems to jeopardise the agreement."
(145)

(143) See LP(44)69 Annex A. Report by Beales, circulated by President of the Board of Trade, April 17, 1944, U3609/12/71.

(144) See Clause 4, Annex B, The Declaration of Policy, dated March 18, and Sections V and VI, Annex C, dated March 22, Procedural Supplement, Ibid.

(145) Ibid.

This, and Beales' own report convinced the Lord President's Committee, Beales in his report dated April 15, said:-

"I recognise the imperfections of drafting and I realise their danger in view of the frequency of changes in representation on the American side. On the other hand, it must be remembered that we had to deal with negotiators who began by suspecting our motives, who showed an almost morbid disinclination to express clearly any point which they had been forced to concede, and whose use of the English language differs notably from our own. In general the State Department were, either openly or behind the scenes, fighting on our side against the Foreign Economic Administration, who always seemed painfully aware of their responsibilities to Congress, more especially in view of the impending appropriations for Lend-Lease. ... In my case the documents represent in my judgement, the best bargains we are likely to obtain at the present time. ... it would be dangerous to press for them (i.e. amendments), in view of the delicacy of the balance of power between the State Department and the F.E.A." (146)

The British optimism was soon to prove unfounded, by a shift in American opinion. The difficulties that the Anglo-American commercial talks ran into in late 1943 and early 1944 have already been discussed. Churchill had refused to allow the Cabinet to take a divisive decision on the issues involved. Of particular concern was the renewed U.S. assault on Imperial Preferences. Prior to the signing of the 1942 Mutual Aid Agreement, Roosevelt had given Churchill a personal assurance that the U.K. was not trading the abolition of Imperial Preferences as a quid pro quo for Lend-Lease. Nevertheless, the lack of precision in the agreement and the passage of time had encouraged, certainly the State Department, to urge such an interpretation on the British. With potentially dangerous developments in the commercial talks 1943/44, Churchill in April, was moved to deny

(146) Annex 'A', Ibid. April 15, Signed by Beales.

British commitments to abolish Imperial Preferences, in the House of Commons. (147)

The issues of trade in both the negotiations for the supercession of the Lend-Lease White Paper and the commercial talks were inextricably intertwined. If the position of Britain's economy was precarious at the end of the war, then as the British had repeatedly told the U.S., import quotas, bilateral agreements, etc., would have to be retained for some time. Now if, as it now seemed to the Americans, the British were moving away from active cooperation directed towards the dismantling of economic restrictions, then further pressures would have to be brought to bear. It seems highly unlikely that the U.S. change of policy in April was purely coincidental. The U.S. once again began to make conditions on export restrictions such that it was impossible for the U.K. to accept such supercession proposals. Of course if the Americans obstructed the recovery of Britain's exports, then Britain would be in an extremely precarious position and would be forced to turn to the U.S. as the only source of capital and goods. If such occasion arose, then once again the U.S. would hold a decisive initiative and would perhaps demand more concrete action regarding the Sterling Area.

After Stirling returned to the U.S. in May, serious problems began to arise with the Americans. The F.O. had understood that Annex 'A' and 'C', (148) were to be carried out in a spirit of cooperation with the C.E.C. overcoming such administrative trouble that had been encountered with the F.E.A. during the

(147) See Above, also quoted in Holborn, War and Peace Aims, pp 483-484, Vol.2. World Peace Foundation, Boston 1948.

(148) See Above.

previous twelve months. It now appeared that the influence of the F.E.A. was again 'tightening the screw', though it was unknown at this stage whether senior officials such as Crowley or Acheson were aware of this. The nub of the problem was that the:-

"Basis of United States interpretation is that while United States supplies of civilian goods to United Kingdom forces in United Kingdom impose an obligation on the United Kingdom to obtain consent to export of like goods, mutual aid supplies to United States Forces imposes no such obligation on the United States unless we supply civilian goods to the United States forces in the United States. On this interpretation, Lend-Lease supplies, which because this country is a base of operations, happen necessarily to be sent to United Kingdom forces here, subject us to onerous obligations whereas supplies which we make to United States forces, which for the same reason are supplied to them here, impose no corresponding obligations on the United States, although these supplies can often only be provided by severely reducing, or even eliminating the productive capacity available to United Kingdom exporters." (149)

The main problem was of course the implication for military supplies which would cause the most one-sidedness and place an intolerable administrative burden on Britain unless this was interpreted liberally. As we shall see, the British were even prepared to accept this providing such assurances could be given. (150)

However, things were not wholly bleak at this time. Stettinius, Morgenthau's personal rival, in conversation with Halifax broached on a number of key issues. He brought up the future problem of U.S. aid to Britain at the end of the war and the difficulties which Britain would need to overcome to regain

(149) F.O. to Washington, May 25, 1944, U4172/12/71.

(150) See Draft Memo by Dalton, circulated June 28, 1944, and Draft Tele. to Wash. by Dalton which was never sent, dated July 26, 1944, UE234/5/71.

her economic health. He mentioned the possibility of a 2 - 2½% dollar loan to take over the job of Lend-Lease. In addition he suggested that perhaps the only way to persuade Morgenthau and Crowley to take a reasonable line on the sterling balances/reserve position, was for Anderson to engage them in personal talks. (151) In fact this was the beginning of a series of events which led to the discussion of the problems of Lend-Lease II and Lend Lease III, (i.e. the periods after V.E.-Day and V.J.-Day respectively), first by Morgenthau and Anderson, and later by the two leaders at the Second Quebec Conference. The British initial reaction, however, though receptive to Stettinius' overtures, was cautious. The Chancellor pointed out to Halifax that the U.K. would probably need more not less Lend-Lease in Stage II, and that he was not keen on the idea of a loan.

"Our capacity to repay the United States after the war in addition to our many other existing creditors, will be subject to many qualifications, particularly of time and mannerwe shall not undertake any obligation which we do not intend to honour." (152)

By June, the post Lend-Lease I stage was increasingly becoming of concern. The military appropriations of Lend-Lease had been stable for some time and the moratorium on further reductions of civilian goods received through F.E.A., promised by Crowley and Stettinius some weeks previously, had temporarily stabilised the position. The British, though, knew this would not carry over into Lend-Lease II, i.e. after V.E. In fact, the F.E.A. were still pressing for further reductions, though by

(151) See Washington to F.O. May 27 and 30, 1944, U4806 and U4888/12/71.

(152) Chancellor of the Exchequer to Halifax, June 6, 1944, U5020/12/71.

even more devious means than usual. One proposal for example was to put up the minimum limit for requisitions from \$1,000 - 20,000. The British, particularly with the novel interpretation of the draft supercession agreement in mind, were beginning to despair of any formal alleviations of the White Paper. After the 'Crowley List' of early 1944, they had considered voluntarily removing a number of articles, particularly manufactured goods, from Lend-Lease, to give a freer hand to British exporters. But this was now rejected. There seemed little point. First of all it was judged unlikely that such action would make F.E.A. more amenable to the British position. Secondly, according to the recent talks, there would still be a possible six months restriction on such goods. Thirdly, the British did not think they could afford such measures. Thus they gradually began to believe the best policy would be to stand on the White Paper as it was. There was now little reason or justification, as far as they could see, for severer restrictions and the de facto position seemed defensible. The political considerations which the F.E.A. had put forward for the cuts had on the whole proved unfounded. There had been little Congressional or public criticism and the British gold and dollar holdings had never become a serious public issue, and in any case, with the June 6 landings, British receipts of dollars rapidly declined. During the hearings for the Fifth Lend-Lease Appropriations there was little controversy and in fact the actual appropriations exceeded by \$1,500m the current requirement estimates for the coming year.

The problems now gaining priority in British eyes were those connected with the period after V.E.-day, and at the end of the war. The supply of purely military materials was not much in doubt, but the supply of civilian goods for the coming months was.

Throughout the last eighteen months the F.E.A. administration, aided and abetted by Treasury officials, had caused the U.K. much trouble and had effectively reduced Lend-Lease supplies and delayed deliveries by their quibbling obstructionism. The British now believed the best course of action would be a high level agreement, preferably resulting in a detailed protocol of British supply needs, that would circumvent disaffected bureaucrats and perhaps even Crowley and Morgenthau. The requirements were to be restricted to three main categories, shipping, raw materials and petroleum. The most controversial category of Lend-Lease fabricated non-munitions, was hopefully to be entirely dispensed with. To achieve this, it was hoped to get an agreement from Roosevelt himself. So far as the end of hostilities was concerned, although there was confusion on the British side later, at this time it appeared clear from Crowley and Cox that Lend-Lease would terminate as hostilities did. However, there was a provision under the Mutual Aid Agreement that Lend-Lease supplies could continue for three years after the end of hostilities on a cash or credit basis, commonly referred to as a '3(c) Agreement'. The British therefore began to consider such an arrangement hoping for very liberal credit terms, as such an agreement would also be beneficial to the U.S. by allowing U.S. industrial capacity a continuation of its war-time markets. (153)

(153) For above see memorandum from T.W.Childs to the Minister, June 10, 1944, U5882/12/71 and supplement to the Memo, UE31/5/71.

Still, to return to the supercession talks. By late June Dalton was very worried over the situation and help for British post-war reconversion here seemed most dubious. Dalton felt unable to accept the terms of the new interpretation of the agreement without two assurances.

"(i) An acknowledgement that obligation to secure agreement of the Combined Exports Committee would not involve sudden or arbitrary suspension of existing arrangements for civilian production or of export licences already granted.

(ii) Arrangements to secure that the obligation to obtain consent to the export of goods like to those imported on military programmes should not become operative in respect of any particular class of goods until the attention of the receiving country had been called to that class of good and there had been reasonable opportunity for discussion by the Combined Committee." (154)

Although there had been some indication that point (i) could be 'broadly met', there was little hope on (ii), and with the burden this would place on British export freedom and the unilateral nature of it, due to the novel U.S. interpretation referred to above, the proposals seemed unacceptable. The mission in Washington however, dolefully recommended acceptance in the hope that some amelioration of the conditions might be achieved in the practice of the agreement. But, Dalton did not want anything to do with this. First of all there were recent indications that the Americans were reverting to the 'Landia' or marginal theory, which as N.B.Ronald crudely expressed it, meant:-

"... they bleed us as near as possible white, and just contribute enough to prevent our passing out of existence." (155)

and hardly added support to hopes that the practice would ameliorate the agreement. This could dramatically affect Britain's

(154) Draft: Memo by President of the Board of Trade, War Cabinet, Lord President's Committee, 'Supercession of Lend-Lease White Paper, circulated June 28, 1944, U5853/12/71.

(155) Ronald to Campbell, January 24, 1944, U145/12/71.

recovery potential in Lend-Lease II and Dalton wished to avoid this if possible. Secondly, in view of Stettinius' recent conversations with Halifax, Dalton held hopes that high level talks with the State Department, and perhaps Roosevelt, could result in a more beneficial outcome. Consequently, Dalton preferred to stand on the 1941 White Paper despite possible threats, from the U.S., to Britain's essential exports to Eastern Hemisphere countries. The dangers of prejudicing possible future high level talks and the unacceptability of the conditions as they stood, over-rode the apprehensions over not signing. Thirdly, if the document was signed it could very easily result in severer restrictions being imposed on British exports than previously, particularly in view of the revival of the marginal theory. This, it was feared, would release a backlash from British Industrialists which if reciprocated by U.S. producers, could result in a very tense situation, and one that should be avoided if possible.

"If this course is adopted, the administration of export policy is likely to be increasingly difficult during the interval. I ask my colleagues to agree that I should continue to permit supplies of essential goods made of scarce materials to Eastern Hemisphere destinations without seeking American authority, and to resist any American attempts on the operational level to force us to seek their approval." (156)

By July 6, Dalton had really applied himself to the problems confronting the British trade position and had drafted two lengthy telegrams for Washington. In them he strongly disagreed with the, albeit reluctant, recommendations for the acceptance of the U.S. position. The two telegrams were in fact never sent, instead the Lord President's Committee, on July 7, decided to send Richard Law

(156) Dalton, June 28, Memo. 1944. U5853/12/71.

over to the U.S. to sort the matter out with Stettinius and Hull; and only a short telegram was dispatched simply explaining to the British officials in Washington that under the present circumstances signature was impossible. Despite the fact that the two lengthy telegrams were never sent, they are very important indications of the mood of the ministers directly connected and best informed on the issues involved. For, although the telegrams were drafted under the authority of Dalton, he also consulted and collaborated with Anderson, Law and Oliver Lyttelton. (157)

The second paragraph of one telegram is so significant that it must be quoted in full.

" It has become clear that the real issues go far deeper than the apparently limited and technical questions on which the negotiators have been encountering difficulty. Foreign trade is to us a vital necessity. In 1943, the volume of our exports excluding munitions, was only about 25 per cent of 1937. In controlling exports for war purposes, we have not heeded long term consequences, such as the difficulty of regaining markets which have been lost. We have unsparingly sacrificed our overseas assets to the extent of £1,000 millions, and at the same time have been building up undischarged overseas liabilities which already amount to £2,500 millions and which are still increasing at a rate of £1,750 millions a year. Our financial burdens are relatively heavier than those of any of the United Nations, far heavier, for example, than France. There is only one way by which we can reduce the rate of deterioration of our position and maintain our war effort, namely by exporting. We must secure acceptance of the fact that we have an irresistible case for freedom to export wherever and whenever we can do so without detracting from the war effort. We do not ignore the inevitable effect of Lend-Lease on our present freedom of action. In order to minimise the political difficulties inherent in this situation, we are ready under the new arrangements to pay in full for any goods exported like to those obtained on Lend-Lease or any raw materials, like to Lend-Lease raw materials, contained in our exports." (158)

(157) The latter was Minister of (War) Production, March 12, 1942-45.

(158) Draft of Dalton's letter to Washington, July 6, 1944, UE234/5/71.

Dalton insisted that the economy could not tolerate such restrictions, not only on the grounds of economic reckoning either. The situation was rapidly developing into an ultimate challenge to the U.S.-U.K. alliance, certainly in terms of post-war developments. The pressure and accusations from industrial leaders in Britain, was now having political effects which could not be ignored. Accusations were now being made that the Lend-Lease restrictions were being maintained, no longer in the best interests of the two countries use of joint resources, but for the interests of U.S. industrialists. This agreement, Dalton claimed, would be impossible to defend in Parliament.⁽¹⁵⁹⁾ The operation of the agreement would depend upon the workings of the C.E.C. which would consider broad estimates and would have discretionary authority over exportable goods in the following categories.

- i) Actual Lend-Lease goods.
- ii) Like goods received in last six months.
- iii) Products made of Lend-Lease goods or like goods which governments of either country have called attention to as the subject of reasonable complaint.

How these categories were dealt with and political reaction thereto would depend upon the degree of cooperation shown by the U.S., the practical problems of administration, and what limit was placed on inroads into British sovereign control over her own exports. But,

"It is essentially a question of confidence and our confidence has been shaken by the change of atmosphere in Washington."⁽¹⁶⁰⁾

(159) See Ibid.

(160) Dalton Supplementary Note on Supercession talks submitted to Lord President's Committee, UE381/5/71.

The British had proposed a compromise over the particularly difficult issue of military supplies, largely based on the administrative difficulties involved. It had been suggested to the Americans that such difficulties might make it impossible to adhere too strictly to the agreement. But, even this had been rejected by the U.S. as evasive⁽¹⁶¹⁾. An alternative to this was to allow the document to become effective in stages, thus enabling the U.K. to see if the marginal principle was again to be applied. The second alternative, and the one Dalton favoured, was to suspend the supercession talks until wider negotiations on Lend-Lease II had taken place. It was hoped that with the assistance of Hull and Stettinius, Britain might then be in a better position.⁽¹⁶²⁾

Richard Law, who had been given the task of sorting the supercession talks out, now engaged the U.S. in conversations on the outstanding problems. In fact, the U.S. representatives had suspended the talks temporarily until Law's arrival. Stettinius, on meeting Law, suggested an exchange of views should be held between the two of them, Acheson and Taft.⁽¹⁶³⁾ This was somewhat encouraging as the State Department were known to be more sympathetic to the U.K.'s predicament. For Law, in fact, shared Dalton's strong views and was badly in need of allies within the U.S. Administration to achieve his purpose, which was to indefinitely postpone agreement. The shift to the marginal theory

(161) See Ibid.

(162) See Tele. B UE/234/5/71. Ref. quoted in full above.

(163) Acheson and Taft - presumably C.P.Taft, Director of Economic Affairs in the State Department in 1944. See Campbell to Law, July 8, 1944, UE152/5/71.

was endangering British hopes for Lend-Lease II and this had to be avoided if possible. (164)

The encouragement from the State Department, and the feeling of futility concerning the supercession talks further emphasised the inclination for high-level talks on Lend-Lease II. This was now of universal concern to all British Departments concerned with economic issues. By June 26th, the Raw Materials Department of the Ministry of Supply⁽¹⁶⁵⁾ had prepared a lengthy note on the issue of raw materials and Lend-Lease.

"... we urge that the U.S. Government should not be pressed to supply raw materials to U.K. in Stage II on Lend-Lease terms...."

The estimated net cost was \$60m and:-

"... This relatively small saving in dollars would not be adequate compensation for the disabilities which it would carry with it." (166)

The danger of U.S. hamstringing British export expansion was now uppermost in most British minds. In the opinion of the Minister of Supply it would be in Stage II that the U.K. would have to establish the base for its post-war export drive. And even if restrictions were only of a selective nature, with recent

(164) See Law to Washington, July 8, 1944, U5853/12/71.

(165) Minister of Supply, Sir A. Duncan, February 4, 1942-45.

(166) Raw Materials, Supplies from U.S.A. in Stage II. Note by the Raw Materials Department of the Ministry of Supply, dated June 26, circulated July 11, 1944, UE246/5/71. \$0.3B Lend-Lease raw materials had been suggested in preliminary proposals, June 26, UE82/5/71.

developments in mind, this could still be very damaging.

Unfortunately, reciprocal Lend-Lease was insufficient, and anyway too politically sensitive to use as counter-acting bargaining pressure.

"As a Supply Department we must keep constantly in our minds the fact that we cannot afford in negotiations with the U.S. authorities to maintain an attitude which jeopardises our supplies. If discussions are on the brink of an impasse, we must draw back lest the flow of raw materials to the U.K. from U.S.A. be cut off and the home and export trade starved of supplies. In the last resort, the U.S.A. is paying the piper and we are in no position to call the tune." (167)

The talks had in fact reached an impasse and the negotiation of supplies in Lend-Lease II was now the alternative to be concentrated upon, but even here there were great difficulties. One particular complication, unique to Britain, was the vast accumulation of debts to the Sterling Area. The reasons for wishing to maintain the Sterling Area inviolate from defaulting or similar action has been explained elsewhere. However, the position at this time was so crucial that there was some talk of allowing the U.S. to get a foothold in the Sterling Area, by persuading her to take over some of the debts. Such proposals were soon discarded though, and not renewed. (168)

Considerable importance was attached to the adverse effect the Sterling Balances could have on Britain's already weakened trading position. It was estimated that if pooling of resources was not practiced in more depth, and if Lend-Lease terminated with the end of hostilities U.K. sterling debts would top \$18B so that:-

(167) Ibid.

(168) See 'First Outline of Stage II Case for presentation to the Americans, June 26, 1944, UE82/5/71.

"... in addition to the exports needed to cover our current imports, we shall have to export a great deal more to enable the overseas holders of sterling balances arising out of the war by degrees to convert the sterling into goods in accordance with our capacities and their requirements. It would be misleading to attempt to translate this into figures - but to illustrate the magnitude of the problem, if the balances amounted to 18 billion dollars to convert 1% of the total goods in a year would mean raising the 1938 volume of our exports by another 5%." (169)

So, the issues involved were broadening out. It was no longer a matter for technical discussions. As Dalton pointed out, the supercession talks had uncovered a new trend in American thinking which was endangering vital British interests. The position of the supercession talks now looked hopeless, even more so, as it, per se, was becoming less of a priority issue. On Law's arrival in Washington, he discussed the position with Keynes, Eady, Ronald, Opie and Brand.⁽¹⁷⁰⁾ Keynes, Eady and Brand believed that signature of the agreement would only encourage American tendencies toward the marginal theory. The conditions in Washington had changed over the previous twelve months and signature was now most undesirable. The problem had been viewed in a different light from twelve months ago so that as Britain's economic malaise became more fully understood, reluctance to sign increased. It now seemed clear that clear-cut stages such as Lend-Lease and limited British exports followed by no Lend-Lease and an export drive, was unrealistic. There had to be an overlap, and this was now the adopted policy of the British, which they hoped the Americans could be persuaded to accept.⁽¹⁷¹⁾

(169) Draft of U.K. requirements following end of European Hostilities and thereafter, July 18, 1944, UE171/5/71.

(170) Brand had taken over from Phillips as the British Treasury representative in Washington 1944-46, he had previously been a member of the British Food Mission in U.S.A. 1941-44.

(171) See Washington, to F.O. July, 17, 1944, UE317/5/71.

In Law's opinion such persuasion would not be as difficult as many thought, providing Hull and Roosevelt could be won over.

On July 19, Law met with Stettinius, who confirmed rumours that had been circulating on the 17th, that the U.S. was now prepared to postpone the conclusion of the supercession talks until after the November elections. During the same conversation Stettinius drew Law into consideration of the issues of export controls, Lend-Lease and the possibility of a U.S. dollar loan to the U.K. at 1.2% interest.⁽¹⁷²⁾ However, Eden was uneasy at such precipitous developments and cautioned Law to restrict himself to his brief, the relaxation of export controls. The U.K. wanted its case for Lend-Lease II fully substantiated and detailed before talks with the U.S. were initiated. By August, in fact, by mutual agreement, it was finally decided to shelve the supercession proposals. On August 2, at a meeting with the F.E.A., Law stated that:-

"... different reasons had moved the United States and the United Kingdom Governments to suspend negotiations. They felt that "The weather would be too hot" until November to publish anything new on Lend-Lease whereas we felt that, welcome as much of the new documents had been, we had not the confidence that they would secure us the right answers and we wished therefore to have the whole matter considered in a wider context." (173).

This was in fact very much the end of specific attempts to have the White Paper superseded. The British aim now was to organise high level talks on Lend-Lease II and Britain's export trade, and progress on these lines was soon forthcoming. In the late Summer, Morgenthau visited England and discussed economic

(172) See Washington to F.O., July 19, 1944, UE362/5/71.

(173) See Annex "Points of Interpretation of the Quebec Conversation Relating to Exports", Note by Mr. Helmore, 'Historical' September 30, 1944, UE1554/5/71.

matters with Churchill. The P.M. alleged that Morgenthau had acted in a manner unfriendly to the U.K., which was simply bankrupt.

"I (Morgenthau) said that I wasn't unfriendly but I didn't like their playing one person against the other, when they had a temporary advantage over us. I said that I had been merely trying to carry out the President's decision given to me in January 1943 to keep the British balances down to a billion dollars." (174)

Morgenthau went on to suggest that perhaps Churchill and Roosevelt should both appoint committees to look into the matters of concern with perhaps himself as the head of the U.S. Committee. Churchill received this favourably, but others, notably Keynes, Eady and Brand, were somewhat disturbed by Morgenthau's suggestions and his later talks with Anderson. These dissentients believed that dealings should be with the F.E.A., the State and War Departments and Roosevelt, not with Morgenthau. Morgenthau was poaching on other people's territory. (175) On August 11, Morgenthau accompanied by White and M.C. Taylor, had further discussions on economic policies with Anderson, Waley and Sir Richard Hopkins. Anderson emphasised Britain's financial difficulties which had developed as a direct result of her war effort. By the end of 1945, Anderson estimated that the U.K.'s accumulated debt would amount to about £3,650m, nevertheless, Anderson said to Morgenthau that Britain was determined that:-

(174) Blum, Op.Cit. p.308.

(175) See Keynes, Eady and Brand to Hopkins, August 4, 1944, UE781/5/71.

- (1) " We should not emerge from the war as applicants for Poor Relief;
- (2) There would be no repudiation of our liabilities. There might be adjustments and counter-claims and we might need to analyse the liabilities to separate those resulting from trade from those resulting from sterile war expenditure, but there would be no repudiation." (176)

Anderson added that the way out of the U.K.'s difficulties depended upon a successful revival of the country's export trade with adequate gold and dollar reserves to facilitate such a policy, an obvious hint to the Americans to relax Lend-Lease restrictions on Britain's export capacity.

- "(1) to afford us a working balance
- (2) to sustain the further liabilities which we should be bound to incur in the Transition Period after the end of the Japanese War, and
- (3) to meet the legitimate claims of other countries in the sterling area." (177)

Anderson proposed a two-fold solution, first of all an increase in exports from the present 30% of pre-war level to 150%, and secondly, adequate supplies under Lend-Lease II. Morgenthau's response was less than forthcoming. He told Anderson that Churchill's view had been that economic issues should not be discussed at the height of the European War and could be deferred until after the November Presidential elections. Anderson pointed out that there was concern among British departments that U.S. officials under such circumstances might make commitments to Congress without fully considering the British position. Morgenthau in fact suggested that what was needed was:-

"... a new name and a fresh approach." (178)

(176) See Note of a Meeting, August 11, 1944, UE765/5/71.

(177) Ibid.

(178) Ibid.

rather than modifications of Lend-Lease, but nothing concrete emerged from the meeting. As usual, Morgenthau was pushing for the expansion of influence of his own department. He wanted the authority for dealing with the extant economic problems to be vested in the Treasury Departments of the two countries. Anderson simply pointed out that such a course of action would depend upon Prime Ministerial direction and at this with some consensus that a wider more general approach to the U.K.'s problems was required, the conversation was concluded. (179)

According to Blum, Morgenthau, on his return to Washington, was more sympathetically disposed toward the U.K.'s economic difficulties, but he still believed it was his job to keep Lend-Lease II to the U.K., to a reasonable level. In England he had also discussed his views on Germany, in fact, the main reason for his European trip. He had been pleased with the British response, particularly Eden's, and as we shall see, had hopes of British support for his plans. Still, on the economic issues, there was still a strong feeling in the U.S. that the U.K. was over-stating her case. For example, on August 9, the U.S. Office of War Information appeared to disregard the external financial aspect of Britain's problems and simply quoted the size of the respective national debts of the U.S. and the U.K., which stood at \$75,000B and \$300,000B.

"The thing that worries U.S. administration in its discussions about further aid for the British, is how will they be able to make Congress understand. There is already considerable feeling on the hill that the British may come out of this war stronger fiscally than ourselves. Also, if we grant such aid to the United Kingdom, will not Russia, France, Belgium, Holland and so on ad infinitum expect the same sort of treatment? They ask. And if we don't give it to them will not the policy of playing favourites win us enemies?" (180)

(179) See Ibid.

(180) U.S. Office of War Information, August 9, 1944, AN3137/34/45.

This type of suspicion was still prevalent in the F.E.A. and was manifest in their continuing obstructionism.⁽¹⁸¹⁾ Nevertheless, it was thought imprudent by some of the British to put all their eggs in one basket, i.e. the U.S. Treasury as Morgenthau seemed to be suggesting. First of all, because of past experience with the Treasury, secondly because some of the British aims could only be realised through the exercise of authority by the F.E.A. and the State Department, and thirdly because in the coming talks at Quebec which Roosevelt and Churchill had agreed on, it was seen as "absolutely necessary" to carry Hull's goodwill which would not be forthcoming if comprehensive deals on foreign economic policy were made solely through Morgenthau.⁽¹⁸²⁾ At this time Britain was fortunately befriended by Harry Hopkins, who had initially been much involved in Lend-Lease, and it had been to him that Churchill had handed the memo on British reserves at the Cairo Conference. In fact on a number of sensitive issues, W.S.C. had approached F.D.R. via Hopkins, particularly on the sensitive subject of the exchange of information on nuclear energy.⁽¹⁸³⁾ However, Hopkins had lost much sympathy for Britain because of their prevarications over the opening of the Western Front.⁽¹⁸⁴⁾ Still, on this issue he entered the controversy on July 25th, by asking to speak to Campbell.

(181) See especially Board of Trade to Helmore in Washington, August 18, 1944, UE714/5/71.

(182) See Brand to F.O., August 15, 1944, UE757/5/71.

(183) See Pierre, p.43, 'Nuclear Politics 1939-1970,' OUP London, 1972, and Gowing, M. 'Britain and Atomic Energy', Macmillan, London 1965.

(184) See Moran, Op.Cit. p.131, and Bryant, Op.Cit. ch.14.

He said that a strong U.K. was required by the U.S. and in view of this and the political delicacies of an election year, he was going to apply himself to the alleviation of Britain's economic difficulties.⁽¹⁸⁵⁾ On August 14th Hopkins followed this up in talks with Halifax, and expressed views very much in line with British opinion. He suggested that the President should issue orders to freeze the nature of Lend-Lease in its present form, combined with a P.M./Presidential accord to continue under such conditions until a date decided between them. A further agreement should also be reached, he thought, to establish a committee of investigation for the resolution of the controversial aspects of Lend-Lease. Such a committee could begin its work immediately after the November elections.

On August 19, Morgenthau reported on his talks in England with Churchill and Anderson to Roosevelt. Morgenthau reported on the claims that the British were broke and on the situation of British reserves, he recommended that committees on both sides should be set up to look into the problems especially as he considered there was a great need for substantial figures from the British. His suggestions were favourably received by Roosevelt, though no action was taken for some days.

"During the course of the conversation, the President kept coming back to England's being broke. He said, "This is very interesting. I had no idea that England was broke. I will go over there and make a couple of speeches and take over the British Empire." (186)

(185) See Washington to F.O. July 25, 1944, Campbell to Secretary of State, UE474/5/71.

(186) See Blum, Op.Cit. p.309, also 308-310.

Morgenthau subsequently saw Hopkins who agreed that any arrangements would have to await a complete review of the prevailing conditions. On that same day Hopkins reported to Halifax interim decisions taken by the U.S. Government.

1. The U.S. Chiefs of Staff had not concluded their plans on the Japanese War, so Anglo-U.S. requirement estimates would have to be temporarily shelved.
2. On the Lend-Lease negotiations Roosevelt had ordered Lend-Lease to continue on present lines for the time being and that all other discussions should be suspended.
3. A new broad approach on Lend-Lease should be discussed and hammered out by F.D.R. and W.S.C. at their forthcoming meeting. (187)

On August 24, preparatory steps for the W.S.C./F.D.R. Meeting began. Robert Brand presented a report from Anderson on Britain's economic position to Morgenthau. He argued for partial demobilisation of British war production and a return to export production on the basis of the paper. But, he added that Britain would still require Lend-Lease food, oil and shipping at least, and perhaps more, though detailing such items would be difficult until after the top level meeting in Quebec and decisions on the Far East War were known. Morgenthau's reply was cautious. He said he was eager to help but only under certain conditions. He obviously wanted to avoid the situation of 1943-4 when England had found an ally in the State Department to argue

(187) See Halifax to P.M. and Chancellor of the Exchequer, 'Personal', August 20, 1944, UE823/5/71.

their case for larger reserves. To avoid this, Morgenthau wanted to centralise control over Lend-Lease issues and thus indirectly Britain's reserve position in the hands of the Treasury Department. This was to be done by the means of an inter-departmental executive committee which he was to chair. This was the first condition and something which had already been discussed with Anderson in August. The second condition was an adequate supply of statistics from the U.K. Brand indicated provisional assent to the U.S. conditions and accepted the desirability of urging W.S.C. to appoint a British equivalent to Morgenthau's inter-departmental committee.⁽¹⁸⁸⁾ Preparations for the coming meeting continued apace, though both sides were now reserving their positions until the meeting at Quebec. The importance of the coming Quebec meeting was indicated on September 9th, 1944, when Roosevelt issued the following directive to departments concerned with Lend-Lease. In fact, it was much in line with Hopkins' suggestions to the British in August.

"It is my wish that no Department ... take unilateral action in regard to any matters that concern Lend-Lease, because the implication of any such action are bound to affect other Departments ... and, indeed, our whole national policy. I am particularly anxious that any instructions which may have been issued, or are about to be issued regarding Lend-Lease ... to our allies after the collapse of Germany, be immediately cancelled and withdrawn."⁽¹⁸⁹⁾

(188) See Blum, pp 309-310, Op.Cit.

(189) Quoted in Blum, Op.Cit. p.311.

Over thirty years after the Second Quebec Conference (QII) much remains to cause puzzlement over the decisions made and the members of the delegation. On the whole, American policy appears confused and disjointed. An important absence from American counselling at this time was that of Harry Hopkins who had been ill for a number of months and who had lost considerable influence. He did correspond with Churchill immediately prior to the Conference, but did not attend at Quebec, apparently for health reasons, though his biographer, Sherwood, points out this had never prevented him before and conjectures that his absence was due more to feelings of temporary political impotence.⁽¹⁹⁰⁾ The other significant absence was that of Hull, or any senior member of his Department. Finally, as we shall see, the main moving force in the foreign economic issues was that of Morgenthau and White.

First of all there were five main issues at the Conference, though the politics of some do not concern us here.

1. Far East Strategy and the level of British war participation in Lend-Lease II.
2. German occupation zones.
3. Strategy in Europe, Northern spearhead versus broad advance.
4. Principles to govern future Lend-Lease.
5. The Morgenthau Plan.

The rôles of Morgenthau and Roosevelt in the Quebec talks are rather problematic to explain. First of all, as has become clear throughout this account, there was considerable conflict between the State and Treasury Departments, and Hull in particular

(190) See Sherwood, Op.Cit. p.813.

had grounds for complaint as he was often ill-informed of high level meetings with foreign leaders.⁽¹⁹¹⁾ This rankled Hull even more as Morgenthau became more prominent in the international sphere. Before going to Quebec, Roosevelt assured Hull that there would be no political issues raised at the meeting and that it would be purely military in nature.⁽¹⁹²⁾ This in itself appears odd if one keeps in mind the preparatory steps which had been taken to discuss Lend-Lease issues. Roosevelt and many other people in his administration knew that these issues would be discussed, and subsumed under this Britain's reserve position and export policy. Blum records that Morgenthau was surprised by his call to Quebec, though, as we have seen, Morgenthau over the previous months had gradually acquired a dominant position on the U.S. side in such negotiations. In view of this, and the general knowledge that Lend-Lease II was to be discussed, (a) it seems surprising that Morgenthau was surprised; (b) that Roosevelt should first tell Hull that no political issues were to be discussed and then subsequently only call for Morgenthau; (c) that Morgenthau's plan for German pacification should become such an issue at Quebec without some tacit acknowledgement that he would participate in the talks.

On the British side, Lord Cherwell was designated to be in charge of the Lend-Lease discussions. He was somewhat pro-American in his outlook and regarded collaboration with the U.S. as essential for the U.K. in the post-war period. Furthermore, he was intensely sceptical of even partial alternatives such as

(191) See Leahy and Hull, Op.Cit.

(192) See J.F.Byrnes, 'Speaking Frankly', Heineman Ltd., London and Toronto, 1947, p.183.

the maintainance, as a last resort, of a trading area based on sterling. He was also rabidly anti-German. (193) Against this backcloth the conference at Quebec began on September 10, 1944. Most of the preliminary talks were concerned with the strategic problems of the Far East but on the evening of the 13th, with Morgenthau's arrival at Quebec, his plan for German pacification was presented to W.S.C. The proposals had previously been considered briefly in London, and Morgenthau had been particularly encouraged by his assessment of Eden's reactions to the plan. In fact, Eden had simply been non-committal, as he regarded much of the plan to be outside his authority. This misunderstanding was to cause a bitter reaction from Morgenthau when Eden reacted violently against W.S.C.'s acceptance of the Morgenthau Plan during the latter stages of the conference. (194) In fact, Churchill's own reaction on the 13th was unfavourable not only because of personal reservations but also because the issues involved in Lend-Lease II, were to him of a higher priority. So, even at this early stage, the two issues, German pacification plans and Lend-Lease II, by juxtaposition, seemed to be in contest with each other. Harry White recorded:-

"... Churchill seemed to be interested solely in the Lend-Lease arrangements, whereas the President was thinking of policy toward Germany and was not very interested in Lend-Lease arrangements." (195)

(193) See Birkenhead, Op.Cit. pp.265 and 267.

(194) See Wheeler-Bennet, Op.Cit. pp.182-3.

(195) H. D. White, Memo for the Secretary's Files, September 25, 1944, Meeting in Hull's Office, September 20, 1944, Yalta Papers, p.138.

This was, in fact, the beginning of an inextricable link between the Morgenthau Plan and the Lend-Lease II provisions. A number of writers have discussed this problem. Some like E.F. Penrose have dismissed the bargaining link between the two issues. Penrose, for example, does this on the grounds that Morgenthau was not the type of man to withhold aid to the U.K. in an attempt to gain British adherence to American policies!! Others have pointed to the official position indicating that there were two separate, distinct and unconnected agreements. But, it will become clear, that the two agreements were negotiated simultaneously and the implications are fairly obvious. Furthermore, Morgenthau who had previously maintained a harsh line on Lend-Lease II was hardly likely to reverse his attitude overnight and support a generous Lend-Lease II policy, which was proposed at Quebec, without an adequate quid pro quo. Despite the knowledge that the 'generosity' at Quebec would not radically alter Britain's economic bargaining power, the most influential factor in Morgenthau's decisions at Quebec was Britain's acceptance of the Morgenthau Plan. Of course the U.S. had never wanted to destroy the U.K. economy, what they did want was to break into British economic preserves while still maintaining Britain as a good credit risk. If a by-product of this was a diminution in U.K.'s economic strength, then this was perhaps inevitable. (196)

At Quebec, Churchill and F.D.R. delegated the matters of Lend-Lease and the Morgenthau Plan to Cherwell, Morgenthau and White. (197) On the 14th both issues were discussed and agreement

(196) See Blum, Op.Cit. p.310.

(197) See Blum, Op.Cit. p.314.

reached on Lend-Lease II, with only a slight amendment on the 15th, and it was subsequently signed on the 16th.

1. A figure of \$3½B for munitions was agreed on. Churchill had proposed proportional figures to which F.D.R. assented but Morgenthau had objected and actual figures were substituted.
2. A figure of \$3B for non-military items was agreed on and emphasised by Churchill's promptings.
3. "The Prime Minister pointed out that if the United Kingdom was once more to pay its way it was essential that the export trade, which had shrunk to a very small fraction, should be re-established naturally no articles obtained on Lend-Lease or identical thereto would be exported or sold; but it was essential that the United States should not attach any conditions to supplies delivered to Britain on Lend-Lease which would jeopardise the recovery of her export trade. The President thought this would be proper..
4. Churchill proposed a joint committee to sort out the details. (198)

Now, although a formal connection relating the two 'separate' agreements on a quid pro quo basis was not recorded, nor has it been established fully by historians, the circumstantial evidence implies such a link very forcefully. First of all we have White's memorandum quoted above where it was clearly suggested that Churchill and Roosevelt had different interests and priorities and appeared reluctant to discuss them with each other. A few days later agreements were reached in which important concessions were ceded, or strongly held views altered, resulting in satisfactory conclusions for both sides' priority interests.

(198) P.M. to Deputy P.M., Chancellor of Exchequer and War Cabinet, September 15, 1944, UE 1224/5/71 - this record was a memorandum drawn up by Cherwell, as was apparently the record of discussions of the Morgenthau Plan by the sub-committee of Cherwell, White and Morgenthau - See Blum, Op.Cit. p.313.

Furthermore, both issues were resolved by the same people, namely Cherwell and Morgenthau; and simultaneously, a point some historians have ignored, or even suggested that they were discussed separately with the Lend-Lease II following the Morgenthau pacification plan as if they were both isolated. This was obviously not the case. The memo on Lend-Lease II, initialled on the 15th, was followed by the initialling of Cherwell's report on the talks concerning the Morgenthau Plan.⁽¹⁹⁹⁾ Then, after further talks on the 15th, the Quebec Memorandum embodying the Morgenthau Plan was finalised.⁽²⁰⁰⁾ Secondly, as we have seen, Morgenthau was aware of the serious problems confronting Britain's economy and knew that such concessions as had been made in Lend-Lease II, would not seriously affect her bargaining position. In any case it looked as if the Treasury was to have authority over the execution of the agreement which would safeguard against any untoward developments. And finally of course the U.K. had given Morgenthau what he regarded as an invaluable quid pro quo, acceptance of his plans for the pacification of Germany.

(199) See Blum, Op.Cit. pp.312-13. In fact the account of the timing is not exact, but the simultaneity of the discussions is clear.

(200) Provisions were basically (1) Industrial reparations, (2) Saar and Ruhr industrial facilities to be dismantled, (3) Recommendation for international control of the Saar and Ruhr areas, (4) Convert Germany to a pastoral society.

Back in the U.S. Cordell Hull was only informed of the Anglo-U.S. accords after the event. On September 15, in words which again suggest a connection between the two issues, Hull was informed of the developments.

"Morgenthau had presented at Quebec in conjunction with his plan for Germany, a proposal of credits to Britain totalling six and a half billion dollars." (201)

Hull records that this angered him as much as anything in his career. (202) He turned at one stage, to Stettinius and said:-

"In Christ's name what has happened to the man?" (203)

Hull, understandably, was furious. Even in the Presidential Memo, the juxtaposition of the \$6½B credits and the Morgenthau Plan seemed to indicate it was a package deal. Hull, on the other hand, had wanted to trade Lend-Lease concessions for the dismantling of the British trade restrictions or concrete and unequivocal pledges to do so.

"Hull complained about the President's failure to consult the State Department and to demand British concessions for post-war commercial policy in return for American aid. Roosevelt, he said, had given away the bait." (204)

This may have been true so far as Hull was concerned, but Morgenthau had used that same bait to catch a different fish. There is no question as some historians have suggested that the question of British economic restrictions was overlooked by the U.S.

(201) Presidential Memo to Hull, September 15, 1944, substance quoted in Hull, Op.Cit. pp.1613-4, Vol. II.

(202) Ibid.

(203) Quoted as Editorial Comment in Cadogan, Op.Cit. p.666.

(204) Blum, Op.Cit. p.314.

On the eve of the Quebec meeting, Hopkins wrote to Roosevelt:

"I think it is important in Quebec that you tell the Prime Minister how strongly you feel about knocking down some of the trade barriers to get somewhere in terms of world trade. I have a feeling that the Prime Minister thinks that this is a pet hobby of Secretary Hull's and that you may not think it of great importance. I think it is essential to our future bargaining with Great Britain that you disabuse the Prime Minister's mind of this. I rather think that he thinks the genius of this programme in America lies with Secretary Hull, while the truth of the matter is that it is a programme that, from the beginning, has been pushed by you." (205)

Roosevelt, obviously, must have had the problem of bargaining with Britain to modify her restrictionist economic policies in mind when he attended the conference. It seems highly unlikely that he would throw away such a rich bargaining asset as Lend-Lease II, without some tangible return. Even British acceptance of the Morgenthau Plan, seems a paltry quid pro quo when compared with other important steps taken at Quebec, in particular the allocation of occupation zones in Germany. For here, the British had an undoubted triumph. On the one hand Britain agreed to a policy of harsh treatment of post-war Germany, but on the other hand gained the northern, highly developed and industrialised occupation zone. Thus Britain would be in a position to unilaterally ameliorate harsh occupation measures as a last resort.

Finally, on the Quebec Conference, we come upon the unusual case of Churchill rapidly changing his mind from strong opposition to the Morgenthau Plan to accepting it. According to Moran⁽²⁰⁶⁾ it was Cherwell who persuaded W.S.C. to accept the Morgenthau Plan.

(205) White House Papers of H.L.Hopkins, Vol. II, January 1942-July 1945, Ed. R.E.Sherwood, Eyre and Spottiswood, London 1949, p.809.

(206) Also Hull, but this must have been from a secondhand account, see Hull, Op.Cit. p.1615.

"... he was won over by the Prof., and in the end, according to Morgenthau, the plan was drafted entirely by Mr. Churchill." (207)

The question of real substance is how was Churchill won over? Morgenthau had suggested that a de-industrialised Germany would present Britain with great export opportunities, but this does not seem to have been considered as a realistic factor on the British side. Churchill's intimation of the motivations behind the agreements was as follows:-

"At first I violently opposed this idea (i.e. the Morgenthau Plan), but the President, with Mr. Morgenthau - from whom we had so much to ask - was so insistent that in the end we agreed to consider it." (208)

There must have been two other considerations in Churchill's mind. First of all, as previously mentioned, Britain would be in de facto control of the main German industrial region, and could thus ameliorate pacification provisions unilaterally if need be. Secondly, the Morgenthau Plan was somewhat tentative, whereas Lend-Lease II was more immediate, more concrete, and to Britain, more vital. (209)

(207) Moran, Op.Cit. p.179.

(208) Churchill, 'Triumph and Tragedy, pp.138-139.

(209) In fact the Morgenthau Plan was to be short lived. On the 15th, Eden arrived in Quebec, and much to Morgenthau's alleged surprise and W.S.C.'s discomfort, he strongly opposed Britain's acceptance of the plan. He was later backed by a majority of the Cabinet and the plan was never accepted by the British Government. Likewise in the U.S. with the combined opposition of Hull, Hopkins, Stimson and McCloy, by October the Morgenthau Plan had been laid to one side and that was where it remained.

So, the Q.II Agreement appeared initially most favourable to British interests. The U.S. had acknowledged the difficulties of the British economic position, and had taken appropriately remedial decisions. They had not been prepared to sign a detailed protocol, as some British officials, particularly Sinclair, had advocated, but on the whole the British were pleased with the results. (210) There were still worries over administrative details, definitions and interpretations, especially regarding Churchill's statement that:-

"... no articles obtained on Lend-Lease or identical thereto would be exported or sold for profit." (211)

when it was the British aim that articles identical to those received under military Lend-Lease should be available for export. Yet, despite this, these were in effect either the old problems of administration encountered over the last two years with the F.E.A. or rather insignificant. It was not the details or the provisions, so much but a shift away from the 'spirit' of Quebec by the Americans which was to disappoint British hopes. This was largely due to pressures from the military side and views and opinions, which later became felt, but were submerged or went unexpressed at Quebec, in order to pursue other priorities. Morgenthau in particular was misunderstood by the British. He seemed prepared to agree with the British position on Lend-Lease at Quebec, for a price of course, but his attitude on returning to the U.S. evinced characteristics similar to those of the

(210) See WP(45)24, January 24, 1945. Report by Lord Keynes on The Washington Negotiations: protocol idea was dropped largely because of opposition from U.S. War and Navy Departments.

(211) P.M. to Deputy P.M. et al, September 15, 1944, para.4, UE1224/5/71, see also Brand to Self, September 30, UE1554/5/71.

proponents of the 'marginal theory', a revival of which seemed more than possible to the British due to the insistence of Morgenthau on the use of absolute rather than proportional figures at Quebec. On September 20, Morgenthau described how he would like to see the situation proceed.

"The way I would like to proceed would be to sort of put them (i.e. the British) on the witness stand and ask them how much they wanted, and why they wanted it and then start in with whatever was agreed on at Quebec as to what they would contribute in the Pacific." (212)

Then in reply to McCloy, he added that Lend-Lease II to the U.K. should be justified in terms of Britain's war effort against Japan. This was another issue which was to be troublesome. Already on September 16, Weeks had complained to Sinclair regarding White's strong objections to the use of proportional figures, (213) and on the 19th, Anderson wrote to Cherwell:-

"... White's approach would apparently leave room for the reintroduction of the "marginal" doctrine of Lend-Lease in a form which would be quite inconsistent with the spirit of the Quebec Agreement." (214)

(212) See Blum, p.314.

(213) See Weeks to Sinclair, Ministry of Production, September 16, 1944, UE1230/5/71.

(214) Chancellor of the Exchequer to Cherwell, September 19, 1944, UE1230/5/70. Shortly after this there appears to have been some trouble over Cherwell's position. Apparently Anderson hinted that Cherwell was rushing the Lend-Lease II talks, of which he was in charge, and that he should wait for Keynes, on his way to Washington, to get his advice. Cherwell replied by asking the P.M. to relieve him of responsibility for the talks under such conditions. Anderson replied by saying that Cherwell had misunderstood him, and that if he could reach agreement on the basis of \$3B munitions and \$3B for civilian supplies with no restrictions on U.K. export recovery, then he was to do so. See Washington to F.O. and reply September 22, UE1346/5/71.

However, on the other side of the Atlantic the Americans began to vacillate over the position adopted at Quebec. As we have seen, the Quebec Conference on the American side was a communication and organisational shambles. In early September, Hull furious at the 'bait' being given away at Quebec, still pressed Roosevelt to press for unequivocal acceptance of American trade principles by the British as a partial and in fact an additional quid pro quo for Lend-Lease II. For a while Roosevelt became even more enthusiastic on this than Hull, who, on second thoughts, along with Stimson, believed this was going too far, and would cause difficult political repercussions.⁽²¹⁵⁾ Later in September, with the implications of Quebec clearer in his mind, Hull was more cautious and more fearful of British reactions. Although his main aim was to create a liberal world commercial system for the benefit of American enterprise, this could not be realised if Britain was pushed too far and refused to cooperate.

"The British, Hull advised ..., could ultimately solve their problems only "by the adoption ... of a liberal commercial policy ... "But the internal pressures on them not to do so would be strong and were increasing, and it was now vital that the United States relieve as much as possible the short-term British problems the war created to permit them to cooperate with the United States trade programme. The United States should now permit Britain to export more to strengthen its reserve position, but not under circumstances which "will stir up the resentment of our export manufacturers and traders." (216)

Unfortunately other groups and individuals were beginning to bring pressure to bear to undermine Quebec. One of the basic

(215) FR(1944)III 63-65, and Kolko, Op.Cit. pp.290-291.

(216) FR(1944)III 53-55, quoted from Kolko, Op.Cit. p.289.

problems was that the U.S. still held a narrow view of Lend-Lease as a weapon for victory. The British saw it as a necessary aid to begin the re-conversion of their economy to export production. In fact, in the beginning, Cherwell and Morgenthau's talks on the details of Lend-Lease II did get off to a good start. Cherwell yet again spelt out the economic problems of Britain to Morgenthau, who appeared to be attentive and simply insisted at this stage that more statistical detail would have to be forthcoming. Despite Cherwell's reticence on this, Morgenthau remained amiable and had no objections to Keynes assisting in the negotiations, though White subsequently objected to Morgenthau on this. (217) On October 6, Morgenthau insisted, to his own people, that the 'spirit of Quebec' should prevail, though as suggested above, there was some divergence on what this meant on the British and American sides respectively. For example, Morgenthau continued by saying that he no longer thought that British reserve levels were a useful yardstick for the assessment of her needs and that new figures and a new basic analysis was required. It would be required for economic planning which would allow Britain to gradually meet her commitments. At this stage both the Treasury and State Departments favoured some concessions to the U.K. though they were frequently at cross purposes as to where the concessions should come from. On the economic side of the U.S. Administration, Crowley was perhaps the most inflexible, as Keynes commented:-

"... his ear being so near the ground that he was out of range of persons speaking from an erect position."
(218)

(217) See Blum, p.316, Op.Cit.

(218) See WP(45)24, January 19, 1945.

From this American administrative confusion, the clearest voice and in the end the most influential, came from the Army, Navy and War Departments. The service departments of course had great influence over war material Lend-Lease and unfortunately for the British, the American Far East commanders, particularly Admiral King, were not enthusiastic about British participation in the Far East War. They knew in any case that apart from the Burma Campaign to which they were already committed, there would be little the British could contribute but much that they could claim if nominally equal co-belligerents in the Far East. On October 19th the military caucus of the Lend-Lease Committee met and Under Secretary Patterson said that he wanted Lend-Lease II to be restricted to war articles which were to be used in the war zones. General Somervell in a similar vein wanted tight restrictions on the use of Lend-Lease shipping. On October 24th:-

"The British requests were considered at a closed meeting of the Joint Chiefs of Staff ... It was the unanimous opinion of the Joint Chiefs of Staff that they were not justified at that time in recommending Lend-Lease deliveries to anybody except for material that would actually be used in war." (219)

Simultaneously British support for the Morgenthau Plan began to visibly recede. Blum records that on the 18th, Morgenthau admitted to White that his plan for Germany was still a factor in his approach to Lend-Lease II, then by implication, contradicted this by saying that Britain's withdrawal of support for his plan, and other economic difficulties with the British, for example over Argentina, did not affect his support of Lend-Lease II aid to Britain. In fact, as we shall see, Morgenthau did press for Lend-

(219) Leahy, Op.Cit. p.320-321.

Lease II concessions for the British, though there is little evidence of this being done enthusiastically.

Unfortunately Anglo-American talks were yet again running into trouble. The U.S. refused Keynes' request for the re-introduction of civilian tobacco supplies, whereas the British were hedging over an American request to underwrite the extension of reciprocal Lend-Lease by Australia and New Zealand to cover U.S. meat procurements in the Far East. Furthermore, a serious difference of opinion was developing between the British and the F.E.A. who:-

"..., took a different view. It held that the White Paper remained in force until V.E.-day and that applications should continue till then to be made to it for 'waivers' for exports of goods affected by its terms. It affirmed once more that decisions and recommendations of combined boards, and committees did not per se constitute waivers of White Paper requirements." (220)

Blum has argued that conditions had so changed that there was an Anglo-American consensus that the assumptions of Q.II were now based on inaccurate propositions. I can find little evidence to support this contention. In fact, the main challenge to the assumptions of Quebec did not come until December 16, with Runstedt's offensive in the Ardennes. It was only then that the fear grew that German Defeat was perhaps not just round the corner. The British wanted the export restrictions relaxed at the end of 1944, but the U.S. demurred somewhat and insisted that they were only to be relaxed on V.E.-day. Despite these growing difficulties Keynes remained optimistic, and told Dalton on November 11, that the prospects for British freedom to export looked promising.

(220) Hargreaves and Gowing, Op.Cit. p.164.

On the 17th, however, in a third re-draft of a possible Anglo-U.S. agreement, the U.S. appeared more concerned with their own export markets than the U.K.'s.

" D) The United Kingdom agrees that the sterling area dollar pool and Empire import controls should be administered with a view to increasing the freedom of importers' choices, with particular reference to reducing wartime obstacles to the access of United States exporters to their traditional export markets. The United Kingdom will undertake all steps within its power to achieve these objectives, and will endeavour to assure the provision of dollar exchange for cases mutually agreed to be particularly troublesome." (221)

At this time Roosevelt began to become even more uneasy about the British and particularly Churchill and the 'spirit of Quebec'. Roosevelt was disturbed by Churchill's attitude toward Russia and her possible penetration into central Europe, his views on the British Empire and his benevolence toward European royalty. Not only Roosevelt, but a number of other leading members of the Administration believed that Britain's policy of 'peripheral operations' in the Mediterranean had been based on political rather than strategic considerations. The political consideration was to keep the Russians as far east as possible. These beliefs, along with the innate problems of the economic outlook, began to influence Roosevelt's outlook. He was also under pressure, as we have seen from his Joint Chiefs, and as often with Roosevelt, present pressures began to alter past decisions.

"... when it came to Lend-Lease, Roosevelt acted as though he had never heard of the Quebec agreements." (222)

(221) Annex A. B. Third Draft UE2560/5/71, November 17, 1944.

(222) Blum, Op.Cit. p.320.

Even Morgenthau was somewhat disturbed by the reversal of Roosevelt's views. He tried to influence him via Leahy, perhaps not the best choice as a mediator, and a delegation of Acheson, Currie, White, and military officers, though unfortunately to no avail. Leahy told Morgenthau on November 18,

"... the President said he never promised them (i.e. the British) anything at Quebec and that we should handle this just the same as any other Lend-Lease Operation." (223)

On the same day Leahy gave an oral report on Lend-Lease to Roosevelt and on November 22, the U.S. had produced a modified version of proposals for Lend-Lease II. In it the military supplies were much the same as envisaged at Quebec, but with regard to civilian articles it was recommended that there should be no alteration in British export restrictions until V.E.-day. Keynes objected very strongly to this and pointed out the new commitments the U.S. wanted the U.K. to undertake in the Far East in regard to meat appropriations. Morgenthau was somewhat worried by this reaction and in a letter to Roosevelt dated November 25, he proposed a more flexible arrangement. He put forward figures of \$2.7B and \$2.8B for war and civilian supplies respectively, which would be supplied subject to war conditions but with no official alteration of the British export position. However, at the last Combined Committee Meeting on Lend-Lease on November 22, Crowley did say that the F.E.A. (of all institutions!!) would help administratively to alleviate Britain's export difficulties between January 1945 and V.E.-day. (224)

(223) Ibid.

(224) See CCLL, November 22, 1944, UE2561/5/71, also Hargreaves and Gowing, Op.Cit. p.164.

The pressures in London had been growing considerably to impress upon the U.S. the domestic difficulties Britain would face if alleviatory economic measures were not taken, and it was thought impossible to delay a statement on the economic issues later than November 29. (225) So with the statement from Crowley in mind the British and Americans were at last able to agree to a simultaneous statement on Lend-Lease. It was difficult to judge just how useful Crowley's promise would be especially as one of the main British aims had been to secure a high level decision from the U.S. to prevent further obstructionism from the F.E.A. bureaucrats. Nevertheless, on November 30th, Roosevelt and Churchill simultaneously issued statements. Churchill in the House of Commons said that from January 1st, 1945:-

"... we shall no longer receive shipments to this country, under Lend-Lease, of any manufactured articles for civilian use which enter into export trade, nor of many raw and semi-fabricated materials such as iron or steel and some non-ferrous metals. Consequently, in accordance with the White Paper of September, 1941, we shall then be free to export a wide range of goods made from those materials ...

... Nor, in general, shall we receive in this country under Lend-Lease, finished articles identical with those which we shall export. Such articles will be paid for by us. Where we continue to receive any raw materials, the quantities supplied under Lend-Lease are limited to our domestic consumption, for the manufacture of munitions and the maintainance of our essential war time economy. We shall pay cash for any additional supplies which we might wish to take from United States for export purposes." (226)

There appeared some divisions of opinion as to exactly what was agreed to, largely because of Crowley's unofficial pledge of help. In effect the White Paper restrictions had been maintained,

(225) See President of the Board of Trade, Chancellor of the Exchequer, Minister of Food and Foreign Secretary to Keynes, November 16, 1944. UE2186/5/71.

(226) Hansard, November 30, 1944, W.S.C. Col. 72.

with only assurances from the U.S. of a more liberal administrative interpretation to alleviate the position from the American side. Britain was to receive a further £5.5B under Lend-Lease, but the U.S. had insisted on forming a committee to compare Britain's Lend-Lease imports with her exports. This was established in May 1945 and there followed a period of wrangling over its operations, but the war ended before it was able to conclude its first report. The British export position was only relieved by Britain herself, who eliminated most of the controversial supplies from Lend-Lease. The main outcome, the greatest significance of the two years of wrangling with the U.S. over the export restrictions was that in the final analysis it was not just the lower echelons of the F.E.A. and Morgenthau's minions at the Treasury who refused to help. For in the end the hope that substantial relaxations would be forthcoming if only Roosevelt would take decisions, if only the U.S. could be fully informed of the difficulties involved, proved groundless. Roosevelt vacillated according to political pressures brought to bear, and in any case all American ministers concerned wanted concessions of one form or another from the British in return for export control relaxation, which the British felt unable to concede. The apparent changes of policy and occasionally confusion on the U.S. was not caused by the question of to relax or not to relax the restrictions, but by controversy over what should be extracted from the British in return. And so, in the end, the British had to take unilateral action to avoid the export restrictions. But, this meant that the new export drive as it stood would have to be solely generated by British resources. A situation which, as we shall see, was highly disturbing for the British. The British economy by 1945 was so run-down,

disjointed and exhausted that it was obvious that a 'home-grown recovery' was unrealistic. Some form of further help was necessary.

It was hoped that Lend-Lease would alleviate some of the problems facing the U.K., but it was fairly clear by 1945 that it could not be relied on as an overall solution as some had originally hoped. In his autobiography, Robbins wrote that the sharp cut-off of Lend-Lease in August did not come as a surprise to those familiar with the situation in Washington.

The first major cut-back in Lend-Lease came with the end of the war in Europe. After this, pressure to reduce Lend-Lease further increased, particularly from the U.S. service departments. Admiral Leahy was a strong influence on this line of pressure. He had rapidly gained the confidence of the new President, sometimes to the annoyance of other members of the administration. For example, on July 2, at a meeting chaired by Fred Vinson, Leahy ventured to advise the meeting that no further Lend-Lease should be supplied to Europe except for the prosecution of the war against Japan. Vinson was annoyed at Leahy presuming to give advice on such topics. Similar views were being expressed though by the F.E.A. and some members of the Treasury Department. Truman himself was eventually convinced and on the eve of his departure for Potsdam on July 5, issued the following order to the Chiefs of Staff.

"Approval of the issue of allied governments of Lend-Lease munitions of war and military and naval equipment will be limited to that which is to be used in the war against Japan, and it will not be used for any other purpose."
(227)

(227) Leahy, p.440, Op.Cit.

This, Leahy records, was to prove one of the most troublesome issues of the military staff meetings at Potsdam. But the U.S. representatives refused to compromise the literal meaning of the order, despite the fact that they knew the President was considering modifying it. They declaimed any ability to commit Lend-Lease for civilian purposes. In fact a slight amendment was soon made by Truman after suggestions and draftings by Stimson, McCloy and Clayton. On July 28, Truman approved the use of Lend-Lease by the occupation forces in Europe.

At Potsdam the British on the whole were unable to make much progress on the issue of economic assistance. Churchill had brought Lend-Lease II to Truman's notice as early as May 28, 1945, but had received no substantial reply. The Americans had realised that Lend-Lease would be an unavoidable topic at Potsdam so a number of briefs were prepared for the President. The Secretary of State, Jimmy Byrnes, himself, submitted an important memorandum on this to Truman at Babelsberg.⁽²²⁸⁾ In accordance with Byrnes' advice, Truman wrote to Churchill. He said that Lend-Lease would be supplied on the terms agreed during the Autumn, i.e. both military and civilian supplies for the effective prosecution of the war against Japan. The actual quantities, as agreed, must be subject to the changing strategic situation.⁽²²⁹⁾ In fact, neither Truman nor his Chiefs of Staff were desirous of a major role for the U.K. in the Far East, and this of course would mean a great reduction in Lend-Lease supplies. Truman, just to caution the British, also noted in his letter the increase in the U.K.

(228) See F.R. 1945, Vol. II, Potsdam Papers, p.1177, 'Lend-Lease: Need for Anglo-American Financial Discussions', and an attached draft reply to P.M., See Truman to W.S.C. July 17, 1945, Ibid, p.1181-2.

(229) Ibid.

gold and dollar reserves. Churchill replied on July 24th, with a touch of nice sarcasm. He was pleased to hear, he said, that the Autumn agreement still stood. Supplies of armaments had been virtually choked off by the strict application of the requirement that Lend-Lease articles were to be used in the war against the Japanese. Churchill asked Truman to take a personal interest to relieve Britain's position. He concluded with a suggestion that economic and financial talks should be under-taken in Washington in September. There followed a number of further exchanges between Truman and Churchill and later with Atlee, but despite Truman's declaration that he intended to interpret the present agreement liberally and that he intended to restructure the Lend-Lease renewal act, bureaucratic interference continued and the Lend-Lease supply line suffered consequently.⁽²³⁰⁾ The sudden end to the Japanese war made such negotiations fruitless. The question in mid-August was, would the Americans give any short-term assistance via civilian Lend-Lease in view of the premature end to the war and the relative lack of advancement in re-converting the British economy back to a peace-time basis? The victory did come as a surprise to most Americans as well as the British. For example, as late as July 19, the Combined Chiefs of Staff set November 15, 1946, as V.-J. Day.⁽²³¹⁾

Fortunately for the British, Clayton was in London during August, officially on U.N.R.R.A. business, and unofficially to organise the renewal of Anglo-U.S. economic and financial talks. On August 17, Winant reported to the Secretary of State on a meeting between British and American officials headed by Keynes and

(230) See Truman to W.S.C., July 25, p.1183, W.S.C. to Truman, July 25, Truman to W.S.C. July 29, Truman's directive to J.C.S. July 29, Atlee to Truman, July 31, pp.1183-1187, Ibid.

(231) See Winant to S.S. August 16, 1945, F.R.1945, VOL.VII.p.93.

Clayton respectively. Despite differences of opinion, it was obvious to Winant that the British wanted a quick concordat on Lend-Lease followed by a financial agreement which would not include major trade concessions. This was a line the U.S. resisted strongly. Clayton was determined that the talks should be comprehensive and part of a coherent whole.⁽²³²⁾ Still this is to anticipate somewhat. The point was that despite the lack of friction in the early stages of the discussions on the termination of Lend-Lease this was soon to be altered by Truman's abrupt cut-off of Lend-Lease.⁽²³³⁾

This abrupt termination caused great concern in the U.K., but the main point seems to have been overlooked by many writers. It was not that the British were unaware that Lend-Lease would terminate with the cessation of hostilities that caused the consternation. It was the premature ending of the hostilities. Britain's reconversion programme had been projected well into 1946, aided by Lend-Lease, for that was the time it was expected to take to finally defeat Japan. The sudden end to the war, and consequently Lend-Lease, left her high and dry in terms of plans and provisions for her economic rehabilitation. A second point on this is the argument by some that Truman did not fully realise what he was doing. This is unacceptable. He had already gone through this once before in May with Russia. The evidence, even on that occasion, clearly suggests he knew what he was doing.

(232) See Winant to S.S. Ibid. pp.99-101.

(233) See F.K. Ibid. White House Conference, August 17, Byrnes, Vinson, Crowley, Leahy, Snyder and Truman, decision to terminate Lend-Lease taken. Brown, Chief of State Dept. Division on Commercial Policy to Hawkins in London, August 19, 1945, p.105, Ibid., Byrnes to Clayton, August 20, refers to an amendment suggested by Clayton that countries without 3c agreements, e.g. U.K., may obtain goods for payment "on terms to be mutually agreed on." : Crowley circular to U.S. diplomatic missions, August 20, 1945, on Lend-Lease, Ibid. pp.107-8.

The only mistake was made by administrators who turned back shipments for Russia in mid-ocean. (234) So as far as the August 21, announcement of Lend-Lease termination is concerned, there can be little doubt after the experiences of April that Truman was aware of the likely consequences and reactions. (235) Harrod tries to apologise for Truman's actions by pointing out that both Clayton and Acheson were absent from Washington when the decision was made. Harrod refers to Clayton expressing annoyance over the phone, but one suspects this was more over the abrupt method of termination and the fact that the U.S. Executive had overlooked the fact that the U.K. had no 3c. agreement to allow her to receive further deliveries than to the substance of the decision itself. What Harrod does not point out, nor Gardner, was that both Acheson's and Clayton's superiors were at the meeting which decided to terminate Lend-Lease, i.e. Byrnes and Vinson. In addition to this, pressure had been building up for some time to cut down Lend-Lease, as we have already seen. Even Stimson, who was convinced the U.S. would have to help rehabilitate the U.K. economy, did not believe Lend-Lease was the way to do it. (236) Other members of the Administration held similar views though for different reasons. Even Clayton, as we shall see, on a number of occasions insisted that American assistance must be complemented

(234) For evidence of Truman's awareness in May see Grew Papers:- Memo of telephone conversation with Crowley May 11, and other references given in 'Origins of the Cold War', B.J. Bernstein, in "20th Century America, Recent Interpretations", Edited by Bernstein and Matusow, Harcourt, Brace, Jovanovich, N.Y. 1972, p.362, footnotes.

(235) N.B. Wheeler-Bennett, Op.Cit. p.561, confuses the May 11, termination of Lend-Lease to Russia, who with the surrender of Germany ceased to be a co-belligerent, with the August 21, termination which affected Britain most.

(236) Stimson, Op.Cit. p.345, October 13, 1944, diary entry.

with concessions from the British and obviously the continuation of Lend-Lease would make this more difficult to negotiate.

Finally we come to the third point. This is the idea that the U.S. could not have continued Lend-Lease even if it had been in her policy interests to do so.

"The American Government made two major exceptions to the policy of shutting off Lend-Lease with V-J day. The economy of China was as chaotic as was her political and military condition. To expect repayment for any American aid provided to the Chinese Government was, under the circumstances, an absurdity; yet not to help Chiang Kai-shek would open the path to the Communists in the North and would hinder the disarmament and repatriation of Japanese troops located in China. Consequently, the American Government decided to continue Lend-Lease aid to China, and in fact the total value of supplies and services provided to the Chinese after V-J day was almost equal to all Lend-Lease deliveries made during the war. It was not until 30 June 1946 that Lend-Lease to China was stopped and a 'pipe-line' credit substituted to finance still further deliveries." (237)

So much for the impossibility of continuing Lend-Lease.

In fact the Americans did not want to settle in the context of Lend-Lease. Churchill was right when he complained in Parliament over the swift axing of Lend-Lease, this was not as he was sure, to be the last word from the Americans. (238) Indeed it was not. A new urgency was given to the talks that had been proposed for September and it is to these negotiations that we must look to see what the American policies and intentions really were.

(237) 'Survey of International Affairs 1939-46, America, Britain and Russia - Their Cooperation and Conflict 1941-46', W.H.McNeill, R.I.I.A. O.U.P. 1953, London, p.675.

(238) See Hansard, August 1945.

'THE INTEREST AND THE SENTIMENT'

"Politicians neither love nor hate.
Interest, not sentiment, governs
them."

Lord Chesterfield.

The year 1944 witnessed developments that were received with a mixture of anxiety and relief in the U.K. Britain's lone stand between June 22 1940 to June 22 1941, was now bearing fruit in the field of war against the Axis. By the closing months of 1944, despite Runstedt's tour de force in the Ardennes, victory now seemed assured. Memories of the disasters in Singapore, Dunkirk and Crete; the loss of naval prestige with the sinking of 'Repulse' and 'The Prince of Wales' were beginning to fade in the face of more immediate successes in the air and in Western France. Britain's sovereignty had been maintained intact. At the same time there was a clear realisation that Britain's power vis-a-vis her two great allies, had diminished greatly during the war. For the first time, in 1944, the U.S. had more men in the field than the combined forces of the British Empire. Secondly, Britain was now acutely aware of her economic weakness and the problems she would have to overcome to regenerate prosperity and stability.

The unavoidable concomitant of Britain's success in war was massive expenditure on arms and supplies. The British desperately hoped that they would be able to solve their enormous economic problems with the financial and commercial assistance of the U.S., though this hope was being placed in an increasingly precarious position by the development of friction between the two countries. It would be a sad irony indeed if success in one

field of endeavour, that of war, was to be accompanied by a failing in a no less important sphere, that of economics.

As we have already seen, there had been continuous differences between the two countries over the war-time commercial and monetary problems, as well as over-planning for the post war period. In addition to this, there were other more specific problems, one of which has been considered briefly, the international trade of cereals. There were a number of other specific issues, which although too specific in nature to be included in detail in a thesis of this nature, do require a mention. They reflect in a specific and concrete way the differences between the two countries' economic and commercial policies, and are particularly important to bear in mind when the final phases of the post-war planning are considered.

First of all, it should be remembered that these differences in 1944 occurred against the backcloth of impasse in the commercial talks and divergent views on strategy between the U.S. and the U.K. for the European war.⁽¹⁾ One of the most persistent thorns in Anglo-American relations was Britain's close ties with Argentina and her dependence upon meat supplies therefrom. The U.S. resented this British influence in Latin America, which they regarded as a preserve for American diplomacy and commercial and investment opportunities. Indeed by 1944, the U.S. had taken over most of Britain's former trade with Latin America which had consisted of 40% of total pre-war world exports to that area. An export market Britain was never to recover; in 1948 it only had 8% of the market. Despite this usurpation of Britain's

(1) See Bryant 'Triumph in the West': and Lowenstein et al, Op.Cit. Docs. 399, 400, for the disagreements over 'Anvil' June-July 1944.

commercial role in Latin-America and U.K. reliance on Argentinian beef, the U.S. continuously pressed Britain to adopt a more aggressive attitude toward this pro-Axis country. There was political sense in this, but at the same time, many people in the U.K. believed that it was not purely coincidental that any break with Argentina would make the U.K. more dependent upon U.S. agricultural surpluses and open Argentina up for U.S. commercial penetration.

In early 1944 two things occurred in rapid succession. On January 26, Argentina finally broke diplomatic relations with the Axis countries and in February, Peron over-threw the government and General Farrell was installed as the 'puppet' President. Cordell Hull, in particular, took a very dim view of Peron and the political climate in Argentina. Intense pressures were exerted on Britain to provide a united front against the new regime. At first these were resisted or compromises made by the British to try to safeguard the pending renewal of long term beef contracts. Hull was determined to exert diplomatic pressure on Argentina via the U.K., thus in order to weaken Britain's links with Argentina, and partly because of economic dogma, Hull persuaded Roosevelt to express strong opposition to the renewal of long term meat contracts to Churchill at Quebec. In the face of such strong pressure, the British became fearful of endangering possibilities of future American financial assistance and on October 13, Churchill ordered that no more long term contracts were to be concluded for the time being.

A second area of severe and persistent conflict concerned Middle East oil supplies. This was an area of pre-war domination by the U.K. During the war, however, the U.S. became increasingly concerned with the rapid depletion of her domestic reserves. In July 1943, Harold Ickes was appointed head of The Petroleum Reserves Corporation, and he deployed his talents to expand American interest and control of foreign oil reserves. At the Teheran Conference, General Hurley had successfully engineered the 'Three Power Declaration on Iran,' which he saw as a step toward loosening Britain's monopoly rights over Persian Oil.⁽²⁾ Hurley was one of many Americans who resented Britain's Middle East influence and this partly accounts for the vitriolic reaction of the U.S. in the following year over Saudi Arabia. This was one area where the U.S. did have major oil concessions and they objected to what they perceived as the attempt by the British to bolster their political influence in that country.⁽³⁾

- (3) See Engler, Op.Cit. See Kolko pp 294-311. There were two unsuccessful attempts to reach agreement on oil as an international commodity, July 25-August 3, 1944. F.R.1944, 3, p.119 ff. - Jan. 19, 1945 F.D.R. withdrew agreement. See also A.J.P.Taylor, 'Beaverbrook pp.556-57. Conflict over M.E. Oil was to occur after the war as well. For the Mossadegh, 1951, Iranian Crisis, see Engler pp 202-7. For another crisis less well known and documented, see N.Y. Times, Dec.20,1949, Dec.21,1949, Daily Telegraph, Dec.23,1949, Daily Worker, Dec.23,1949, Financial Times, Dec.24,1949, Manchester Guardian, Dec.29,1949, News Chronicle, Jan.7,1950, N.Y.Times, Feb.1,1950 and Feb. 2, Daily Telegraph, Feb.6, 1950, Scotsman, Feb.7,1950, Financial Times, Feb.8,1950. Evening Standard, Feb.9,1950, N.Y.Times, Feb.13,1951. Basically Britain attempted to reduce her purchases of dollar oil by buying Sterling Area oil and asking Commonwealth and Empire to do likewise. Also U.S.oil companies working in U.K. would have their dollar expenditures tightly controlled. The American reaction varied from Tom Connally's denouncement of it as an act of economic war, and suggestions that Marshall Aid should be axed, to the 'Washington Post' simply criticising the U.K. for not consulting the U.S. before taking the action. The problem was resolved in 1951 by U.S. companies agreeing to reduce the dollar content of their oil from 75% to the British Companies' level of 30%.

The third area was that of civil aviation. During the war there had been an informal agreement that the U.K. would concentrate on the development of fighter planes and the U.S. on bombers. (4) Obviously in a free for all post-war competition in civil aviation, the U.S. was going to be in a far better position than the U.K. in terms of the technology requirements for large civil aircraft. Despite this, the U.S. still wished to gain landing rights and bases throughout the British Empire and gain access to the aviation markets there. During late 1944 and early 1945, extensive talks were conducted between the U.S. and the U.K. Beaverbrook who also negotiated with Ickes on the oil issue, was now negotiating with A.A. Berle on the aviation one. Fortunately for the U.K., Beaverbrook was most skilled in these types of talks and was little disposed to giving any ground to increase the American advantage in this field. The British knew full well that the expansion of Juan Trippe's Pan Am. in the thirties in South America had not been achieved on grounds of normal competitive free enterprise criteria. Non-commercial, i.e. government backing, had been responsible, or at least aided Pan Am. to establish its virtual monopoly of inter-nation services. Yet here, a few years later, Berle was demanding concessions from the British based on the argument of free non-discriminatory non-subsidised competition. This, in itself, as a principle, was not objectionable, but in its application it would surely contravene another informal agreement that neither the U.S. nor the U.K. was to take commercial advantage of the other country's circumstances brought about by war.

(4) See W.S.C. to F.D.R., Nov. 28, 1944. F.R. of U.S. Dip. Papers, 1944, Vol. II, p. 590.

This is exactly what the Americans seemed determined to do even by going to the lengths of secretly negotiating with Eire landing rights in the Eastern Atlantic. (5)

By late 1944, the position on commercial talks with the U.S. was being reassessed by the British. Already, earlier in the year, Anderson had questioned some of the premises and judgements on which the decision to abandon talks with the U.S. had been taken. By the end of the year the main strategic crisis of the war, as far as Anglo-American forces were concerned, was over. There were now less substantial grounds on which to resist American pressures for renewal. Simultaneously it appeared that a more sympathetic attitude was discernible, certainly from some members of the State Department. The recurrent problem dealing with the U.S. of a lack of consistency through the administration still remained though, to complicate British policies and assessments. For example, in the Summer/Autumn of 1944, there were strong disagreements between Acheson and Morgenthau over whether the U.S. should pay a higher percentage of the European relief bill while still leaving the U.K. with the same amount of political influence in the liberated countries. Morgenthau opposed this on the grounds that the U.S. was already in effect footing most of Britain's relief expenditure via Lend-Lease. He was also reluctant to see Britain increase or even retain the amount of influence she had exerted in Italy, resulting in what he considered to be an objectionably rightist and reactionary administration.

(5) See Lowenstein, Ed. Op.Cit., Docs. 478, 509, 468, 470, 507, 516, Nov.1944-March 1945: also A.J.P.Taylor 'Beaverbrook', pp 556-557. See also Gardner, L.C. Economic Aspects of New Deal Diplomacy, Beacon Press, Boston 1964, p.62.

While Morgenthau's stinginess won out here, though obviously politically motivated, he was to lose out a few months later in January 1945 with his proposal to offer immediately the U.S.S.R. \$10B in post war credits, a proposal that was quashed by the State Department. So, although there were encouraging signs from some members of the State Department, these were obviously qualified by the known dispositions of other members of the U.S. administration and the differences that existed therein.

On December 4, Magowan reported to Liesching on views expressed by Leo Pasvolsky in a recent conversation. Pasvolsky had indicated that he thought it had been a mistake to consider the establishment of a multilateral trade convention in a rather idealistic fashion and that a further mistake had been not to place primary emphasis on agreement for the transition provisions, which he now considered essential.⁽⁶⁾ This was very palatable news for the British and welcomed as a possible opening. Britain herself was desirous of a solution to the commercial problems and was also being pressed by parts of the Empire, and Canada in particular, for an economic modus vivendi with the U.S. These were very important considerations, and after all things were not uniformly gloomy, the Bretton Woods Conference had been concluded with, prima facie, satisfactory results. Now, perhaps, was the time to roll the dice on complementary economic issues. Secondly, the British now believed they had proposals which would be more acceptable to the U.S. on agricultural policy, which had been the cause of deadlock in 1943. It was true that this had acted as a focal point for opposing the talks for preferentialists,

(6) See Magowan to Liesching, 4/12/44, UE79/79/53.

imperialists, socialists and anti-Americans. Nevertheless, the possibility of solving the agricultural deadlock led to some optimism and hopes for resuming the talks on a satisfactory basis. Consequently, toward the end of 1944, after preliminary moves in the Summer, Harry Hawkins led a small band of negotiators to the American Embassy in London to renew commercial talks with the British on an informal level.

The initial impressions gained from Hawkins by the British were hopeful and optimistic. (7) Hawkins indicated that there were great pressures in the U.S. for a successful commercial convention on a world or regional basis. Even the bankers who had opposed the I.M.F. now saw such a convention as a means of making the I.M.F. workable. Hawkins further added that he was:-

"... recommending the United States Administration to propose legislation to Congress in February ... for powers to reduce the American tariff, drawn on such a wide scale and in such general terms that under it the Administration would in fact be able to implement any multilateral Convention of the kind which had been under discussion." (8)

In retrospect it is possible to see that statements such as this were to raise false hopes among the British. We shall soon see the lack of enthusiasm for across the board tariff reductions among the administration and slightly later from the new President. It is conceivable that Hawkins did not fully understand the situation, i.e. the significance of the difference between a 50% across the board reduction and the 50% reduction which was later in the year made possible under R.T.A.A. legislation.

(7) The main negotiators in these talks were: U.S.—Hawkins, Penrose and Lloyd Steere; U.K. Robbins, Eady, Liesching.

(8) Conversation with Robbins and Marcus Flemming, dated 1.1.45, from conversation of preceding Friday, UE224/113/53.

Keynes had expressed doubts about his commercial understanding during the abortive supplementary trade agreement talks earlier in the war; also he was to change strangely to obdurate dogmatism later in the year on commercial talks. However, this remains rather speculative, the main reason for the difference between British perceptions of American intentions and what was eventually to come about in the Summer was the realisation that America did not need to concede 'an across the board reduction policy' to the U.K. in order to gain the concessions she needed from Britain. The move toward this position which had already begun in the U.S. by January 1945, had not been communicated to Hawkins, and this accounts for the proposals he made.

Even at this time, however, the British did evince some caution for they were not fully sure of Hawkins' authority, nor of his knowledge of American policy. It was not known, for example, if Roosevelt was aware of the renewal of informal talks. Still, the British grappled with the verbal outline of the American draft of an I.T.O. which Hawkins had given and raised some objections to it on January 3, at the fifth meeting of the talks. The British were apparently to reduce tariffs and preferences, eventually abolishing the latter, and abolish all but a few quantitative regulations. In addition they were concerned over the uncertain provisions for the protection of infant industries which could have dire effects on the emerging Empire industries. In return, the Americans were simply to commit themselves to lowering tariffs and not to impose quotas. Certain escape clauses were also offered to the British as amelioratives. British reaction to these proposals and their counter suggestions immediately caused some worry. On the

following day, Winant cabled the Secretary of State in Washington that the British appeared to have moved away from their position in the Washington talks and that this was:-

"... likely to create serious obstacles ..." (9)

In fact Washington was not much perturbed by this, nor did they consider it a significant shift from the Washington Talks.⁽¹⁰⁾ Nevertheless, other problems were soon to arise.

On January 8, at the 7th meeting, the British questioned the propriety of introducing a clause on exchange restrictions, an area which they thought had been fully covered by Bretton Woods. Not only was the propriety in question, but American motives. Article XX(1) only provided for a five year transition period during which exchange restrictions could be maintained, whereas Article XIV(2) of Bretton Woods was more flexible and allowed restrictions to be maintained beyond this time under certain circumstances. The Americans were further placing in question the possibility, under XIX(2) of Bretton Woods, of continuing sterling arrangements to allow further accumulation of sterling balances for import purposes by Article XX(2).⁽¹¹⁾ These factors were not only disturbing in themselves, but also, in the way that they reflected an objectionable U.S.view on the transition period. These objections were in turn disturbing to Hawkins who realised that the British still meant to utilise the sterling arrangements to aid their economic recovery if it was deemed necessary. A policy the Americans strongly wished to prevent, particularly the possible further growth of sterling balances. Britain had

(9) Winant to S.S. January 4, 1945, F.R. 1945, Vol. VII, pp. 1-3.

(10) See State Dept. Instruction Jan. 19th, 1945, footnote 12, p. 3, Ibid.

(11) See Resume of 7th meeting, Hawkins/Liesching Talks, January 8, 1945, UE113-115/113/53.

managed to retain sovereign control over these balances at Bretton Woods, with American acquiescence and although she was prepared to have further talks on monetary discrimination, they were not to be in the context of the I.M.F. or the I.T.O. (12)

The optimism of the preliminary overtures in the talks was already being undermined; but it is perhaps fair to say that the dissonant chords were struck first by the U.S. Despite a certain dubiety concerning the efficiency of communications between Hawkins' group and developments in the U.S., the motivation behind some of the more objectionable points in the U.S. draft I.T.O. may be traced to policy considerations and shifts in Washington. United Kingdom representatives in Washington were not kept informed of the developments in the Hawkins-Liesching talks and so it is interesting to compare their views of commercial policies the U.S. might support, unbiased by the talks in London. First of all, one of the most significant developments was the appointment of William L. Clayton, in December 1944, as Assistant Secretary of State in charge of economic affairs. The President had promised a post-war target of 60 million jobs; it was Clayton's job to further this goal in the international economic sphere. (13)

(12) See 8th meeting Jan. 11th, UE278/113/53.

(13) See Coulson to Ronald and Hall-Patch, January 9, 1945, UE155/113/53; W.L. Clayton Assis. S.S. 1944-October 1947. Previously in Federal Loan Agency, Senior representative at 'Hot Springs Conference'. He held similar views to Hull, favoured vigorous laissez-faire, and believed in the need for U.S. to expand economically on international basis, by political pressures, if necessary. See Speech on Econ. Requirements of the Peace, before House Ways and Means Cmte. April, 18, 1945. DOSB, April 12, 1945, pp 752-7, and Selected Papers of Will Clayton, Ed. F.J. Dobney, John Hopkins Press, Baltimore and London, 1971, p.84.

Secondly, despite the fact that the State Department in Washington now favoured a concentration on the transitional problems and had moved away from their old line of approach,⁽¹⁴⁾ they were also urging a renewal of the full spectrum of Article VII talks. This again was avoiding the specific substantial problems emerging in London from the draft I.T.O. Thus Eady could hold most encouraging talks with Harry Hopkins on the general nature of economic problems and Acheson could, as he did on January 5th, specify two general crucial questions:-

"How to solve the United Kingdom balance of payments problems, which the Americans regard as of crucial importance, and (2) What could be done to ensure the kind of action during the transition period in the sphere of commercial policy that would lead us all in the direction of our long run objectives." (15)

This again was all quite encouraging to the British. But then there had never been much difference in the ultimate goals in the post-war international-economic field. Both countries wanted the expansion of world trade, freer trade and stable exchange rates. The differences arose as to how to achieve this. True enough, the Americans now seemed to admit of the necessity and the importance of a transitional period as indeed they had been forced to in the Bretton Woods Agreement. On the other hand, their ideas of the transition period in its details varied from the British point of view. As we have already seen above, the main controversy arising in London with Hawkins was over I.T.O. encroaching on the authority of the I.M.F. and in fact attempting to modify, in America's favour, some of the transitional provisions

(14) See Coulson to Ronald and Hall Patch, January 9, quoted in full above.

(15) Washington to F.O., January 10, 1945, UE170/113/53.

of the I.M.F. The optimism from the British in Washington was largely because of the generality of the talks; they were not shown the details of the draft convention Hawkins had taken to London. Nevertheless, indicators such as Clayton's views and Roosevelt's employment aims could perhaps have been seen as modifiers of any optimistic assessments. R.S.Hudson, for example, in Washington at this time, had encouraging talks with Pasvolsky and Clayton who evinced great sympathy for U.K. economic problems and appeared to regard the difficulties of the 1943 document, which resulted from the Law Mission, as less intractable than had been judged at the time in England. Nevertheless, Hudson concluded that as far as even the transition period is concerned,

"... it is not going to be easy to get them to swallow quantitative regulation of imports ..." (16)

which was really the crucial issue for the maintainance of British agriculture in any vital form, whether it was dressed up and expressed in terms of balance of payments problems or not. Still, let us now have a closer look at the Hawkins/Liesching talks up to the conclusion of the first stage.

If one uses a mathematical analogy, then the two main plusses for the British were American proposals on tariff reduction and the reception given to U.K. proposals on food-stuffs.

First of all tariffs. Lionel Robbins in his report on the Commercial Talks, dated January 29, 1945, expressed the opinion that the Americans were genuinely trying to meet British

(16) Notes by Hudson of a dinner at the Washington Embassy, dated January 11, 1945, UE253/113/53.

difficulties. For example:-

"The present American proposal in regard to tariffs is a 50 per cent cut all round. We naturally have maintained an attitude of the greatest reserve in this respect, and indeed, have indicated that the view might be taken that the United States, at any rate, as a high tariff country, could be expected to go further than this. But in fact of course, if this really is the intention of the Administration, it is something very sensational indeed."
(17)

For the British, the proposal expressed a qualitatively different approach on the part of the Americans. Even on British Imperial Preference the Americans, as Robbins put it, no longer regarded its abolition in terms of the 'exorcism of ultimate evil'. Their whole approach on tariffs and preferences was much more acceptable.

Secondly, foodstuffs. This had been prima facie, the stumbling block of the 1943 talks. Since then, the British had developed more sophisticated proposals on the food issue, based on a memorandum by Anderson⁽¹⁸⁾ later modified by the War Cabinet, on November 22⁽¹⁹⁾, with percentages and figures later inserted⁽²⁰⁾ though these were not disclosed to the Americans in the talks. Britain had two primary concerns in this area. The first was to protect her domestic agrarian industry against competition from low cost producers or subsidised agricultural imports. Secondly, she wanted to be assured, as the main world importer of foodstuffs, of reliable sources and cheap produce. So measures had to be devised to prevent the debilitation of British Agriculture by foreign competition and means of regulating the supply and stabilising prices of overseas products imported into the U.K.

(17) Robbins Report on Commercial Talks, January 29, 1945, UE/196/113/53.

(18) WP(44)61.

(19) WP(44)153.

(20) WP(44)661.

Subsidies and tariffs were judged inadequate to this task. The general lines of the British proposals were:

- (1) No protection which raises domestic prices to $x\%$ above international price, judged on a moving average over a number of years.
- (2) If a country's production of certain foodstuffs exceeded $y\%$ calculated as a moving average over a number of years then steps should be taken to reduce protection or financial (i.e. sub.) assistance.
- (3) Financial subsidies on specific products, e.g. eggs, milk, not for drainage or lime.

Exceptions under (1) and (2) would be allowed on nutritional grounds, agricultural diversification and for balance of payment reasons. The principle of non-discrimination would be accepted subject to the amount of Imperial Preference allowed under I.T.O. (21)

Hawkins and Lloyd Steere, (the agriculture attache at the U.S. Embassy in London) reacted to these proposals in a subdued manner. They indicated a number of problems with the proposals particularly the abstractions x' and y' for concrete protection figures and the difficulty this would involve for the Administration in making a clear judgement on the proposals. Still, on the whole, as Robbins commented:-

"... , their reception of the general idea was much more favourable than any of us had ventured to hope." (22)

So, the Americans on two key issues now seemed more amenable to British needs and proposals and their general approach appeared more sympathetic. However, even at this stage there were a considerable number of substantial differences between the two.

(21) See WP(45)97, Feb.24,1945, U.S.Draft Commercial Convention and comments by Chancellor of Exchequer UE935/113/53, pp 15-17.

(22) Robbins report on Commercial Talks, Jan. 29, 1945, UE/196/113/53.

The American proposals on preferences, despite their apparently changed attitudes, were still most unpalatable to the British. The Americans suggested

- (1) where preference free entry existed margins should be halved,
- (2) where the preference margin exceeds half the general duty a certain part of it would remain,
- (3) where preference margin is half or less than half, the general duty, the preference should be abolished,
- (4) preferences immune if no tariff alteration because of 10% floor.
- (5) all residual preferences to be reduced to a negotiated level,
- (6) where 1939 aggregate import levels from countries enjoying preferences was less than 5% of total imports of that product - preferences were to be abolished.

The British considered (5) and (6) to be unacceptable and incommensurate with American offers on tariffs. As for 1 - 4 they realised that reductions of preferences would have to be made somewhat on these lines if any progress was to be made with the U.S. but they considered the extant proposals went too far. For example, if there was to be a 10% ad valorem floor for tariffs why not a 5% floor for preference margins?

Another point closely related to the tariff preference issues was the introduction of a clause that looked remarkably like an escape clause for the U.S. on the tariff question. Special quota restrictions were to be allowed to operate if tariff reductions caused increased exports of a certain good such that it was destroying the domestic industrial production of that good. This was to be a unilaterally decided issue for five years and then applicable after consultation with the countries involved and

approval of the I.T.O. This really boiled the position down to the crucial question:-

"Does the United States want more imports?" (23)

There were also differences over three other practical trade issues. The American ideas on state trading seemed to discriminate against Britain's position as a mixed economy as opposed to Russia. The Americans were beginning to apply pressure on Britain to dispense with long term bulk purchases which were often of vital importance to the U.K., for example, the Argentine beef contracts. And thirdly, America's position on export subsidies seemed somewhat ambivalent for although they called for their abolition, they in fact exercised such practices themselves notably for cotton.

The U.S.'s definition of a Customs' Union, with the necessary condition that the two countries should have a common tariff frontier, was yet another peculiarity which would cause the U.K. difficulties with members of the commonwealth and Empire. To compound the problems of Britain's relations with the Commonwealth and Empire further, the U.S. had proposed something again most unusual. It was not left to sovereign authority to decide whether to extend the benefits of the commercial convention to non-members or not. Members were explicitly prohibited from doing so. Again, a provision which could cause the U.K. acute embarrassment and economic inconvenience in terms of the Empire. Finally, we come to one of the most contentious issues, the encroachment by the I.T.O. upon the authoritative area of the I.M.F. The Americans, as noted above, were proposing to modify the I.M.F. arrangements and take action over Britain's accumulated

(23) WP(45)97, quoted in full above, UE935/113/53.

sterling balances. The Americans now wanted to

- (1) Restrict the period of exchange controls to an unconditional maximum of 5 years.
- (2) They wanted to give the I.T.O. authority over the problem of blocked balances.
- (3) If exchange controls were to be used in the transition period they were now to be non-discriminatory.

In view of the enormity of the balances, the British considered that they would have to be gradually liquidated, and probably in such a fashion as not to create convertible currency. There was also the problem of Britain's import position at the war's end which would be most delicate. It might be necessary to import from Sterling Area countries on a similar basis as during the war; i.e. continuing to accumulate sterling balances.

"In these circumstances we could not possibly observe any rigid rule of non-discrimination as regards the liquidation of the so-called "blocked sterling balances", nor a requirement that we must not in future build up any fresh blocked balances. These consequences flowed inevitably from the facts of our position, which was not paralleled by that of any other country." (24)

The problems of commercial policy were thus far from resolved. The advances made on tariff reductions and agricultural foodstuffs was encouraging as was Hawkins' affability and expressed optimism. But the substantial conflict of interests was still basically there, and witnessed to perhaps most acutely in the introduction of the exchange control proposals. Indeed, as we shall see, they were to be a sinister foretaste of American policy ploys to come.

In late January positive danger signals began to come from Washington. Hudson reported a hardening of the views of Clayton and Pasvolsky at a luncheon on the 26th. In fact the two Americans

(24) Ibid.

ruled out of court post-war quantitative protection of British agriculture.⁽²⁵⁾ On the 29th, Halifax contributed a warning by informing the F.O. that opinion in the State Department was no longer uniformly, or solidly in favour of the draft multilateral convention. In fact he was worried that Hawkins might be out of line with the prevailing views in Washington, which had changed considerably since Hawkins had left for London.⁽²⁶⁾ In fact, by February, serious doubts were arising among British ministers. It was now clear that the U.S. wished to resume full-scale Article VII talks. This caution was reflected in a letter to Churchill immediately before the Yalta meeting, from Atlee and Anderson. Atlee in particular was concerned with the news of recent trends and suggested that a delay should be engineered to allow Sir H. Hopkins, newly appointed to the Washington Embassy Mission, to report on Washington's reactions to the Hawkins-Liesching talks.⁽²⁷⁾ Only two days later at Yalta, Stettinius reminded F.D.R. of the pause in Article VII talks and Roosevelt then formally wrote to W.S.C. suggesting that Britain should appoint a new high level committee to resume the talks, with a minister in charge. Churchill was in somewhat of a quandary and pondered the problem for a number of days. In the end he accepted the advice of his ministers and prevaricated; the resumption was to be further delayed.⁽²⁸⁾ This response by Churchill was received very ill in Washington. Shortly after the official view was expressed in the D.O.S.B., which warned that if the British

(25) See Memo on the luncheon, Jan. 26th, 1945. UE 859/113/53.

(26) Halifax to F.O. Jan. 31, 1945, UE 517/113/53.

(27) See Deputy P.M. and Chancellor of Exchequer to P.M. Feb. 2, 1945, UE 656/113/53.

(28) See Kolko, Op.Cit. p.488 and P.M. to Deputy P.M. and Chancellor of the Exchequer, Feb. 11, 1945, UE 656/113/53, and W.S.C. to F.D.R. Feb. 13, 1945, UE 860/113/53.

insisted on maintaining bilateral controls:-

"This is a game that two can play, and the natural reaction of many is that the American answer to such a threat should be higher tariffs against British goods and perhaps some exclusive trading arrangements of our own." (29)

In February, Hawkins returned to the U.S. and although he returned to London in March, was soon recalled once again so that talks were only resumed on his second return in April. Hawkins then told the British that both Stettinius and Clayton favoured a multilateral commercial policy agreement and wanted an early conference. (30) This was good news indeed if the Americans were going to proceed on the bases of the preliminary Hawkins-Liesching talks. The informal talks were renewed on April 18, though now there were new questions hanging over the discussions, for on the 12th, F.D.R. had died to be succeeded by the largely unknown quantity of H.S.Truman. The talks once again were slowed down and little effectual progress was made during the following weeks.

On the other side of the Atlantic, however, hearings were beginning on the proposals to extend the R.T.A.A., and in fact liberalise its provisions to allow 50% cuts on existing tariffs within the existing legislative structure. (31) At first sight this appeared favourable to British interests, but in fact the bill was to prove to be one of the turning points in Britain's negotiating fortunes with the U.S. First of all, the Administration gave an assurance to Congress that in all future trade agreements an escape clause would be insisted upon to protect domestic producers, a proposal that had already caused the British

(29) D.O.S.B. XII, 1945, Quoted in Kolko, Op.Cit. p.488.

(30) Memo, Hawkins-Liesching talks, April 7, 1945, UE 1565/113/53.

(31) The Doughton Bill.

consternation when introduced into the Hawkins-Liesching talks. (32)
Secondly, and most damning, was the adoption of the following line,
here expressed by Stettinius, that the new act would:-

"... work no fundamental change in the principle of the existing law, nor will it change in any way the administration of the law as it was established by the Congress in 1934. It was the intention of the Congress in the original law that trade agreements should be employed to expand our foreign trade by a process of hard-headed and business-like bargaining. The Act has been administered in strict accord with this purpose, and it will continue to be administered in that way." (33)

Indeed, Truman himself, in support of the Doughton Bill, stated that this would be America's policy in the future. (34)
It is difficult to assess just how far Truman's influence affected U.S. stance on this issue. Charles L. Mee, in his book on the Potsdam Conference indicates that Truman was wary and somewhat distant with the State Department professionals, so it is somewhat unclear just how close an appreciation he had of the issue. He was certainly never over-sympathetic to Britain's financial quandary (35) and evidence from the Potsdam Conference indicates his unwillingness to embark on novel lines of action

(32) See U.S. Congress, Cmte. on Ways and Means, Foreign Trade Agreements, Report to accompany H.R. 3242, House Report, 594, 79th Cong; 1st Sess. 1945, p.9.

(33) U.S. Congress, House Committee on Ways and Means, 1945, Extension of the Reciprocal Trade Agreements Act, Hearings on H.R. 2652, superceded by H.R. 3240, 79th Congress; 1st Sess. (April-May 1945), p.10.

(34) For substantiating quote see below.

(35) See Mee pp.112-113, Charles L. Mee, 'Meeting at Potsdam', Andre Deutsch, London, 1975.

before the end of hostilities with Japan, when things would be clearer and the U.S. position, particularly as the possessor of the Atomic Bomb, would also be clear for all to see. In Truman's briefing book at Potsdam, was entered:-

"It seems clear that it would be desirable to avoid the convocation of a full-fledged peace conference to deal with the major political problems that have arisen as a result of the termination of the war in Europe." (36)

However, as we shall see, the decision not to embark upon 'across the board tariff reductions' emanated more from the State Department than from Truman, though he undoubtedly gave his full support to this. R.N.Gardner on this, writes that it was in the Winter of 1944-45 that the Administration rejected the idea of an across the board tariff-reduction policy because Congressional soundings instigated as a result of the Hawkins-Liesching talks brought unfavourable reactions to such proposals.⁽³⁷⁾ Although, he does not specifically state that the British were informed of this at that time the narrative certainly implies it. In fact, on April 28, Clayton wrote to Hawkins telling him that the executive policy was to be in line with the Doughton Bill. There were no provisions for across-the-board reductions, and even if there were:-

"... there are serious objections and difficulties of a technical and policy nature to such a policy." (38)

It should be noted here that Clayton makes no specific references to Congressional objections which were the reasons later given to the British for dropping this line of approach. And yet, despite the above memorandum, it would appear that it was not until

(36) Mee, Op.Cit. p.21.

(37) See Gardner, Op.Cit. p.151.

(38) Clayton to Hawkins, Memo, April 28, 1945, F.R.1945, Vol. VII, p.45.

another three months had passed that the British were told categorically that this line of approach would have to be abandoned.

"Mr. Clayton on his arrival made it quite clear that the pledges which were given by President Truman during the debate on the Doughton Bill commit the Administration to selective tariff reductions by bilateral treaties after the pattern of the pre-war procedures." (39)

This was a severe setback for British hopes. The Americans were well aware of this, but disclaimed direct responsibility by insisting that although across the board tariff reductions were preferable, they would not be acceptable to Congress. Gardner accepts this apologia largely on its face value, and indicates the problems the Administration experienced with Congress in implementing the Doughton Bill. He goes on to lay the blame for the difficulties in tariff policy not on American conservatism but on Clayton's over-optimistic view of Britain's reaction to the 50% selective reduction clause in the Doughton Bill. However, one cannot help but feel that Clayton's optimism concerning future British actions was not so much determined by considerations of the Doughton Bill and its effect, but rather by the knowledge of other types of pressures the U.S. could exert on the British to bring them into line with U.S. policy. As for Clayton's defence of the Doughton Bill in Congress was concerned, he was so inept at times that one wonders whether it was not contrived so that the Administration could point to the difficulties of the bill's passage as evidence that a bill incorporating 'an across the board reduction clause' would stand no chance of acceptance.

(39) See CP(45)116, p.3. Memo by Pres.B.of T. R.S.Cripps, Art.VII of the Mutual Aid Agreement: Commercial Policy, August 16, 1945, UE 3692/113/53. N.B. Clayton arrived in London officially for UNRRA talks but unofficially, also to get Art. VII talks off the ground.

In House Hearings:-

"Mr. Knudson: 'My attention has been called to a statement by Mr. Churchill that they would no more change Imperial Preference than we would abolish the tariff. How about that?'"

This was indeed a pertinent question and really required a lengthy elaborate explanation in reply and an elucidation of some of the problems involved and of what progress had been made toward their solution, particularly in regard to general commitments already gained from Britain. However, all Clayton mustered in reply was:-

"Mr. Clayton: 'Well, wise men often change their mind'." (40)

This was hardly a competent way to prepare the ground for an even more liberal approach than the Doughton Bill, so much so that one is led to suspect the Americans did not favour such a move.

From the London end a great deal of disappointment was experienced. Penrose was later to give a more jaundiced view of the decision to stick with the R.T.A.A. procedures. He does not directly question the motives involved, but he certainly casts his doubts on them.

"They (the under-secretaries of the State Department) did not believe that Congress would be induced to go beyond the limits set by the Reciprocal Trade Agreements Act. In retrospect the validity of their judgements on this matter is doubtful, and in any case it seemed to some of us at the time that the attempt ought to have been made even if it failed." (41)

In fact it is fairly clear that American motives were not what they were argued to be. Originally from 1942 there had been a link between tariffs and preferences and their mutually

(40) U.S. Cong. Extension of the R.T.A.A., House Hearings, p.37, 1945.

(41) Penrose, Op.Cit. p.107.

advantageous reduction and elimination. One was the quid, the other the quo. But by the Summer of 1945 the British had made it clear that a straight deal on this basis would require substantial across the board tariff reductions for the dismantling of the preferential empire system. This would cause serious disadvantages for the Americans, as opposed to the R.T.A.A. system. Under R.T.A.A. the U.S. could bring all sorts of pressures to bear in bilateral trade negotiations to ensure a satisfactory outcome. These powers would be drastically reduced by the alternative procedure. Thus it was in U.S. interests to maintain the R.T.A.A. if possible. They could still insist with the Doughton Bill that they were following a trade liberalisation policy. It would be doubly advantageous if they could do this and still have imperial preference dismantled; and by June 1945 Clayton had discovered a way to do just that:- Britain's financial needs.

"It would be quite unwise, however, to consider making Britain an outright gift of the required several billion dollars, as has been recently suggested by certain critics of Bretton Woods. It would be unwise even to supply the funds as a credit without laying down conditions that would insure (sic.) a sound advance towards our post-war objectives." (42)

This was eventually the tactic that was adopted by the Americans. Britain's financial problem was such that it was obvious she would require further dollar support from the U.S. if American ambitions for the post-war international economic system was not to be undermined by British non-participation. This being so, then it was much more preferable to extract concessions from the British for the discrete amount of dollar

(42) Clayton to Vinson, June 25, 1945, pp 147-8, Clayton, Op.Cit.

credit, which would be necessary anyway if the U.S.s. vision of the future international economy was to be realised, than to radically alter the U.S. tariff system, which would cause some trouble in Congress, and would in effect be a voluntary, unilateral abandonment of an economic position that was perceived to be in the U.S. interests to maintain. (43)

In addition to the change of policy on tariff reductions, the Americans supplemented this with other new proposals, something which suggests that the change on the tariff issue was more than simply a response to judgements of its acceptability to Congress, and thus more of a coherent and structured shift to extract concessions from the British to bring them more in line with unadulterated U.S. views.

The Americans proposed the procedure whereby a 'nucleus' of trading nations would meet to carry out a whole series of bilateral agreements simultaneously. Their proposals concerning exchange restrictions reverted back to being more in line with Bretton Woods, but there were further difficulties over export subsidies and agriculture, where the British view was rejected in favour of tariffs, internal subsidies, quota restrictions and state trading on the basis of 'commercial considerations'. Cripps' comment on this was:-

"If the Americans continue to take the line that fulfilment of Article VII depends on our accepting this set of proposals as they stand, the difficulties in reaching agreement with them may well prove insuperable." (44)

(43) See Clayton to Vinson, June 25, 1945, para.1, Ibid.

(44) CP(45)116, Memo by Pres. of B. of T. Cripps. August 16, 1945, UE 3692/113/53.

The British regarded it as most objectionable that different methods should be adopted for dealing with tariffs and preferences, which would once again enable doctrinal pressures to be brought to bear on the latter. There were also objections to American proposals for allowing subsidies to be imposed on surplus goods as this would enable the U.S., with her huge reserves, to ensure sales of her high cost production commodities for a sufficiently long period to cripple her less well-off competitors. Finally, Cripps was concerned over the U.S. tendency to closely associate the commercial and financial talks and in his memo quoted a letter of reply from Acting Secretary of State, Grew, to a Congressman.

"We feel that any credit granted by this country to Great Britain should be accompanied by satisfactory arrangements with respect to the timely relaxation of the restrictive financial and trade practices which have grown up of necessity during the war." (45)

This point of view was reinforced by Clayton in August, fresh from Potsdam, where some economic aspects of the war had been discussed. There was no doubt the British would have to closely scrutinise the American demands. It was a clear and acknowledged fact that the most important issue in Anglo-American relations was whether or not Britain could obtain financial support from the U.S. Now the question was, what price was to be paid, and which undesirable aspects of the U.S. demands could be avoided? The Americans were requesting priority repayment rights for any post Lend-Lease credit, British ratification of Bretton Woods and a number of other actions which under the uncertain circumstances of mid-1945 were most unpalatable to the British. The British knew that the absence of U.S. financial assistance would result in commodity shortages, prevent sterling

(45) Ibid. p.4.

from going convertible, make it very difficult to ratify Bretton Woods and necessitate the perpetuation and probable proliferation of bilateral trading and exchange restrictions. All of which eventualities would destroy any hopes of post-war economic cooperation with the U.S. But this would also deny the Americans the realisation of their post-war economic dream. Unfortunately, Britain had commitments which further complicated the issues, for example, the Article VII commitments. Nevertheless, there was an undeniable inter-dependence between the U.S. and the U.K. which the Americans would have to pay some regard to if their hopes were to be realised. This was certainly how J.E.Coulson saw the position and why he recommended further efforts to reach agreement with the U.S., however, he emphasised the need, first of all, to achieve a breathing space in the negotiations so that the British would formulate their views clearly on the proposals Clayton had handed to them. (46)

By August 14th, at the final talks on commercial policy in London, the outstanding problems were still unresolved. The British were still very unhappy about the proposed 'nucleus' approach and numerous other points, not the least of which was the volatile and shifting position of the U.S. negotiators. However, with the departure of Clayton from London in August, progress on the commercial and commodity talks was arrested for a while. On other fronts the situation continued to change rapidly. With the capitulation of Japan, Lend-Lease was all but stopped and as the Americans had been proposing for some months, the various aspects of economic, commercial and monetary

(46) See Memo. 'Anglo-American Relations', J.E.Coulson, F.O. August 16, 1945, UE3702/1094/63; also 'Proposals to Establish an International Trade Organisation, dated July 21, 1945, UE3534/1094/53, handed to the British by Clayton on August 4th, 1945.

policy were gradually being brought together. The American vision of the post-war economic world was now to be considered 'in toto': the signs did not augur well for the British.

During August the pace of preparations for new talks picked up somewhat, though they still lacked a positive driving force. Earlier in the war, the British had been enthusiastic about helping to rebuild the world's international economy on new and exciting lines. Now they were virtually reduced to fighting a rearguard action to salvage what they could of Britain's economic interests in the face of decisions made primarily by the U.S. This change was reflected in the different approach to economic problems the British adopted in the latter stages of the war. In the early negotiations Britain had favoured an advance on all fronts, monetary, commodity and commercial in order to assess the interacting effects of developments in any of the three fields. This was partly commonsense, and partly symptomatic of the care required, given Britain's precarious economic situation. The U.S. on the other hand had favoured more of a piece-meal approach. The explanation for this, I think, lies partly in the jealousy between the Treasury and State Departments, and partly because of the U.S. economic strength. With such a powerful economy one does not need to be as sensitive about the framework in which it operates. However, by 1944 the positions had altered. The British position was now so desperate that faced with the end of Lend-Lease, and commercial problems with the U.S., a number one priority was easily established.

It was now obvious that above all else financial assistance from the U.S. was required if Britain was to be economically rehabilitated - all else on the economic plane had to be subordinated to this. The Americans were also aware of this priority, but instead of reciprocating the British shift they moved toward an advance on all fronts in the knowledge that British financial necessities would enable them to gain advantages in other areas of discussion. Hawkins for example indiscreetly told Liesching on September 7, that:-

"Clayton considered it imperative that talks on commercial policy should proceed simultaneously with the financial discussions ..."
(47)

Hawkins rather clumsily tried to cover up, saying Clayton did not mean that the U.S. should take advantage of U.K. financial weakness to make unfair gains in other areas of economic concern to the U.S., but simply that all these problems should be wound up before the end of hostilities and the loss of war-time cooperativeness. Still, the slip had been made and indeed we only need to look at Clayton's correspondence with Vinson⁽⁴⁸⁾ to see what Hawkins had meant.

Two things precipitated the renewal of talks with the Americans. First of all the termination of Lend-Lease on August 24th⁽⁴⁹⁾ and secondly Keynes' reaction to this. Lord Robbins, in his autobiography notes that most people who were not familiar at close quarters with the U.S. scene were shocked by the termination:-

(47) Memo, Liesching-Hawkins conversation, September 7th 1945, UE 4142/1094/53.

(48) See above.

(49) For details of which see preceding chapter.

"But it was a much greater surprise to most of us when we learnt that Keynes, having persuaded ministers that he could secure a substantial grant-in-aid and at the same time settle the entire Article VII business on his own, had departed for Washington for this purpose without consultation with any of the other officials concerned." (50)

Keynes, probably better than anyone else, knew of the dire straits the U.K. would find herself in without Lend-Lease and without alternative financial assistance from the U.S. This was the main reason for his precipitate departure for the U.S. He had a full grasp of the future financial difficulties of the U.K. but unfortunately there were two other points which he missed. First of all, the U.S. was not prepared to give the U.K. a grant-in-aid, and secondly, they were not prepared to deal with the commercial issues on the casual level Keynes adopted on his arrival in Washington. There were soon complaints about the fact that Helmore was the only Board of Trade representative⁽⁵¹⁾.

By September 12, it was obvious that a full commercial team would have to be sent out, and indeed as Robbins points out, they were eager to go,⁽⁵²⁾ what he does not indicate is that it was in Britain's perceived interests to keep the financial and commercial talks as tightly compartmentalised as possible. Clayton agreed to delay the commercial talks until the arrival of the British team on the 27th.⁽⁵³⁾

(50) Robbins, Op.Cit. p.204.

(51) See August 30, Coulson to F.O. UE3995/1094/53: Clayton's complaints via Hawkins, Liesching, UE4142/1094/53, September 7, 1945.

(52) Op.Cit. p.205.

(53) See A.M.S.S.O. to Halifax, September 15, 1945, UE4254/1094/53, and Washington to London, September 15, 1945, UE4273/1044/53.

Although Keynes had perhaps acted rashly and without considering the political aspects of the economic problems closely enough, one could not accuse him of being slipshod in his economic analysis. In a lengthy paper entitled 'Proposals for Financial Arrangements in the Sterling Area and between the U.S. and the U.K. to Follow After Lend-Lease,' more briefly referred to as Gen.89/1., Keynes carefully outlined Britain's financial position and possible courses of action. (54)

(54) See Gen. 89/1, dated September 12, 1945, For the Cabinet by J.M.Keynes, UE4260/1044/53. The following are the provisional figures on which Keynes was to base his analysis.

Dec. 1945	gold and dollar reserves	£ 1.9 B
Dec. 1945	British overseas liabilities	£14.5 B.
Estimates of export recovery:-		
1945	£1,400m	
1946	£2,400m - 1946 deficit in trade	
£2,500m - £3,500m		
Sterling Area liabilities Dec. 1945 approx. £12B.		
Liabilities outside Sterling Area approx. £4B.		
Total debts estimated £16 - 18B.		
Estimate of dollars required from U.S. \$5B.		

Keynes' preliminary comments on the figures were that Britain should not be required to pay a commercial rate of interest on any financial aid from the U.S., nor should she be manoeuvred into a position where she was obliged to unilaterally renounce debts to sterling creditors or place repayments of such debts on a subordinate level to dollar repayments. Following these opening comments were proposals for two alternative solutions to Britain's problems. Alternative 'A' consisted of the perpetuation of the Sterling Area and an Empire based recovery, though working within the rules of the I.M.F. transitional arrangements. Keynes considered this an economically viable alternative, though less attractive than alternative B. There were obvious problems with this line of approach which Keynes discussed at some length, the most obvious of which was friction with the U.S. Indeed, it is questionable whether this was in fact a viable alternative once the existing political differences are taken into consideration. Alternative 'B' was a \$5B non-commercial loan/credit from the U.S., justified on the grounds of Britain's pre-December 1941 dollar purchases, U.K. expenditure in the Middle East, India and Burma, and Britain's high industrial conversion rate to war production. In addition, Britain would attempt in bilateral negotiations, to reduce sterling liabilities by having about \$4B written off. The remainder would be released in instalments and, with currently earned sterling, would be available and convertible for international trade after 1946. The Bretton Woods transitional period would not be terminated so soon but any element of discrimination would be immediately dispensed with in the use of available sterling balances as between the other countries of the

area and countries outside the area. In particular, the Sterling Area Dollar Pool would be abolished. In effect the loan was to enable the Sterling Area to make dollar purchases in the transitional period and to help Britain overcome her Sterling Debt problems without resort to strict controls.

By September 14th, Keynes' paper had been studied by the Cabinet and it was with this in mind as well as a paper by Cripps on Commercial problems, that a meeting of ministers took place on that day. By now, as we have seen, it was obvious that commercial talks would have to complement the financial talks so there was plenty of room for thought on the wide area of economic policy. In fact, there was little novelty in Cripps' paper. He made the standard objections to treating preferences and tariffs differently. On state trading Cripps did not want controls to prejudice the effective use of such methods, though he was prepared to accept regulatory 'good behaviour' rules. His views on quantitative regulation of trade were similar, he did not want them to be a substitute for tariffs, but at the same time he wanted to be able to programme imports so that the U.K. could spend her foreign resources on goods necessary for her recovery. On agriculture and the subsidisation of goods in excess supply, we have already considered the British views, which remained unchanged. Finally, there were differences concerning international cartels which the Americans wished to control with an international Sherman Act. The British were less positive partly because they lacked the expertise in this area and partly because the problem did not apply so much to British companies. (55)

(55) See Gen.82/2 Memo, President of the Board of Trade, Cabinet Commercial Policy September 13, 1945, UE4353/1094/53, and CP(45)80 UE4397/1094/53.

Cripps gave a general but deeply felt warning on the need to safeguard the transitional period, a warning that was taken to heart at the Cabinet meeting. On the whole, the Cabinet was in agreement with the two papers that had been presented. The advice to the commercial negotiators, about to embark for the U.S. led by Liesching, was to follow the general policy outlined. Naturally their brief was more clear cut than Keynes', far more work had been done on this area previously. The atmosphere was still fairly optimistic despite the growing realisation of the complex problems involved and the differences between the U.S. and the U.K. Nevertheless, an agreement was still regarded in Britain's interests, ⁽⁵⁶⁾ provided certain safeguards could be achieved, namely, to cover the transitional period and acceptance by the U.S. of appropriate policies, particularly in regard to high employment. ⁽⁵⁷⁾

One of the most intractable problems was the ambivalence of British policy toward international economic problems; a clear example of which is the incompatible alternatives 'A' and 'B' in Keynes' Gen. 89/1. And indeed this was already becoming apparent in Washington even before Liesching's mission left London.

(56) See Gen. 82/2.

(57) Meeting of Ministers, P.M., Ch.of Ex., Pres.B.of T., Mins. of Agric. and Food, S.S.India, Bridges, Liesching, Shackle, Robbins, etc., Sept.14, 1945, UE4326/1094/53.

The first meeting of the U.S./U.K. Top Committee (hereafter Top.Com.) on September 11th enumerated the three main areas for discussion as (1) The orderly winding up of Lend-Lease; (2) The U.K. financial situation; (3) Finalise international monetary and commercial matters.⁽⁵⁸⁾ Such subjects were soon to bring out the ambivalence of the British approach. Indeed, on the following day at a press conference Halifax and Keynes were drawn on the sterling issue. This was of great significance, of course, because it was the essence of Britain's ambivalence. It illustrated well the British predicament:-

- (1) Unable wholly to trust or rely on U.S.policies.
- (2) Unable to put the decided benefits of collaboration with the U.S. aside without a thorough attempt to resolve the differences between the two.

This resulted in British attempts to preserve the Sterling Area to the extent of providing a safety net to fall back on if U.S. policies were seen to be inimicable to British hopes of economic recovery. This, unfortunately, made the alternative of cooperation with the U.S. more difficult, for their primary goal in international economic policy was to disestablish the British Imperial Preference System and the dollar pool. Furthermore, the Americans found it difficult to accept Britain's suggestions for writing off Lend-Lease and for non-commercial U.S.financial assistance when Britain was reluctant to treat her creditors in a similar fashion and write down the sterling balances.⁽⁵⁹⁾

(58) See 1st meeting Top.Com. Sept. 11, 1945, UE4436/1044/53, and F.R. 1945, Vol. II, Potsdam Papers, pp 122-126.

(59) See Washington Press Conference, Halifax and Keynes, September 12, 1945, UE4412/1094/53.

Keynes must already have had doubts concerning his initial optimism, however, it was some time before the harsh realities of the U.S. proposals and policy line was fully realised.

As the month of September slipped by sterling became of great salience in the talks. Both Clayton and Vinson adopted the line of equitable war contribution which meant that Britain should scale down her sterling balances and write a large proportion of them off. This was their reply to the two British proposals of either a mixture of writing off plus convertibility or controlled convertibility over a very extended period.⁽⁶⁰⁾

At the second meeting Keynes expressed a personal view, again in line with Gen.89/1, that if the balances were \$12B, then perhaps 1/3rd could be written off and the rest rendered convertible in stages. This appeared to be more satisfactory to Clayton and Vinson.⁽⁶¹⁾ However, for even this to be acceptable to the British, two crucial points remained unresolved. First of all the writing off of sterling balances must not appear as imperial arrogance, a diktat from Whitehall. This would upset the already precarious political situations in countries such as Egypt and India. Indeed, the F.O. was so concerned over this that they pressed Keynes to get assurances from the Americans that they would accept responsibility for initiating this, and present it as an integral part of the American financial deal.⁽⁶²⁾

(60) See 1st meeting Finance talks, Sept.19,1945, UE4601/1044/53.

(61) Ibid.

(62) See F.O. to Keynes, September 25, 1945, UE4505/1094/53, at the bottom of the telegram in longhand, 'P.M. agrees'.

At this stage the issue was political dynamite for the British. It was one thing for it to leak out now, but quite another for the scaling down to be presented in a comprehensive plan which included U.S. participation and help. If such a suggestion leaked now, not only was alternative 'A' of Gen.89/1 destroyed, but there could be further harmful effects on the cohesion of the Empire because of Britain's proposal to unilaterally default on her debts. Not only was the economic cohesion of the Empire at stake, but also its political cohesion. The second crucial issue was the size of the loan/credit/grant-in-aid that the Americans were prepared to supply and the nature of the strings to be attached. Toward the end of September, worries began to arise among the British concerning possible conditions, but there was still optimism even for an interest-free loan. Keynes and Halifax simply believed the arrangements would require a bit of 'dressing' to make them acceptable:-

"... a loan free of interest would not take the American public by surprise." (63)

This optimism was despite repeated insistences from Clayton and Vinson that an interest free loan was out of the question. (64)

To account for this lack of sensitivity to the change in attitudes of the Americans, perhaps one could turn to Professor Robbin's autobiography. There he records the lack of appreciation on the British side of the mistrust generated among the Americans caused by Britain freezing the Article VII talks through 1944.

(63) Halifax to Bevin, Personal, Top Secret, Sept.26. 1945, UE4478/1094/53.

(64) See Hal. to F.O. Sept. 26, 1945, UE4478/1094/53, and Wash. to F.O. Sept. 27, Tel. 6490, J.M.K. to For.Sec. and Ch. of Ex. UE4502/1094/53.

He also notes the difficulty the team in Washington had in lowering the expectations and hopes of Cabinet ministers, originally uplifted by Keynes himself, to a more realistic level. He says that this was one of the difficult jobs the team had to do, however, at this stage it would appear that Keynes and Halifax themselves were suffering from over-optimism and a poor appreciation of the U.S. change of attitudes. (65)

Toward the end of September the Americans introduced a novel proposal; an escape clause to alleviate the possibility of unforeseen and unacceptable burdens caused by the imposition of an interest rate on financial assistance given to the U.K. The British were quick to see possible pitfalls here. From American critics would come allegations that this was a devious British ploy to avoid repayments. From Britain, critics would argue that such a provision would require detailed knowledge of the British domestic economy. There was also the further worry that there would be an element of discretion in the clause, which would allow bureaucratic and congressional interference and pressures similar to those which had been experienced with Lend-Lease. On the 27th, Halifax and Keynes reported yet a further extension of the talks, this time on their instigation. Halifax had proposed an extension to 999 years on the leases for U.S. bases in the West Indies in an attempt to bring about a general economic concordat in which he believed a \$5B interest-free loan to be still possible. (66) Clayton and Vinson were

(65) See Robbins, Op.Cit. pp.204-5.

(66) See Wash. to S.S. and Ch. of Ex. Sept. 27, 1945, UE4502/1094/53, and Wash. to F.O. Sept. 27, UE4502/1094/53.

enthusiastic, the British appeared to be doing their job for them by widening the talks. They decided to take advantage of the opening provided and suggested the satisfactory conclusion of civil aviation and communication agreements might be other suitable quid pro quos. At this Halifax reneged somewhat. He pointed out that the U.S. must not appear to be blackmailing the U.K. Something that was declaimed with alacrity by Clayton and Vinson. (67)

Meanwhile, back in London, Bevin, after reading Keynes' telegram of September 27, (68) decided that in view of American statements regarding Britain's pessimistic estimates of her own economy and that a grant in aid was out of the question, the best thing to do was to hold out for an interest-free loan of \$5B. In fact, in a recent meeting with S.S. Jimmy Byrnes, he had put forward such a proposal which he believed had received a satisfactory response. (69) So as far as London was concerned, a satisfactory financial agreement was still well on the cards. Unfortunately, Byrnes was not in the least interested or knowledgeable on foreign economic matters, which he left in the capable hands of Will. Clayton. Thus his opinion should not have been taken quite at the face value that Bevin took it. (70)

(67) Ibid.

(68) See JMK to SS and Ch.of Ex. Tel. No. 6490, UE4502/1094/53.

(69) September 28, 1945, UE4582/1094/53.

(70) See Watt, D.C. Personalities and Policies - Studies in the Formulation of British Foreign Policy in the Twentieth Century, Longman's Green and Co. Ltd., 1965, London.

By October 1st, the British negotiators in Washington, were beginning to readjust their appraisal of the situation. Keynes wrote to Eady asking for further guidance. At that time an interest-free loan with a ten year pause before repayments began, was being regarded as realistic. This would impose a repayment burden of \$100m p.a. on the British economy. The cautious William Eady replied that he could give no immediate advice as the Cabinet was still considering previous communiques from the Washington team, however:-

"... we could not recommend acceptance of any commercial principle such as interest even at low rates in a loan designed in great part to modify working of the Sterling Area We must, I suggest, consider two percent as a commercial principle." (71)

He went on to add that a grant-in-aid of \$2B with access to a further credit of \$3B interest-free was still in his consideration the goal that should be aimed for. There were also some disturbing features about the development of the talks in Washington that he thought should be very cautiously dealt with. For example, the U.S. proposal to remove preferences from the tariff negotiators and to make agreement on them conditional upon a satisfactory financial settlement was likely to cause a political furore in the U.K. In addition, the appearance of 'businesslike settlements' on telecommunications and aviation rights were not viewed favourably in the U.K. As far as communications were concerned, all the British would concede was a direct wireless circuit with Saudi Arabia, certainly as far as aviation was concerned, any concessions would be considered as most harmful to post-war British aviation expansion. Eady in fact advised caution on the latest U.S. proposals.

(71) See J.M.K. to Eady, Oct.1, 1945, UE/4568/1094/53, and Eady's reply, Oct. 3, 1945, UE4569/1094/53.

By October 7, although Keynes was still impressing on Clayton the problems involved in the commercial aspects of the proposed financial terms, there was little response to this or on the details of the British financial proposals. (72) The circumstances were now such, and with Keynes' request for further guidance, ^{that} British ministers decided that a comprehensive review of the situation was necessary. On October 8th a detailed brief was sent from the Chancellor of the Exchequer to Washington. In it, Dalton, despite attempts to give clear and decisive, though general guidance, evinces signs of uncertainty and ambiguousness. At the beginning he clearly stated:-

"If best offer is large loan at 2 per cent interest we would not accept it. We remain firm that we will not accept obligations which we do not see reasonable certainty of discharging. Also, such a commercial settlement would be regarded here as an inequitable conclusion to our mutual effort " (73)

Dalton continued, however, by saying that an acceptable alternative would be a commercial loan from the U.S. Export-Import Bank, or similar sources. So it would seem it was not so much the commercial nature of a loan that was disturbing, but the fears of the strings that might be attached in a loan of the type under negotiation. Certain strings would be acceptable if the loan was of adequate size, with repayment conditions which were not of a punitive nature. Dalton suggested that a \$2B grant, justified on the grounds of pre-Lend-Lease purchases, with a further \$3B line of credit at 1%, would be acceptable, or a similar arrangement, so long as British liabilities did not exceed

(72) See Ministerial meeting P.M., For.Sec., Ch.of Ex., Pres. B.of T. etc., October 5th 1945, UE4670/1094/53.

(73) Chancellor of Exchequer to Wash. Top Secret. Tel.10094, Oct. 8, 1945, UE4670/1094/53.

\$100m in repayment p.a. Basically, Dalton was insisting that Britain should retain her independence to act in order to counter adverse economic trends and that such rights should not be unreasonably infringed upon by the conditions of an American loan. Even if the U.K. achieved a future equilibrium in her balance of payments, there would be no guarantee that she would have an adequate amount of dollars which would enable her to dispense entirely with monetary controls. For example, convertibility of other currencies which were significant in U.K. trade, would also have to be a necessary condition for full convertibility. In addition, two fundamental conditions for regular service of any loan must be a general balance of U.S. trade and secondly, that the U.S. would not persistently pursue a deflationary policy, which could bring about an intolerable stress on Britain's repayment obligations. Dalton went even further, to the point of unrealism:

"Because the United Kingdom is such a large importer of United States' goods, it is upon us that the impact of a world shortage of dollars falls most immediately. We must therefore be permitted to take a prospective view of the trade facts as they are manifestly developing, and to arrive at our own judgement of the existence of a shortage of dollars after consultation with the United States." (74)

Another thing that worried the Chancellor was the progress on the financial talks, which subsumed similar progress on the commercial talks which was not in fact the case. There was also the persisting problem of the sterling balances. Dalton and other ministers were now, and had been for some time, sceptical

(74) Ibid.

of American post-war policy.

"We need not elaborate to you our doubts about the real policy that American Administration may follow in the next few years." (75)

Such concern naturally affected the manner in which the British viewed the existence of their own sterling economic bloc. Consequently Dalton now informed the Washington Embassy.

"We think it is essential that any arrangement about Sterling Area, and particularly scaling down of Sterling debts, should not (repeat not) be formalised in America." (76)

Finally, Dalton cautioned the British negotiators against the use of quid pro quos such as aviation, tele-communications and island bases. He appears to have been unaware that the latter was suggested by Halifax. Dalton urged that the various diverse agreements must be made on their own merits rather than as a result of pressures brought to bear because of Britain's financial needs.

Dalton was desperately trying to ride two horses at once. He agreed with the basic aims common to both administrations, monetary convertibility and a liberal commercial policy, but for the weakened British economy to function under such conditions as pertained at that time, it required a drastic infusion of resources. But resources of the magnitude the U.K. desired, might in U.S. opinion, make her intransigent and obdurate in coming to agree in more specific fields such as imperial preference, oil, meat, aviation, telecommunications, etc. From Dalton's point of view, the type of agreement the Americans had tacitly suggested would leave Britain weak and with little independence from American policies. British economic independence and the need for American financial assistance, were two difficult horses to ride indeed, and their paths were to diverge increasingly.

(75) Ibid, para. 12.

(76) Ibid, para. 17.

Before continuing with the crucial financial talks, let us first consider the final stages of the commercial talks. By late 1945 both sides were more than familiar with the substantial issues involved, though diplomatic etiquette might prohibit explicit articulation of those issues. All that was left was the final jostling for the stakes. In point of fact, though Clayton, who was now the main figure in the State Department so far as economic issues, as we have seen, had adopted a different view from that which had prevailed in the State Department during the Law, Washington talks. Clayton had effectively relegated preference issues below the financial and monetary ones. He did generally hold very similar views to Hull on a liberal economy. However, he had moved away somewhat from Hull and Pasvolsky's concentration on trading principles to the area which had for four years been the primary concern of Henry Morgenthau. On November 7th, for example:-

"Mr. Clayton emphasised his conviction that the discriminatory features of the bilateral agreements (of the U.K.) must be eliminated, and the sterling area dollar pool must be abolished. In his view the abolition of the dollar pool was much more important to U.S. exporters than the elimination of empire preference." (77)

This switch of emphasis by Clayton helps to explain why the following commercial talks proceeded steadily with few upsets to a prima facie satisfactory conclusion. Clayton reasoned that Britain's post-war import needs were easy to see. He also realised that the vitally needed equipment to renovate Britain's manufacturing industry was only available from the U.S., so preferences would not affect the main export flow from the U.S. to the U.K. The thing that did worry the U.S. however, was that

(77) P.161. Minutes U.S. Top Cmte. Meeting, Nov.7, 1945, Byrnes in the chair. F.R. of U.S. Vol.VI.

the Sterling Area had a number of raw materials which the U.S. wanted access to. Furthermore, such trade would help to inject dollars into the world economy which in turn would help to avoid the danger of invoking discriminatory action against the U.S. under the I.M.F. dollar shortage clause. What the Americans really feared was the continuation of the Sterling Area Dollar Pool which could restrict U.S. trade with the members of the Sterling Area, or cause a massive U.S. trade imbalance with the Sterling Area. This conversion of the State Department to Morgenthau's monetarist views were thus to allow a more flexible line of approach on the commercial talks, and to this we must now turn.

At the very first meeting of the commercial talks the Americans were prepared to make a very big concession indeed. They agreed that tariffs and preferences should be treated on the same basis. There was to be no more squabbling over 'across-the-board' versus 'the nucleus' approach. Clayton still insisted, on the grounds of Congressional opinion, that a formula would have to be devised for the elimination of residual preferences as unpalatable as he knew this was to the British. Nevertheless, this was a very significant step forward indeed.⁽⁷⁸⁾ One thing that was disturbing to Liesching, which he pointed out to Clayton the following day, was that the Americans no longer called for the abolition of preferences under the auspices of Article VII, but as consideration for further U.S. financial assistance. Clayton once again pleaded Congressional pressures as the excuse, though he must have been wary of disclosing his hand too much at this stage concerning the more tangible links which were to be

(78) See Wash. to Cab. Offs. 1st Meeting Com.Pol. October 2, 1945, UE 4708/1094/53.

established later between satisfactory agreements with the British and financial assistance. The draft proposals presented by the Americans on the 3rd specifically declared the intention to follow the Article VII principles; there was no mention of financial assistance. The specific proposals were:-

1. No increase in margins of preference,
2. M.F.N. tariff reductions to be automatically extended to preferences,
3. Existing preference agreements to be unilaterally abrogated,
4. Suitable arrangements to eliminate preferences not covered by the above.
5. Adherents should undertake to exempt their exports, to other members, from export taxes which are of a protective rather than of a revenue raising nature. A protective export tax should be defined as one which has the effect of enhancing the competitive position of a domestic industry, utilising the products. In no event should preferences be maintained on export taxes.
6. Commitments with regard to tariffs should permit countries to take temporary action to prevent sudden and widespread injury to the domestic producers concerned. Undertakings for reducing tariffs should therefore contain an escape clause to cover such contingencies.⁽⁷⁹⁾

The reaction of Keynes, Halifax and Liesching to these proposals was mixed. There was no quibbling over 1, 2 and 4, but on 3, they suggested to Dalton that preference agreements should only be terminated by mutual agreement. There was no specific reference to either 5 or 6 in the letter they sent to Dalton, though we have already

(79) See Tariffs and Equality of Treatment amendments, October 3, 1945, UE4708/1094/53.

seen that the tariff escape clause was most worrying to the British.⁽⁸⁰⁾ Keynes, et al, however, did not think that the Americans were likely to move much from the position described above. Consequently, they asked London if they could clinch agreement with an offer to eliminate preferences on commodities where the proportion coming from preferred sources to the total import of such commodities was 5% or less. This was with the proviso that the American Administration accept the progress to date.⁽⁸¹⁾

Ministerial approval was given on Keynes' proposal which was presented to the U.S. delegates on the 18th. Unfortunately the Americans rejected the British views so Keynes put them in writing to elicit counter proposals from the U.S., in the hope that this would help to clarify the situation. When in fact the counter proposals appeared, Keynes asked for permission to accept them if they were also approved by the U.S. Administration.⁽⁸²⁾

From the new proposals it appeared as if the Americans had moved away from their doctrinal approach to preferences. They now admitted that preference and tariff cuts should be inter-related and that the abolition of preferences was something which would require careful and extensive negotiations. Furthermore, they now appeared to be conducting the negotiations within the framework of Article VII rather than as consideration for financial assistance. Preferences were now to be reduced along with tariffs, no new ones were to be introduced or old ones

(80) J.M.K. Hal., Liesching to Ch.of Ex. October 9, 1945, UE4720/1094/53 - Nabob 133.

(81) Ibid.

(82) Wash. to London, Nabob 195, Oct. 20, 1945, UE4720/1094/53.

increased. But most important, on the issue of the abolition of the residue:-

"Action for the elimination of tariff preferences would be taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous international arrangements completed in this document." (83)

This was most amenable to the British, who believed that this was about the best they could do. Unfortunately no sooner were the British beginning to feel pleased with themselves than the Americans began to renew certain lines of pressure. They suggested that Britain's residual preference margins should be abolished at the proposed trade conference in 1946; whereas their existing preferential arrangements with the Phillipines were to be eliminated only gradually. So late October witnessed the clouds gathering over the talks once again.

The Chancellor of the Exchequer on October 26th made it clear Britain was prepared to eliminate preferences eventually, provided there was commensurate liberalisation of trade measures carried out by the U.S. and other countries. However, as the President of the Board of Trade added on the following day:-

"They still proposed, notwithstanding their own attitude in the case of the Phillipines to hold out to Congress the hope that the preferential system can be eliminated as a result of the forthcoming negotiations and are unwilling to admit that the complete fulfillment of their desires is an ultimate goal which can at best be reached by stages." (84)

On the following day the situation began to change somewhat drastically. The Treasury Department and, as we have seen, Clayton, both regarded the monetary aspects of the U.K. international economic structure as potentially the most inimical

(83) Draft VII, U.S.

(84) See Ch. of Ex. to Wash. Oct. 26, 1945, UE5135/1094/53, and Pres. of B. of T. to Wash. Liesching, Oct. 27, 1945, UE5066/1094/53.

to U.S. interests. Now, simultaneously to the commercial talks, discussions were continuing over financial aid to Britain. Already it had been made implicitly clear that commercial and financial agreement were to some degree interdependent, though there was reluctance to use this big stick for the commercial talks. It was to be reserved to crack a bigger nut. The Treasury and Clayton knew that the only alternative to financial assistance from the U.S. for the U.K., was dependence upon the Sterling Area, with the dollar pool and supplementary monetary agreements. If the Sterling Area could be weakened by a commitment from the U.K. to abolish Imperial Preference, then obviously the alternative to financial assistance from the U.S. would be severely undermined. However, there were a number of people within the State Department, notably Acheson, who were more sympathetic toward the U.K. on monetary issues and preferred a more immediate agreement on preferences rather than risk the possibility, remote as it was, of a possible break with the U.K. on economic issues which would leave Imperial Preferences intact. On October 28th, Liesching wrote to the Cabinet Offices that he had been summoned to the State Department by Wilcox, where he was told of a stormy session at the Treasury involving State Department officials, Clayton and Vinson, which resulted in agreement to accept draft 7 of the Tariffs and Preferences issue and also probably the interpretative document which had been drawn up to ensure there was no ambiguity involved in the understanding of Britain's position. Liesching was somewhat doubtful about this second point, but the situation was much improved and hopes raised.⁽⁸⁵⁾ Things were still not finalised

(85) See Gen. 89/12, details in Baboon 207, Annexes A and B., Nov. 6, 1945, UE5350/1094/53: See also Ministerial Meeting Nov. 5, 1945, P.M. in chair, on Financial Policy, p.4. Dalton's comments.

though, and it was only a matter of days before Liesching was complaining, this time, of Hawkins being "... obstinate and doctrinaire..." particularly regarding the transition period. (86)

However, despite the difficulties with Vinson and Clayton over the tariff preference issue, and last minute doubts over quantitative restrictions, the final amendments were made on November 5. The document which was finally accepted on December 1st, and published on December 6th, was now completed. In fact the provisions on tariffs and preferences were virtually the same as the U.S. October 3, proposals (87) with the exception that the provision for unilateral abrogation of preferential agreements was dropped. So, despite Clayton's conviction that Article VII committed Britain, unconditionally, to the abolition of preferences, the effect of the new agreement was to modify this. Any reductions of tariffs and preferences were now to be of a mutually advantageous nature. Furthermore, there was no prior commitment to reduce or eliminate preferences prior to negotiation, nor was a final date set for their full abolition. So far then, the compromise agreement was much in Britain's favour, though there was some concern over the escape clause for the Americans on tariffs. There were of course other aspects of the commercial talks besides the tariff preference issue, and before returning to the financial talks we must first look briefly at the results of these talks.

On state trading a satisfactory outcome had been reached with Britain pledging herself to commercial principles in the use of state trading. However, trouble was to develop later over this,

(86) See Liesching to Cab.Offs. Nabob 229, Oct.28,1945, UE 5147/1094/53 and Liesching and Shackle to Robbins, Nov. 3, 1945, UE5325/1094/53.

(87) See above.

particularly with regard to post-war long term beef contracts with Argentina. Three other troublesome issues had simply fizzled out after strong objections had been expressed. These were the necessity for land contiguity for customs unions, the prohibition on extending the benefits of a future I.T.O. to non-members and the proposals concerning exchange controls, all put forward by the U.S. On this latter point a simple statement was made urging common membership of the I.T.O. and the I.M.F. There was no need to take this any further, as far as Clayton was concerned, for there would be better opportunities to modify Bretton Woods in the financial talks.

Quantitative regulations were to be abolished by the agreement, with temporary exceptions to alleviate the transition period. The other main exception was to enable British and American agriculture a degree of expansion and prosperity in the post-war period. The U.S. was so intent on securing her agricultural prosperity that she insisted, on what was seen as one of the most objectionable clauses in the agreement, one that would allow her to subsidise the export of goods in world surplus. A point that has already been elaborated on above. An additional comment is required here, however, because the need for such a clause indicates the lack of success in the commodity control field. Both the U.S. and U.K. had different views on this⁽⁸⁸⁾ though now the Americans, particularly because of Clayton's influence, were moving away from an effective commodity control scheme.⁽⁸⁹⁾ Finally, quantitative restrictions were to be allowed on balance of payment grounds, though on a non-discriminatory basis. There had been some argument over the

(88) See previous chapter.

(89) See p.145, Selected Papers of W.Clayton.

right to discriminate in the transitional period and one of the points the U.K. had been successful on was that the above non-discrimination rule would not apply to the use of inconvertible currencies utilised for buying needed imports.

On the face of it there was no wonder the British ministers and negotiators were pleased with the results of the commercial talks. Still, as they were both well aware, the commercial and financial talks were simply artificial divisions of the overall economic sphere. Concessions given to the British in the commercial talks might very well be seen as justification for harsher treatment in the financial talks. Certainly as the financial talks reached their climax it became obvious that the apparently favourable agreement on commercial policy was very much of a Pyrrhic Victory. The financial talks were to be the decisive factor. (90)

Two days before Dalton drafted his lengthy piece of cautionary advice for Keynes, the U.S. Top Committee held its first meeting. Its main purpose was to discuss the exchange of views with Halifax and Keynes on financial matters. (91)

(90) For details of above see J.S.M. Wash. to Cab.Offs. Nov.3, 1945, UE5326/1094/53 (Commercial Negotiations Gen.): Agreed Formula in Baboon 207, Nov.6, 1945, UE5350/1094/53: Top Secret Ministerial Meeting, P.M. in chair, Nov.5, 1945 UE5400/1094/53.

(91) See F.R. of U.S. 1945, Vol. VI, p.141, Minutes of U.S. Top. Committee Meeting, Oct. 6, 1945.

Although the three meetings with the British negotiators had been indecisive, Harry White was eager to advocate a very positive line on the amount of financial assistance that should be offered to the British. White told the meeting that in his opinion the U.K. would require \$3.3B give or take a billion, to clean up the balance of payments and sterling problems 'nicely', whereas \$2B could probably still do the job though less adequately. (92)

Despite the experts' opinion, there was still uncertainty at the meeting regarding the final figure. And yet, although they could not decide how much credit they were prepared to give Britain, they did decide that favourable solutions of other economic issues were necessary. They did not seem to appreciate that favourability might be directly related to the amount of credit they were prepared to extend to the U.K. Still:-

"It was ... agreed that it was essential that the financial and commercial policy understandings be accompanied by an overall settlement of lend-lease, surplus disposal, and related claims and benefits." (93)

Of the persons present at the October 6 meeting, Clayton was one of those in favour of exceeding the mean amount of \$3.3B put forward by White. Furthermore, Clayton went ahead and raised British hopes on the basis of this conviction. On October 9, a message was received in London from Washington, expressing Clayton's views, but with the qualification that they were not to be publicly attributed to him or the State Department.

(92) White head of Cmte. to study U.K. Fin. needs. He deliberately excluded Luxford and Bernstein who were sympathetic to U.K. See R.N.Gardner, Op.Cit. pp.194-5.

(93) Ibid. p.143.

The details were, a \$5B credit with a grace period of five years before repayments were to begin. The uses for the \$5B were not specified and there was no mention of a specific interest rate.⁽⁹⁴⁾ On the same day in Washington, Halifax and J.M.Keynes talked with Vinson and Clayton using Dalton's letter of the eighth for guidance. Clayton and Vinson reiterated the proposals already leaked to the British with the addition of a 2% interest charge after the five year grace period.⁽⁹⁵⁾ These proposals were left to be considered by the British. Meanwhile the Americans tried to hammer out a definite line on the terms for the credit.

At a Finance Committee meeting on the 11th October, the Americans made considerable progress on the credit terms. The meeting, chaired by Vinson, endorsed the proposals already put to the British but also requested that the technical sub-committee should undertake to produce objective criteria for a waiver clause on repayments. A variety of other related issues were discussed and a number of conclusions and recommendations made. First of all the aid would take the form of a line of credit rather than a loan. Secondly, after some desultory discussion, it was tentatively decided to charge 2% interest after the five year grace period. The only suggestion that the credit should be interest free came from J.W.Angell, Assistant Administrator in the F.E.A., but such a suggestion was never seriously in contention. Thirdly, the waiver clause was agreed to, but on condition that progress was made toward giving priority repayment rights to the U.S. so that the British could not invoke

(94) See Wash. to F.O. Oct. 9, 1945, UE4685/1094/53.

(95) 1.63% effective overall interest charge.

the waiver to use American credit to pay off loans to other creditors. Finally, there was the question of the size of the credit. Vinson said that he did not intend to reach a final decision at the meeting but he invited those present to discuss the problem, after some clarification from White. White, working on a figure of \$3.3B for Britain's total transitional deficit, and by introducing the possibility of various agreements to borrow and monetary manipulation Britain could resort to, whittled the U.K. requirement from the U.S. down to \$1B which:-

"... would be required from the U.S. if the only purpose of the credit was to cover the transition deficit of the U.K." (96)

Clayton objected to this on two grounds: (a) the British estimates ranged between a deficit of \$5 - 6B, not \$3.3B; (b) White had not taken into account adequately the drain on U.K. gold and dollar reserves the writing down of the sterling balances would have. Clayton was determined to destroy the sterling area dollar pool and other restrictive British economic practices; but not at the expense of Britain's total economic collapse, which could be even more inimical to U.S. economic interests. The difference here, between Clayton and the Treasury, was one of judgement regarding Britain's economic position, rather than one concerning basic policy. However, no decision was taken at this stage though White certainly tried to chop the figure down. Obviously as White was a senior representative of the Treasury Department this did not augur well for Britain's claims for financial assistance.

(96) Meeting of U.S. Finance Cmte. Oct. 11, 1945, F.R. 1945, Vol. VI, pp. 145-149.

In London Dalton was reluctantly coming to accept that a grant-in-aid was not possible, but he still had two preferable alternatives to the U.S. proposals. The first one, as in his telegram of October 8th, consisted of a \$2B grant plus \$3.4B credit at 1%, secondly, failing this, an interest-free loan with a ten year grace period before repayments begin, and then liability was not to exceed \$100m in any one year.⁽⁹⁷⁾ If we compare these suggestions with the agreements reached by the U.S. Financial Committee on the 11th, the divergence of opinions is very marked and indeed the gulf widened even further with the decision of the U.S. on October 17th to agree tentatively on a figure of \$3.5B for the British credit⁽⁹⁸⁾, though as the Secretary of State was to admit to Winant some weeks later, they could probably have managed \$4B.⁽⁹⁹⁾

One alternative which could have reduced Britain's liabilities would have been an acceptance by the U.S. of equality of sacrifice in regard to pre-December 1941 war expenditure. Some minor concessions had already been made, as we noted early on in the account, but Vinson and Clayton now repeatedly assured the U.K. that this would be unacceptable to Congress. Keynes had some difficulty in coming to terms with this. He thought he saw '... widespread goodwill and a desire to help', from the American public, and commented that, "... Clayton was generous and not unreasonable..." Keynes saw the problem in the lack of government leadership.

"... it is difficult to believe they do not under-rate what bold and eloquent leadership could do. But you must understand that such leadership is just what is lacking in this present administration from the President down."
(100)

(97) See Ch.of Ex. to J.M.K. Oct.12,1945, UE4803/1094/53.

(98) See F.R.1945, Vol. VI, p.155, Footnote.

(99) S.S. to Winant, Nov.5th, 1945, F.R.1945, Vol.VI,p.154.

(100) J.M.K.to Ch.of Ex.Oct.18,1945, UE4920/1094/53.

With regard to what we know of the decisions and line of approach the Americans had decided to adopt, this seems an inaccurate assessment, indeed according to Lord Robbins it would seem to pertain more to the British. (101) The Americans had prevaricated and had appeared somewhat unsure whilst undergoing the settling in of the new President. To compound this uncertainty, Britain had only supplied sketchy figures of her economy for the U.S. and as we have seen, there were differences between the State and Treasury Departments. Still, the notion that Vinson and Clayton lacked the ability to be decisive was soon to be dispelled. This assessment by Keynes was that of a very tired and severely ill man. He had come to the U.S. with the belief that he could get a grant-in-aid of \$5 - 6B. It was now obvious that this was not to be. Keynes found this difficult to understand. He was to find it even more difficult to come to terms with willingness of the Americans to subordinate Britain's economic interests to their own to a very considerable extent. It was not the lack of leadership that was the cause - as Penrose says, no one tried to convince Congress, it was the unpalatable views and conditions which clashed so much with his own original hopes that Keynes found difficult to assimilate. On October 20th, the position was bluntly clarified by Vinson. He told Halifax and Keynes that a meeting of the U.S. Top Committee had unanimously decided what they believed would be acceptable to Congress.

- 1) \$3½B at 2% with five years repayment grace.
- 2) possibility of a waiver clause.
- 3) whatever is required to clear up Lend-Lease at 3(c) terms, i.e. 2¾%.

(101) See Robbins, Op.Cit. pp.204-207.

In return for this, Britain was expected to enter the same commitments, particularly as pertained to the Sterling Area, as had been discussed previously.⁽¹⁰²⁾ This was, as we have seen, neither unanimous nor definitely the last word. Clayton had pressed for a higher overall figure, and the view had been expressed that Congress would not differentiate significantly between \$3.5B or \$4.0B. Still the British were hardly to know this, though they were aware of the changeability regarding the technical details of the line of credit. Indeed, this was the very point Dalton made as a preamble to a lengthy appraisal sent personally to Keynes in Washington.⁽¹⁰³⁾

First of all Dalton thought that in view of what seemed to him to be the uncertainty of the situation that the British should try to take the initiative by a further set of proposals. These he set out in two 'alternatives', A and B.

Alternative 'A':-

- (1) \$2.B for 50 years at 1% with a five year grace period.
- (2) Option on a further \$2B, interest free to liberalise Sterling Area dollar purchases.
- (3) Britain would then (a) ask for a negotiated scaling down of sterling balances; (b) sponsor the I.T.O.; (c) recommend Bretton Woods to Parliament.
- (4) Above conditional on a satisfactory waiver clause, i.e. not subject to Congressional discretion or over-interference in the British economy, to be invoked if there was a shortage of dollars, on international depression or disruption of world trade. (104)

(102) J.M.K. to Ch.of Ex. Oct. 20th, 1945, UE4994/1094/53.

(103) Ch.of Ex. to J.S.M. Wash. Baboon 155, Oct.27,1945, UE5024/1094/53.

(104) See Ibid and Wash.to Cab.Offs.Oct.21,1945, UE5024/1094/53, the latter for waiver details.

If this was not acceptable then alternative 'B' should be resorted to; a straightforward commercial loan of \$2½B at 2% with no commitments other than repayment. Dalton was aware of the contention this might cause in Washington and attempted to justify them in a lengthy explanatory telegram which immediately followed the new proposals. (105)

"We are fully conscious of the importance of these negotiations for Anglo-American relations and if we appear to be guarding our own vital interests rather cautiously, not least of those interests is a relationship with the United States which will stand the test of the future. It is on this account that we cannot accept obligations which we may not be able to fulfill, or agree to conditions which are capable of double interpretations." (106)

After the optimism generated by the possibility of a \$5B grant, the situation now by contrast looked gloomy indeed. British expectations of what the Americans would do was having to be rapidly revised, but the Americans were not revising their expectations of British actions in a similar vein. They were still demanding the same concessions from Britain under conditions of drastically reduced figures for financial assistance. This was what Dalton strongly objected to.

(105) Ch. of Ex. to J.S.M. Wash. Oct. 27, 1945, UE5024/1094/53.

(106) Ibid.

- "a) In addition to accepting a liability of at least \$1B with interest at 2 per cent for the purpose of enabling countries which are valuable markets of our own to turn to dollar goods in the immediate future, we are apparently to find about another billion dollars out of our reserves so that the dollars available to the sterling area are to be the same as if the loan were \$5 billion.
- b) Probably making sterling convertible earlier than we should like.
- c) If the commercial talks reach some agreement, sponsoring the Commercial Conference, with pressure for some Empire commitment to the United States if the Conference fails.
- d) Presumably abolishing discrimination against U.S. exports even in 1946." (107)

Dalton was also concerned over the practical application of the waiver clause, but as may be inferred from the above, the main stumbling bloc was the sterling balances, and on this Dalton was to express himself forcibly. The original hope for a grant-in-aid or an interest free loan would have allowed the U.K. to regain a viable economic position, and at the same time this gesture from the U.S. would have provided an indication of her willingness to cooperate in a liberalised world economy with an economically healthy and competitive U.K. If, as now appeared to be the case, the U.S. was to offer a loan at commercial rates of interest both U.S. willingness to see an economically healthy competitive Britain, and her cooperative spirit, were placed in doubt. Britain once again faced the dilemma of either reliance on the U.S., a recognised gamble but with the best prospects if it succeeded, or the maintenance of an economic safety net based on the Sterling Area. This entailed a less active line on proposals for reducing the sterling balances, and in fact as Dalton proposed, isolating them from the financial negotiations with the Americans. For the Americans favoured a massive reduction/writing off, of the sterling balances as part and parcel of the dismantling of the Sterling Area. Obviously, if

(107) Ibid.

Britain reneged on her sterling liabilities in a massive way, this would not be conducive to voluntary deposits by member states of their dollars and other hard currencies. Such cancellations would, the Americans thought, lessen the need for financial assistance for the U.K. For the British, however, three factors were of utmost importance. First of all as has been mentioned, the effect on U.K.-Sterling Area relations. Secondly, if the U.S. gave a loan to the U.K. on commercial terms it would be even more difficult to insist that economically backward and politically sensitive countries like India, Egypt and Middle East oil producers should adopt altruistic policies and write off their credits to the U.K. Thirdly, even if these countries agreed to act in this way, Britain would be exchanging sterling liabilities at non-commercial, i.e. $\frac{1}{2}\%$, interest rates, for dollar liabilities at commercial rates. Furthermore, the aim of such a loan was to finance U.S. exports to the Sterling Area, not only was Britain to be squeezed financially, but some of her last trade preserves were to be penetrated by the U.S., who was in a far better position to compete in such markets. With this in mind⁽¹⁰⁸⁾ Dalton suggested that a gentlemen's agreement would be more appropriate, one which would free the sterling issue from the credit negotiations. He proposed that Britain should pledge herself to as much liberalisation as possible, non-discriminatory use of sterling balances, British control over releases of capital amounts of sterling and finally, a commitment to negotiate the reduction of sterling balances with full regard to American opinions on this.⁽¹⁰⁹⁾

(108) See Ch. of Ex. personal for J.S.M. Wash. Oct. 27, 1945, UE5024/1094/53.

(109) Ibid.

On the following day, Keynes replied to Dalton's two telegrams. Dalton, Keynes alleged, had grossly misjudged the situation. In fact in the personal letter he sent via Robbins, he refers to 'demented' advice regarding the proposal in Alternative 'B' which:-

"... is so entirely out of touch with reality that we are left dazed." (110)

In the official letter, Keynes simply informed the Chancellor that there was no alternative 'B' available. The reasons he gives are not that the proposal is simply unrealistic but that the U.S. government does not have powers outside of Lend-Lease 3c provisions to proffer financial assistance on reasonable terms, i.e. 2 $\frac{3}{8}$ % over 30 years. As for the Import-Export Bank, interest would be 3% over the period of the loan, but initial service would be 8%. (111) This put the emphasis back squarely on a negotiated 'political' loan from the U.S. The only alternative to this was a home based recovery, an option that to many appeared unrealistic. So, this put the onus very much upon the British to square things with the Americans on their financial proposals.

This problem is misrepresented by Dalton in his memoirs. In Keynes' personal letter to Dalton he complains of the unrealism of alternative 'B' and the confused line of thought running through Baboon 156, particularly with regard to what appeared a complacent attitude toward a possible breakdown in the talks.

(110) Dalton, Op.Cit. pp.76-77, letter J.M.K. to Dalton, dated Oct. 28th, 1945.

(111) See J.M.K. to Dalton, Oct.28th, 1945, UE5169/1094/53.

Dalton denies any complacency, and indeed this could have been simply a misinterpretation by Keynes. However, so far as the denial of unrealism is concerned, Dalton blunders badly. He confuses Alternative 'B', a purely commercial loan with no ties, with paragraph (b) in Alternative 'A', which, as unrealistic as that was, was nowhere near so divorced from reality as Alternative 'B'.⁽¹¹²⁾ The explanation of this mistake might lie in the fact that Robbins returned to London at this time and elucidated the situation and the problems that the British had to face in Washington. At this time Dalton certainly modified his views rapidly, as we shall see. This rather violent change in his understanding of the situation may account for his inaccurate, later, recollections or he may simply have been reluctant to admit to his failure previously to assess the situation accurately.

Dalton, to give him his due, quickly adapted to the new situation once it had been clarified. He quickly abandoned any hopes for Alternative 'B' but he was still convinced that further efforts needed to be made to maintain certain basic rights for Britain's domestic and international economic roles. He worked hard on this for a number of days and during the late hours of November 5th and early morning of the following day, he presented his case to the inner Cabinet.⁽¹¹³⁾ In fact, Dalton's proposals were almost identical with those of October 27th, in Alternative 'A', with one or two adjustments. The first tranche of the credit was now to be at 2% rather than 1% and the commitments on liberalising the Sterling Area were slightly more specific.⁽¹¹⁴⁾

(112) See Dalton, Op.Cit. p.78 and Bacon 155 and 156, quoted above.

(113) Inner Cab. normally Atlee, Bevin, Dalton, Morrison and Cripps.

(114) See Ch.of Ex. to Hal.and J.M.K.Wash.Nov.6,1945, UE5349/1094/53: Dalton Op.Cit. pp 79-80; Watt, D.C. Op.Cit. p.65.

If, however, this slightly modified alternative 'A' was not acceptable, in view of the need to reach a settlement the British team should be empowered to go as far as \$4B at 2% with an option on a further \$1B at the same interest rate, with five years grace before the 50 years repayment instalments began. (115) Obviously if anything better was mooted by the Americans then they should try to negotiate for such gains on the position as it had been set out. However, if this minimum was all that was obtainable, then as much as Dalton disliked the idea a waiver clause was essential. The waiver must be couched in such language though, which would avoid discretionary action or interference by the U.S., a point that was reiterated by the Foreign Secretary. On the key question of the Sterling Area Dalton said:-

"... it was essential that the Americans should not have any grounds for interference. It was in our interest to make the best terms we could and we should be left with a free hand to make them." (116)

Both Atlee and Cripps agreed, largely for political reasons, that any large scale reduction of the sterling balances was virtually impossible, though they should be reduced as far as freely negotiated agreements allowed. At this point, Professor Robbins contributed to the discussion. As a preliminary observation he told the meeting that on the face of things the Americans did seem to want to help the U.K., but that such help was to be in accordance with Congressional and public opinion. But then, strangely after presenting Congress and public opinion as major restricting influences on the Administration, he went on to contradict this.

(115) See Top Secret Min.Meeting, 10 Downing St., Nov.5,1945, chaired by Atlee: Financial Policy, UE5400/1094/53.

(116) Ibid.

"On the old proposal for a commercial loan, Professor Robbins thought that there was little chance of anything on those lines emerging without the full support of the Administration, and the Administration would not help us to take steps which would enable us to turn to ourselves instead of collaborating in expanding world trade.above all else the Americans wanted liberalisation of the sterling area, ..." (117)

So here Robbins suggests that it was not so much negative restraining factors such as Congress that were determining some of the more objectionable aspects of American proposals but the positive policies held by the American decision makers. Robbins here accepts the existence of substantial differences separating the two countries, something as we shall see shortly Keynes was still rather reluctant to do. Still, at the ministerial meeting it was agreed that Dalton's suggestions should be accepted and communicated to Keynes for general guidance. However, before this could be done, full Cabinet acquiescence had to be gained, something which proved rather difficult. The left-wing of the Cabinet objected strongly to these proposals. There were a number of reasons for this. There was talk of a post-war socialist Commonwealth federation, a policy which would be difficult to carry out if the Sterling Area was weakened and relations with less developed countries aggravated by the writing-off of sterling balances. Secondly, the terms were undoubtedly harsh, and thirdly, there was a reluctance to be so closely tied to the capitalist U.S. when there were so many hopes of socialising the British economy and society. The criticisms of Dalton's policies were indeed severe.

"Alexander, Bevan and Shinwell were most unhappy and apprehensive about the future, though none of them pressed their objections so hard as to threaten to resign." (118)

(117) Ibid.

(118) Dalton, Op.Cit. p.79.

In fact, Bevin, Cripps and Dalton managed to push the proposals through the Cabinet, '...with no modification whatsoever...'. So Dalton was able to send off the new instructions to Keynes on the 6th. He told Keynes that he should make a lot of the fact that Britain was exchanging a ~~1~~ 2% sterling liability for a 2% dollar one, which furthermore was to enable the U.S. to export more to the Sterling Area. In taking this into consideration, Dalton thought it would be only fair that Britain should be allowed simply to progressively remove discrimination from the Sterling Area and to reduce sterling balances by voluntary agreement, rather than adopting more drastic policies. (119) As we shall see, these latter points were wholly inadequate to appease American expectations regarding British actions in this field.

Some details of the Cabinet's decisions were soon transmitted by Winant to the U.S., and it is interesting to note the immediate concentration on the relationship between the Sterling Area and the line of credit. Winant picked up the details of the Cabinet meeting in conversation with Bevin on the 6th, but of course he was not told of the minimum conditions Britain was prepared to accept. Bevin pointed out the significance of the second tranche which would allow Britain to liberalise the Sterling Area, to the benefit of the U.S. Winant himself emphasised this point in his letter to Byrnes, but of course Winant himself was somewhat out of touch with the developments in Washington, so little weight should be attached to his advice. (120)

(119) Ch. of Ex. to Wash. Nov. 6th, 1945, UE5349/1094/53.

(120) Winant to S.S. Nov. 6th, 1945, F.R. 1945, Vol. VI, pp156-157.

The British were still suffering from the ambivalence of their policies. One argument for a large loan was that it would enable the British to liberalise the Sterling Area. This would be possible because of the strengthened position of British reserves and the healthier relationship of immediate assets to liabilities. However, if the loan was of more meagre proportions then the British wished to isolate the Sterling Area from the loan negotiations for fear of America imposing conditions which at one level would solve the problem of the sterling balances by writing them off, but at the same time would place Britain in a position of great dependence, economically, upon the U.S. It would also destroy any possibility of the Sterling Area providing a viable alternative to American assistance. Keynes believed that some of the problems involved with the Sterling Area were soluble simply by a careful explanation of its workings and *raison d'etre*. In accordance with this on November 7th, he sent H.D.White a lengthy document on the Sterling Area in an attempt to educate him as to its workings.

Keynes' document is interesting in that it still reflects the view that Anglo-U.S. differences were caused by misunderstandings, i.e. communication problems rather than substantial differences of interests. This disregards the decided conflict of interests now well in evidence. This document was presented to White at a time when tempers were fraying and patience evaporating. Already it was obvious Keynes' original hope for a grant-in-aid and later his hope for an interest-free loan, were now both out of the question. And yet, in this paper on what was rapidly becoming the most contentious issue in Anglo-U.S. relations, Keynes displays an ingenuous innocence

toward the political realities of the situation. There was no way in which the U.S. could accept the Sterling Area in this form and give large financial aid.

In his paper Keynes briefly outlined the development of the Sterling Area, presenting it as a natural rather than a cultivated development. He indicated that it was only with the war that highly restrictive controls and import licences which discriminated against currencies in short supply, had been introduced. He went on to describe the solution to this.

"It is not the system as such which is restrictive of international commerce, but the fact that the area as a whole has command over a supply of dollars, and other foreign currencies, which is far from adequate to meet its natural requirements." (121)

This was not, of course, necessarily so. In fact the American argument was, liberalise trade, remove discriminatory restrictions and the workings of the free market economy (with a little help from the I.M.F.) would right these currency shortcomings. Whether they actually believed this or not is another matter - what was important to them was that this would give them access to Empire markets and raw materials. The British argued - more dollars, more trade. The U.S. was saying increase trade by reducing controls and more dollars would appear. Another point which was to be taken up by the Americans was J.M.K.'s explicit reference to Sterling Area non-discrimination by the end of 1946, if adequate funds were made available. No reference was made to the negotiations, some already concluded, with a number of European and other non-Sterling Area countries.

(121) J.M.K. to White, 'Sterling Area Arrangements', Nov.7th, 1945, UE5565/1094/53.

This omission had serious consequences for U.S. policies and eventually was to result in the American insistence on full-convertibility within twelve months of the loan agreement, abrogating British rights under the I.M.F. On the question of writing down the sterling balances, Keynes refused to risk alienating the Sterling Area, and insisted that no prior commitments could be made. Reductions, if possible, would have to be by negotiation and mutual agreement. Keynes concludes the paper rather arrogantly describing the concessions Britain was being called on to make, (what he omits to add is that Britain was committed to much of this before the loan talks and had further agreed that many of the practices were undesirable and inimical to world trade,) and finally he claims that only Britain could judge what aid she needed. We:-

"... would be foregoing the advantages to British exports of the large volume of potential purchasing power in overseas countries which would otherwise be available on a discriminatory basis favouring the U.K.: and they would be committing themselves to make substantial future payments in full convertible currency without the assistance to their capacity to liquidate the sterling balances which they would otherwise have retained. They were not prepared to accept commitments which they did not see their way to fulfill... Their acceptance of a plan on the general lines indicated above would, therefore, only be possible if the aid contemplated was on a sufficient scale, and of this they must be the final judges, to carry the weight of the commitments they would be expected to undertake." (122)

Despite this rather surprising attempt at frankness with White, Keynes on one point was to admit to more sinister practices. In a letter to Eady he said that it appeared as if the Americans had only just realised that the proposals under consideration did not cover payments agreements and accumulated sterling holdings of non-Sterling Area countries. Keynes admitted that he had

(122) Ibid.

deliberately avoided such topics but he was now fearful that the U.S. might launch a doctrinaire attack, demanding the abolition of such practices. This would seriously affect the standing of sterling and endanger important lines of agricultural supply such as Argentinian beef. Furthermore, Britain had to be wary of committing herself to convertibility and non-discrimination in this field when similar obligations might not be accepted by countries like Argentina. Keynes recommended that London should give attention to such possible eventualities as there was a danger of such a move by the Americans at a high level which could easily prove to be irresistible. Keynes suggested that a possible palliative, though maximum offer, might be to agree to run the clearing agreements on a non-discriminatory basis after the Sterling Area had been liberalised. (123)

The problem over the payment agreements with non-sterling countries was indeed soon to play a key role in the U.S./U.K. talks. On November 7, the U.S. Top Committee had, in fact, reviewed the situation as it stood. (124) Much of the talking was done by Vinson, who appeared critical of Britain's requests and the way they had been subject to so many changes. Also, he cast doubts on the accuracy of the assessment of the economic difficulties facing Britain, as presented by the British, particularly in the light of American assessments. (125) Vinson, taking into account a \$1B (U.S.) Canadian credit and a \$250m Export-Import Bank Loan, recommended a \$3.5B credit at 2%. He remarked on the most recent change in British proposals, from

(123) See J.M.K. to Eady, Nov. 8th, 1945, UE5441/1094/53.

(124) See F.R. 1945, Vol. VI, pp. 157-162, Keynes in the chair, Clayton, Vinson, Wallace, Eccles, McCabe, White and others.

(125) See the optimistic State Department Position Papers, prepared for the Potsdam Conference.

the two tranche November 5th proposal, to the November 7, one tranche proposal, which he found more acceptable but still objectionable in regard to its size. These British proposals were in fact submitted to the technical committee for scrutiny and revision. After Vinson's remarks a discussion began on the figure for the final amount of credit to be given. During this discussion White indicated that from a document recently received from Keynes, he inferred that the present proposals did not affect the non-Sterling Area monetary controls.⁽¹²⁶⁾ Following this consternation arose in the meeting. Clayton had previously supported a \$4B credit for the U.K. He had dropped his insistence on this in the face of opposition from Vinson and Eccles, with the proviso that he could revive such a proposal if the circumstances warranted it.⁽¹²⁷⁾ Now:-

because of

"... his conviction that the discriminatory features of the bilateral agreements must be eliminated... (and that)... the abolition of the dollar pool was much more important to U.S. exporters than the elimination of empire preference." (128)

Clayton proposed that the \$0.5B extra should be considered as a bargaining point to bring about a satisfactory conclusion of the remaining points of contention between the two countries, obviously here meaning the non-Sterling Area monetary control problem. It was agreed at the meeting that moves should be made to finalise the Lend-Lease clean-up and:-

(126) See above for details of J.M.K's document.

(127) See F.R.1945, Vol. VI, p.161, footnote 10, this decision was taken on Oct. 17, 1945, at the 4th meeting of the U.S. Financial Cmte.

(128) Ibid.

"With respect to amount the Group should first press fully with the British the question of handling of sterling convertibility, the sterling area dollar pool, and the status of the bilateral agreements."(129)

Repercussions from this meeting were soon to be felt by the British in Washington. On the 11th of November, Keynes told Dalton that (b) of Alternative 'A', the second part of the two tranche proposal, was now definitely out. The British delegation in Washington were now pressing for \$4.5B at 2% with five years grace which was more satisfactory for the Americans, but now technical points with regard to sterling were giving trouble. (130)

In the light of this and other feed-back from Washington, London once again began to reassess the situation. Now, largely because of the non-sterling area controls, the British already believed that the U.S. would press for full Bretton Woods convertibility at an early date. (131) Furthermore, if this meant that there was no chance of reaching a satisfactory financial agreement with the Americans, then Britain would not be able to accept the commercial agreements which had been provisionally accepted by the two sides.

On November 19, a crucial meeting was held of the U.S./U.K. Finance Committee. The Americans entered the meeting with an attitude which was becoming increasingly less sympathetic to the U.K. Even Clayton's attempts to concede an extra \$0.5B to the U.K. as a concession for more positive British action on sterling, had been vetoed by Vinson and Eccles, despite the Commerce Department's support. (132) Vinson began the meeting by proposing

(129) Ibid.

(130) J.M.K. to Dalton, Nov.11th 1945, UE5525/1094/53.

(131) Top Secret, Progress of Financial and Commercial Negotiations, Washington, Economic Relations Dept. Nov. 16, 1945, UE5621/1094/53.

(132) U.S. 5th Financial Cmte. Meeting, Nov.8th,1945, see footnote p.162. F.R.1945, Vol.VI.

figures which were to be inserted in the new draft that had been handed round at the meeting. He suggested a \$3.5B line of credit plus whatever was necessary to clean up Lend-Lease. Keynes replied with a ploy to try to separate Lend-Lease from the proposed credit. He suggested \$4B plus whatever was required by Lend-Lease, upon which he placed a maximum liability of \$500m. Vinson and Eccles objected strongly to this. First of all they rightly claimed this was a novelty. They had previously understood that British claims for \$4.5B included the assistance required for cleaning up Lend-Lease. Now they were demanding \$4.0B as a line of credit, plus a maximum liability of \$500m for Lend-Lease. Keynes explained further that this was taking into account the possibility of a \$1B loan of U.S. dollars by Canada which would simply off-set the cumulative trade imbalance between the two countries. No agreement could be reached on these points except that they were to be the object of further discussion. The duel between Vinson and Keynes continued over three further points. The first issue was of little significance, a minor disagreement over the level of British imports in relation to invoking the waiver clause. The other two points were more troublesome, both having to do with sterling. The first contentious point was a U.S. proposal that if the waiver was invoked then the U.K. should proportionally reduce its repayments on all other debts contracted after January 1st, 1945. The British would not accept this on a number of grounds. First of all there was an innate British dislike of retrospective legislation and secondly such a measure would restrict Britain's negotiating powers on future loans for the duration of the U.S. loan. This would adversely affect, in

particular, the chances of successfully negotiating settlements of the sterling balances. A similar objection was made to the third proposal which would have effectively placed a £175m p.a. limit on payments to holders of sterling balances, because if payments went above this, then repayment of the U.S. loan was to be similarly accelerated. Clayton with his intense dislike of the sterling area stepped in at this point.

"He did not see how it would be possible for the Administration to persuade Congress to accept a settlement under which the U.K. would be left free to make payments to its sterling creditors considerably in excess of payments on the U.S. debt." (133)

After further discussion it was decided to refer the issue back to London.

There is no doubt that the official American report of the above meeting does not accurately reflect either the tension or the substantial differences that existed between the two sides. However, in a personal telegram sent the following day to Eady, Keynes gives us a clearer insight into the problems. In the telegram he asked for advice from London, to be based on previous telegrams, and guesstimates of what they thought the Americans might accept. He went on to add that the situation was deteriorating badly and that he was reaching the end of his physical capabilities. (134) On the 21st a more detailed and lengthy appraisal was sent to Dalton from all members of the British mission in Washington. The mission believed that to some extent the Americans at the meeting had been pressing to see how far they could go. For example, the question of scaling down the sterling balances was solved without too much controversy. (135)

(133) U.S./U.K. Finance Cmte. Meeting, Nove. 19, 1945, Vinson in the Chair, F.R. 1945, Vol. VI, p. 166.

(134) Keynes to Eady and Bridges, Nov. 20th, 1945, UE5661/1094/53.

(135) See para. 6, (ii and (iii) of the Finance Agreement.

A more immediate indication of this was a reluctance expressed by the Americans that the November 18th draft be presented to the U.K. government as in any way a finalised document. In support of this they had deliberately omitted the figures for the credit. (136) Taking these facts into account, and some progress that had been made in regard to the relationship between Britain's balance of payments and conditions for invoking the waiver, the mission still held out hopes for a \$4B credit. This was seen, however, as conditional upon achieving a satisfactory conclusion of Lend-Lease discussions which were becoming more of a problem. The British mission in Washington held the impression that the U.S. were undecided whether to apply a 3c agreement to solve this or not. This was something the British would resist very strongly indeed. They wanted the U.S. to reduce Britain's liabilities under Lend-Lease by their acceptance of reverse liability for aircraft diverted back to the U.S. by the U.K. at the time of Pearl Harbor. In order to strengthen Britain's bargaining position, the mission requested that the government should not allow them any lee-way for concessions on this. There was an exception to this, however. If the U.S. offered \$4½B, which included an amount to clear up Lend-Lease, then perhaps the U.K. should accept liability up to \$600m. The other two thorny U.S. proposals, relating to the standing of sterling, were described as simply 'inacceptable' (sic.). On the three other major issues, Sterling Area Exchange Arrangements (para.6), Exchange Restrictions and Import Controls (para.8), and other Exchange Arrangements (para.7), the mission recommended acceptance of the former two. On the latter issue they questioned whether in fact it would be practical to maintain payments'

(136) See Nabob 372, UE5672/1094/53.

agreements with non-Sterling Area countries once currently earned sterling was made freely available. In particular if it was possible to concede this to the Americans, it would be an excellent bargaining counter to take to Clayton as an ultimate concession to settle any outstanding differences between the two countries. (137)

Keynes in fact misjudged somewhat London Reaction to the American draft. (138) He was well aware of the deterioration in the situation and wrote a personal letter to Cato about this. In particular, trouble was flaring up over the Lend-Lease settlement, with the Americans talking of ~~£~~B liability at 2 $\frac{3}{8}$ %, i.e. 3c terms. The influence of Crowley, (despite his retirement), Jesse Jones and Baruch, was being felt in a resurgence of hard-line business attitudes.

"The American side now seem convinced that they can get nothing past Congress which they cannot represent as hard trading out of which America gets as much future benefit as it concedes." (139)

Nevertheless, Dalton's reactions to the U.S. proposals still somewhat surprised Keynes. Dalton, in fact was still not fully aware of the turn for the worse which was running its course in the U.S., but was still extremely exasperated. In his view the original *raison d'etre* for financial assistance was to enable Britain to (a) overcome her balance of payments problems, (b) to amend the serious situation in regard to the foreign holdings of sterling. To many, the money now offered seemed inadequate to accomplish these two goals. What was even more

(137) J.S.M. Wash. to Cabinet Offices, Nov.21st, 1945, UE5672/1094/53.

(138) Contained in Nabob 372, UE5672/1094/53.

(139) Keynes to Cato, Nov.22, 1945, UE5676/1094/53.

worrying, as Dalton pointed out to the Cabinet, was that Britain was being subjected to a diktat from Washington. He did not mention the fact that the U.S. was now reluctant to see the proposed credit being used to service sterling debts, but he did concentrate for some time on the time limit the U.S. wished to impose, i.e. end of 1946, by which time the U.K. was supposed to reach agreement with her sterling creditors such that currently earned sterling could be made freely convertible. Apart from this appearing impractical to the British, it would also prejudice the possibility of reaching satisfactory agreements with such creditors, as they would know that Britain would have to reach an accommodation with them by that time. Furthermore, Britain was being forced to give up certain safeguards provided by the I.M.F. and become tied to a U.S./U.K. agreement for fifty years which unlike the I.M.F. she could not walk out of as easily. To Dalton, the Americans seemed to have three objectives, a fourth was later added by J.E.Coulson.

- 1) No waiver if British reserves exceed fx.
- 2) Convertibility by 1946.
- 3) Abandonment of bilateral payments agreements, including those with Europe and Latin America.
- 4) Britain could not repay more to Sterling Area creditors in a year than to the U.S. (140)

In considering the above it was decided that Atlee himself should write to Halifax and indicate clearly just what Britain would or would not accept. There was great concern regarding the untoward effects of the controversies over economic issues were having on Anglo-American relations. At the same time,

(140) Top Secret Cab.Memo, Ch.of Ex. Gen. 89/13, Nov.22, 1945, UE5770/1094/53.

Atlee had to consider the possible political repercussions in the U.K. as well as the more obvious threats to British interests the signature of an agreement of the presently proposed nature would have. Atlee declared that Britain was not, repeat not, prepared to accept 1946 as a dead-line for concluding negotiations with sterling creditors, abrogation (i.e. by convertibility) of Britain's transitional rights, under Bretton Woods, at the end of 1946, preferential rights of repayment for the U.S. loan or the addition of a reserves limit as a condition for the waiver.⁽¹⁴¹⁾ Unfortunately, even before this reached Washington, the talks took yet another turn for the worse.

As the Prime Minister's letter was being sent off the U.S./U.K. Combined Top Committee was discussing the thorny problem of cleaning up Lend-Lease and surplus property. The meeting was acrimonious and disturbing. Clayton, Vinson and McCabe were the front runners for the U.S., and basically wanted to insist on a lump sum liability for the British of \$750m at 3c terms, i.e. 2 $\frac{3}{8}$ % or cash to cover the two categories. The Americans added two underlying threats, first of all the present figure was dependent upon a satisfactory conclusion of the overall economic talks and secondly if a constituent part of the lump sum of \$750m was quibbled over then there would have to be an item by item review, which Vinson assured the British would come to considerably more than the present figure. In fact, the British did quibble, in particular over the figure of \$150m, which had been placed on surplus property. The British in fact had offered \$5m to cover this.⁽¹⁴²⁾ McCabe at one stage incautiously suggested that the

(141) P.M. to Hal. Nov.24th, 1945, UE5768/1094/53.

(142) Dalton in his attempts to present the agreement in a reasonable light notes these 'large stocks' as one of the major benefits to the U.K. p.81, Op.Cit.

U.S. sell the surplus property herself to third parties, a proposal Keynes smoothly said he would be most happy to accept. At this stage Clayton stepped in to fill the breach and insisted that the figure had to be treated as a whole. Vinson strongly backed him up. The British then tried to have the liability reduced in consideration of the aircraft re-directed back to the U.S. at the time of Pearl Harbor, but to no avail. The discussions terminated inconclusively. (143)

By November 27th, the Americans were in possession of the British Government's views on the financial talks. The only point which had not been communicated without qualification was Atlee's stipulation regarding the convertibility of currently earned sterling of the sterling area, by the end of 1946. Keynes pointed out to him that this was back-tracking on previous British commitments on this. (144) The remainder of 'the unacceptables' stood. On the positive side, the British were offering:-

(143) F.R. 1945, Vol.VI, pp 168-173, Minutes U.S./U.K. Combined Top Cmte. Nov.24,1945, shortly afterwards at the 11th meeting of the U.S. Finance Cmte \$650m was agreed on, exclusive of the loan, for Lend-Lease and surplus property. See footnote p.173, Ibid.

(144) See J.M.K. to White, 'Sterling Area Arrangements', Nov. 7th, 1945, UE5565/1094/53, Baboon 303, Ch.of Ex. to Keynes, Nov. 26, 1945, UE5672/1094/53 and Keynes' reply Nabob 400, from J.M.K., Hal. and all members of the Mission to Dalton, Nov.27, 1945, UE5823/1094/53.

- a) To modify the Sterling Area, i.e. convertibility of currently earned Sterling Area sterling, by 1946, excluding military expenditures until 1948.
- b) To recommend the I.M.F. to Parliament.
- c) To associate the British Government with the recent documents on trade and commerce.
- d) To modify as quickly as possible other exchange and import restrictions, referred to in paras. 7 and 8 of the U.S. draft.
- e) To seek voluntary agreements with sterling creditors on lines proposed by the U.S. at an early date, and in accordance with circumstances. (145)

The British were so disturbed by the developments in Washington that Dalton dispatched Sir Edward Bridges, at extremely short notice, on November 30th, to try to sort things out and rejuvenate the exhausted British team. Bridges was supplied with a new British draft but it was only considered 'en passant' by the Americans. At the Combined Finance Committee meeting on December 2nd, the U.S. put the British draft to one side and insisted that a new draft they had just drawn up should be the basis of the agreement. (146)

(145) J.S.M. Wash. to Cab. Offices, Nov. 25, 1945, 'Comments of the U.K. Government on the provisional American Draft', UE57811/1094/53.

(146) For text of British Doc. See CP(45)312, considered by Cabinet on Nov. 28, 1945, transmitted to British in Wash. Baboon 315, Nov. 29th, UE5879/1094/53 - dated Dec. 1st, for the meeting with U.S. reps. For U.S. doc. see F.R. 1945, Vol. VI, pp 173-177. 'U.S. Draft Memo of Understanding on Financial Matters', Nov. 30th, 1945.

At the arduous daylong meeting on the following day, slight concessions were made to the British. The U.S. agreed to a rewording of the time limit for convertibility of currently earned sterling, to twelve months after the financial agreement came into effect, and that there should be the possibility of mutually agreeing to alter this. It should also be added a problem mentioned previously was also solved at this time regarding the limit to be allowed on sterling debt repayments.⁽¹⁴⁷⁾ However, on the crucial issues, the Americans refused to be moved. They still insisted on regulating future loans to the U.K. to keep them in line with the U.S. credit and on preventing the invocation of the waiver unless repayments to sterling creditors were also reduced proportionally. Nor would they change the twelve month limit on convertibility, agree to the deferment of principal or base the waiver on a one rather than a five year moving average.⁽¹⁴⁸⁾ The concessions made by the Americans, small as they were, were only made "... with great reluctance."⁽¹⁴⁹⁾ The five year moving average was acceptable, although the British would have preferred one year, but now at least it was divorced from the level of reserves.⁽¹⁵⁰⁾ Of the British aims enumerated by Coulson on November 29th⁽¹⁵¹⁾, only one had been achieved.

(147) See para 6(1) and 5(b) of final agreement:- decided on by U.S. Fin. Cmte. Nov. 28. embodied in Nov. 30th. U.S. draft, para 5(1), 4(b). See footnote F.R.1945, Vol.VI,p.167.

(148) See F.R.1945, Vol. VI, pp 185-7, Dec. 3, 1945, SS to Winant.

(149) Wash. to Cab. Offices, Nabob 436, UE5984/1094/53, Nov. 30, 1945.

(150) Ibid.

(151) See note on CP(45)312, by J.E.Coulson, Nov.29,1945, UE5967/1094/53.

Of the other two, the U.S. had effectively maintained the priority of their loan over others and 1946 as the deadline for convertibility. Despite this relative lack of success, Bridges wrote personally to Atlee on the 3rd. In his opinion there was little left to argue about. The lines had been clearly drawn. The only area where some modification might be possible would be in regard to payments' agreements outside the Sterling Area where the U.S. representatives were unsure of their facts. (152)

The Prime Minister, Dalton and Cripps were still dissatisfied. Atlee called in Ambassador Winant and informed him of the strong British objections to the extant American proposals. He wrote in a similar vein to the Mission in Washington. (153) Atlee expressed his belief that the Bretton Woods Agreement would not be accepted by Parliament because of the effect on it of the proposed financial agreement.

"The three essential points where the financial agreement runs counter to the Bretton Woods Agreement are, first, we are deprived of the benefit of the five-year transitional period provided at Bretton Woods, which, for us, alone among all the other signatories, is cut down to fifteen months; second, we are deprived, alone of all the other signatories, of the benefit of the scarce currencies clause; third, we are deprived, alone of all the other signatories, of the right, by resigning membership of the fund, to regain freedom of action in matters regulated by the Bretton Woods agreement. This third freedom, moreover, is withdrawn from us for more than half a century, i.e. during the currency of the loan agreement." (154)

(152) Bridges to Atlee, Nabob 446, Dec.3, 1945, UE5984/1094/53.

(153) See F.K. 1945, Vol.VI, pp 188-89, Winant to S.S. Dec.3, 1945, and P.M., Ch.of Ex. and Pres.B.of T. to Wash. Baboon 338, Dec. 3, 1945, UE5984/1094/53.

(154) Baboon 338, Ibid.

Bridges' reply to Atlee was rather unusual. First of all he claimed that the telegram as received appeared 'corrupt', and requested a further copy. He continued by discussing in some detail the possible provisions for withdrawal from the I.M.F. and then concluded by indicating the need for a new copy to be sent speedily to reach him before the meeting of the U.S./U.K. Finance Committee later that day. Bridges gives the impression of being irritated by the opinions expressed from London and that he wished to clinch the deal as it stood. (155) Nevertheless, Halifax strongly pressed the objections of the Prime Minister at the meeting and Vinson and Clayton readily agreed to concede on two of the three main objections. Britain was not to be deprived of the scarce currency clause nor of her right to withdraw from the I.M.F. On the third issue the Americans stood firm.

"Much as the U.S. representatives would regret a breakdown in negotiations which had come so near a successful conclusion, that must be the outcome if the U.K. felt unable to accept the substance of this particular provision." (156)

It looked as if the twelve month convertibility deadline would have to stand.

Bridges informed Eady, in London, of the American stand. The position was considered by Atlee, Dalton, Bevin, Cripps, Bevan and Shinwell. After considerable disagreement they decided one more appeal should be made on the convertibility question, but if it was rejected by the Americans, then they

(155) Bridges to Eady, Dec. 4, 1945, UE5984/1094/53.

(156) F.R. 1945, Vol. VI, p.191, Minutes of Combined Finance Cmte. Dec. 4, 1945.

decided to accept the agreement as it stood. (157) The
Americans remained adamant over the reduction of the transition
period and the agreement was signed as it stood on December 6th,
1945. (158)

(157) CM (45) 59, Conclusions, UE6101/1094/53.

(158) F.R. 1945, Vol. VI, pp 197-4, Minutes U.S./U.K.
Combined Financial Cmte, Dec.5, 1945.

CONCLUSION

"That there was something accidental about the American response to the world is a comforting reassurance to those who wish to confuse the American rhetoric and descriptions of intentions with the realities and purposes of operational power, but given the society and its needs American Foreign Policy could hardly have been different."

(1)

In the introduction I tried to demonstrate the essentialist nature of Kolko's basic explanation, and why I thought this was inappropriate for studying events which have occurred in the past. At the same time I feel a certain sympathy with much of the substance of what Kolko has to say. In particular I concur with his implied criticism of idealistic historical accounts⁽²⁾ which ignore, or gloss over, the problems of economic interests in international affairs. Indeed, many of the comments he has made on the relationships between the U.S. and the U.K. appear consonant with what I myself have said in this thesis, particularly with regard to the importance of economic issues. However, there is a crucial difference, and this lies in the nature of the grounds on which such statements can be made. It is here that I diverge from Kolko, and many other writers⁽³⁾, because it is this which determines the nature of the explanation given. The grounds on which I have based my account should now be abundantly clear. Whether such an account constructed from considerations and judgements of

(1) Kolko, Op.Cit. p.625.

(2) For example, See H.Finer 'Dulles Over Suez', Heineman, London, 1964.

(3) For example, David Kees and R.N.Gardner.

American 'rhetoric', 'descriptions of intentions' and evidence of reasons is comforting or reassuring is irrelevant to the task of trying to establish what was or was not the case. What I would now like to do is briefly summarise what I found the case to be.

During the war Britain was plagued with the problem of paying for the materials which were necessary to prosecute the war against the Axis Powers. The attempt to come to terms with this problem has formed the basis of this account. The implications of the dilemma to prosecute successfully a war for survival and attempt to avoid, not simply economic but political bankruptcy at the end of the conflict, were exceedingly pervasive for the U.K. Increasingly as the war progressed, the U.K. had to turn to the U.S. and rely on her for economic and military assistance. Such a policy was inevitable if the U.K. was to survive. There was no other friendly power capable of offering the assistance which the U.K. required. However, despite the close collaboration which developed between the two Anglo-Saxon powers, there was little illusion concerning the fact that the two countries' interests did not constitute an identity. There would be little comfort for the British in a victory over the Axis Powers if her political and economic sovereignty was to be challenged to an unacceptable level by the power and influence of the U.S.

At first glance the reasons for the conflict of interests which developed between the U.S. and the U.K. appeared elusive. Both the British and American governments had expressed concern over the economic experiences of the 1920's and 1930's and hoped that they might avoid the pitfalls which had followed the

end of the Great War. Furthermore, despite the deeply felt reservations of British Imperialists and some American Republicans, one can legitimately attribute policies of economic de-control and liberal trading practices to both the U.K. and the U.S. This general inclination of both countries certainly constituted a common ground which at least enabled the instigation of talks between the two countries on a wide spectrum of economic problems, even if it did not guarantee their successful conclusion. Unfortunately at the same time it confused the issues somewhat.

The reasons for this were that first of all it was indeed only a general commitment and by no means was it capable of fully determining explicit policy on particular areas of economic activity. For example, neither side contemplated the institution on principle, of a full laissez faire international economy. Liberalisation was not seen as an absolute principle and consequently the understanding of the term was subject to different definitions in different contexts. Both countries were also determined to maintain and so far as agriculture was concerned, increase, controls to further their own perceived national interests. Secondly, there was the crucial question for Britain concerning the nature of circumstances under which policies of de-control and liberalisation could be effected without severely damaging the domestic economy. Thirdly, there was little doubt in either governments' views that the desired goal of a liberal international economy had to be pursued with the help of certain international agreements and institutions which would establish a framework of rules within which international trade and commerce could function in an orderly fashion. However, the establishment of such a framework would

inevitably favour some and be prejudicial to others. The establishment of such a framework of rules could not be divorced from the perceived interests of the nations involved. It soon became obvious to both the U.S. and the U.K. that they did in fact have conflicting interests when trying to decide the nature of the monetary and trade organisations. Such institutions could not be established on purely economic criteria, they inevitably reflected the politico-economic judgements of the two countries, judgements which were based on what was best for the two respective nations. Finally, the attempts to create a new international economic order for the post-war period by Britain and the U.S. was further complicated by occasional misunderstandings and confusions caused by the competing views which vied for supremacy within the two administrations.

In the opening chapter we saw how the British had to extend and intensify economic controls to meet the demands placed on the economy by war production. The main impetus for such controls emanated from the Bank of England, but it was only with great reluctance that monetary and commercial controls were adopted to safeguard the standing of sterling and to effectuate the optimum use of resources.⁽⁴⁾ The Americans were quick to criticise such measures, but did little that would have enabled the British to avoid them. Indeed, American actions evinced little sympathy for Britain's precarious economic position. There were some legal restraints on what the American Administration could do in the early months of the

(4) See pp. 3 - 7, when no further details are given such references are to the present work.

war, but these could hardly be regarded as insuperable. In fact the Americans seemed somewhat pre-occupied with taking advantage of Britain's position. They pressed for a favourable revision of the 1938 Anglo-American Trade Agreement and continuously insisted that Britain would have to divest herself of her overseas assets, particularly in the U.S. and Latin America, before it would be possible to push any provisions for economic help for Britain through Congress.⁽⁵⁾ This incessant invocation of Congressional opposition to measures that would strengthen Britain's position was to wear somewhat thin during the latter stages of the war. However, this is not to say there was no opposition in Congress, but that such opposition was frequently manipulated to excuse the more brutal pursuit of American interest. Before the U.S. became a co-belligerent there appeared to be little bargaining leverage open to the U.K. to counter such American demands. In the trade talks she was able to stall by insisting on the need to consult with the Dominions, a ploy which was to be used more than once, but there was no avoiding the sale of her investments. The need for ready cash was too urgent, and the Americans would only provide a limited amount of help here. The most spectacular sale was that of the Viscose Corporation just prior to Lend-Lease⁽⁶⁾, but throughout the war Britain divested herself of £1,118m worth of overseas investments.⁽⁷⁾

(5) See pp. 18 - 19

(6) See p.19

(7) See Cmd. 6706, 1945.

As early as mid-1940 the burden of the cost of war, a burden which the U.S. did little to alleviate until Lend-Lease, was such that Keynes and many others thought that there would be no alternative to the perpetuation of controls and bilateralism at the end of the war, if Britain was to avoid an economic collapse. There is a sense of irony here in that American policy toward the U.K. in the early part of the war was partially responsible for the stringency of the economic controls Britain introduced: controls the Americans vehemently condemned and urged Britain to dispense with at the end of hostilities. Unfortunately the force of such irony was largely lost on the American negotiators.

The problems of economic policy first arose between the two countries in talks for a supplement to the 1938 Trade Agreement⁽⁸⁾. In the course of these talks it became obvious that the Americans wanted to modify Britain's preferential trade system. However, the rapid alteration of Britain's trade position and eventually the introduction of Lend-Lease, which effectively placed Britain's trade on a non-commercial basis, rendered the trade talks somewhat irrelevant and certainly an unsuitable venue for the discussion of economic principles with wide implications. In any case the specific concessions the Americans were demanding and the deferred benefit of a British commitment to liberal post-war trade policies were considered to be grossly incommensurate with what Hawkins was offering the British in return.⁽⁹⁾

(8) See Chapter I.

(9) See p.22

The possibility of Britain committing herself to policies of liberal trading also arose simultaneously in the Lend-Lease consideration talks in a much more specific and forceful manner. The American State Department consistently maintained that the development of a stable trade system with a high level of transactions depended upon Britain's abandonment of discriminatory preferential policies. It was not until the closing stages of the war with the appearance of Stettinius, and a number of other appointments in the State Department, most notably William Clayton that this policy was finally relegated to a secondary place below that of promoting non-discriminatory monetary policies. Both policies were intended to promote American dominance in the international monetary field and enable American enterprise to enter markets previously the preserve of Britain.

The British strongly resisted the pressures from the State Department to enter into commitments on trade principles which they feared might prejudice Britain's post-war economic recovery and which could be wholly inappropriate for the conditions which might then prevail. As the Consideration Talks continued, however, the Americans became more and more insistent. The problem was eventually considered at the highest level in August 1941, when the issues of post-war economic policy were raised at the Placentia Bay meeting between Roosevelt and Churchill.⁽¹⁰⁾

It has been recently alleged that Churchill did not regard economic policy as very significant and showed little concern with it.⁽¹¹⁾ There is no doubt that Churchill's primary interests

(10) See pp. 31 - 41.

(11) See, 'Roosevelt and Churchill - Their Secret Wartime Correspondence', Lowenstein, et al, Barrie and Jenkins, London 1975, See introduction.

were in non-economic foreign policy and war strategy, but the evidence also suggests that he was aware of the significance of economic policy and was by no means ignorant of the political issues involved. His performance at Placentia Bay and the Second Quebec Conference, his views on the Consideration Agreement and later in the war on aviation rights, his timely speech on tariffs and preferences in the House on April 21, 1944, and his attitude toward the American control of Britain's reserves, all indicate a lively concern and appreciation of these politico-economic problems.

At Placentia Bay Churchill strongly defended the status quo of Britain's economic relationships. He refused to agree to Welles' demands and the resulting document was dangerously ambiguous. In the U.K. the prevalent view was that Britain had avoided any doctrinaire commitment to abolish preferences and other discriminatory practices. The Charter was regarded as a statement of aspirations by the two countries to work jointly towards a stable, more liberal world trading system. In the U.S. Hull was disappointed by the lack of a specific commitment by Britain to non-discrimination but promoted the impression and implied that he took the declaration to mean that Britain was to abolish trade preferences. The fact was that the British and Americans did have a substantial conflict of interests here. The U.S. was determined to break into British empire markets via the abolition of Britain's preferential system. Ironically the British were in fact not averse to liberalising their trade policies, but this would depend upon the circumstances and in particular, American policies. The British believed that their post-war economic

situation might be too precarious to commit themselves, on principle, to a policy of de-control. The result of this was a stand-off; a declaration which was ambiguous in nature and one which caused leaders of the State Department to be determined that any subsequent declaration or agreement would be far more explicit.

By the end of 1941 Britain was already concerned with possible post-war economic problems, the most basic and most feared of all was a massive imbalance of payments. It soon became obvious to the British that their economic standing, would in all probability, be so precarious that isolated agreements on certain aspects of economic policy would be inadequate and possibly dangerous. The different aspects of economic activity were all inter-connected, and if Britain's nicely balanced economy was to recover, stock would have to be taken of the whole economic picture to ensure that no part of it tipped the scales. As we have seen in chapter three, Keynes changed his stance over the need for economic controls and by late 1941 he believed that a monetary International Clearing Union might enable Britain to avoid the most stringent types of controls. Indeed in its early form the C.U. was such a comprehensive and radical plan that it could have stood virtually irrespective of other economic provisions. However, as it was gradually modified by the Americans it became increasingly necessary to formulate other economic and trade policies as necessary conditions under which the S.F. could operate successfully. The overtly political functions which the U.S. imposed upon the S.F. and the continuation of national currencies and gold as the only means of settling international

accounts meant that the passive or neutral banking characteristics of the C.U. were largely lost. This loss of neutrality meant that the S.F. could be more easily challenged on politico-economic grounds and that active political decisions would have to be taken to ensure its efficient functioning. In short its success would depend far more on the prevailing politico-economic relations in the world; it was not in itself a solution to such problems, which the C.U. had partially been. Thus, for the British, the monetary proposals would have to be complemented by trade and commercial provisions. Their delicate economic position made it essential that conditions both in the trade and commercial field were such that they could commit themselves to more liberal economic policies.

In view of these perceptions the British consistently argued that they should not undertake any general policy commitments which prevailing circumstances might make it impossible for them to carry out. For although one of the major contentions of the account is that economic policies did have a high priority placed upon them, they must not be conceived of outside a more general context. The British were also deeply pre-occupied with the strategic and political relationships vis a vis the Empire, Western Europe and Russia. The strategic weakness of the British Empire had been cruelly demonstrated by the Japanese and the British were concerned with finding some means by which her strategic influence in the world might be bolstered up in the post-war period. Friendly relations with the United States were seen as a minimum requirement of such a policy. Thus the danger of disrupting such relations by

Britain having to renege on economic commitments she had given to the U.S. was very much to the forefront in British thinking. Furthermore, the situation was complicated by the development of a full-employment policy by the British government. This began with the Beveridge Report of 1942 and was later fully articulated in Beveridge's White Paper 'Full Employment in a Free Society' in 1944.⁽¹²⁾ Such pledges could not be redeemed if international economic commitments were made which could force the British to impose deflationary domestic policies. The U.S. however, did not hold such progressive views on social policy and was reluctant to accept arguments for the maintenance of monetary and trade controls on such grounds. British efforts to avoid commitments to economic policies without due regard to prevailing conditions were in the end compromised, partly because of this, and because such efforts were seen as a challenge to U.S. interests.

As the war progressed Britain's economy was geared more and more to war production based on Lend-Lease supplies. One major economic result of this was the loss of markets and overseas trade as her economy was now functioning primarily on a non-commercial basis. Britain's volume of trade dwindled to one-third its immediate pre-war level. Other issues aggravated the situation, such as the restrictions imposed by the Americans under the authority of Lend-Lease, but suffice it to say for the moment Britain was deeply worried over her future trade prospects.

(12) See Cmd. 6527, 1944.

The early American insistence that Britain should commit herself to non-discriminatory trade practices was first seen as a misunderstanding by the British. For example, N.B. Ronald as late as early 1942 thought that the U.K. would have an unanswerable case against entering commitments of the character the U.S. wanted, once it was properly explained.⁽¹³⁾ Such hopes were eventually to prove groundless and as the conflict of interests became clear it was more and more obvious that it was going to be extremely difficult to resolve the differences of the two countries.

Not only were the British discovering it difficult to come to terms with American ideas for the post-war economic super-structure but they also had little success on more specific areas of economic policy. We have seen quite clearly the controversy which arose over the 1941-42 wheat negotiations when the Americans abandoned their own 'principles' to further their agricultural interests. But this was not the only set of talks on specific economic issues which proved inconclusive. The Hot Springs Food Conference of 1943, the oil, telecommunications and aviation talks were all abortive to one degree or another, the supplementary trade talks failed and American attempts to disrupt British meat supplies from the Argentine was a further symptom of the two countries' conflicting economic interests. Britain was in a weak and exposed position but still held an institutionalised legacy of economic influence;

(13) See p.80.

landing rights in Empire countries, military bases in the Middle and Far East, oil rights in the Arab States and great influence as the world's largest importer of food. The U.S. wanted a major say in all these areas for economic and strategic reasons. For example, she was concerned about the depletion of her own oil reserves and also saw great opportunities for expanding U.S. civil aviation following the concentration on developing bombers during the war. This expansion however depended very much on world-wide landing rights. Thus such conflicting interests produced inconclusive results. So as far as Britain was concerned, there was little encouragement for her from the attempts which were made to provide rules and regulations in specific areas of economic activity. There was little to indicate how economic activity in these areas would develop after the war. There was no security or certainty nor anything concrete which might have indicated how British interests would fare after the war. In short, there was not much to encourage Britain to adopt a more favourable attitude toward American policies of liberalisation.

Unfortunately for Britain her economic weakness was almost as obvious to the U.S. as it was to her. In the memorandum which was confidentially passed to the British in early 1942, Pasvolsky not only urged Britain to concur in U.S. economic policies, but suggested that this was a reasonable price to pay for the help which only the U.S. could give for Britain's post-war recovery.⁽¹⁴⁾ The British, and in particular the Board of Trade, and the Treasury, were well aware that cooperation with the U.S. in trade and in pursuing

(14) See p.78.

policies of multilateralism were the best policy alternatives. But they were not the only ones. The British still had a trade and monetary system based on the Empire. A system which many believed had significantly contributed to Britain's relatively quick recovery from the slump of the early 1930's. With such an option open they were not prepared to plunge headlong after the American lead towards radical decontrol of international trade and monetary exchanges. Particularly in the light of American involvement in the war, the British believed that they could evade some of the more stringent commitments which the Americans desired. Put crudely, they wanted to take advantage of America's weakened bargaining position brought about by her entry into the war.

The Americans, however, were not to be deflected from their goal by the war. The wrangling over the discrimination issue continued unabated. This was not totally unexpected by the British, and indeed they hoped that such discussions would now bring them some benefit. Unfortunately the tide of events in the Far East was not solely restricted to affecting the Americans. The notable victories the Japanese inflicted on the U.K., combined with Rommel's January offensive in the Western Desert, brought Britain's prestige down to a low ebb indeed. Furthermore, the Japanese successes, particularly in Malaya with her tin and rubber dollar earning capacity, which had been one of the lynch-pins of the Sterling Area, severely undermined the cohesion of imperial relationships. The preferential and monetary arrangements with the empire, which had been seen as a possible alternative to in-depth collaboration with the U.S. was thus dangerously undermined⁽¹⁵⁾. In view of this, Britain's

(15) See p.90.

declining prestige, and the insistence of the Americans, finally voiced by Roosevelt, the British reluctantly felt obliged to sign the American version of the Lend-Lease Agreement.

The agreement was not however a total capitulation on Britain's part. Roosevelt's participation in the negotiations took the form of personal appeals to Churchill and finally assurances that preferences were not to be abolished prior to consultations between the two and that actions on the economic front should be such as to be mutually advantageous. Furthermore, the abolition of preferences was not to be considered as a quid pro quo for Lend-Lease. Acheson, who had been one of the key U.S. negotiators in the Consideration Talks was later to speak lightly of this final exchange of letters between Churchill and Roosevelt. This is somewhat strange in the light of events in 1944, particularly Churchill's April statement in Parliament concerning tariffs and preferences. The leading Republican senator on foreign policy, Arthur Vandenberg certainly took a dim view of this personal assurance from Roosevelt. Not simply because it obviously qualified the British commitment to abolish preferences in Article VII of the 1942 agreement, but also because of the possibility that other understandings had been reached between the two leaders which might affect American policy⁽¹⁶⁾. Thus the agreement was not quite what it appeared to be at face value. The divergence of views within the two administrations had not been conclusively resolved. Both countries placed different emphases on the agreement and indeed the issue was to re-emerge with Law Mission

(16) See Vandenberg, Op.Cit. pp 98-99.

talks at the end of 1943 and again in late 1944 and 1945. The problem in fact was never satisfactorily resolved, instead it diminished in importance for the U.S. because of the shift in policy emphasis in the State Department toward primary concern over Britain's monetary arrangements, and secondly, because of a more realistic appreciation of Britain's economic plight. An analysis which suggested that preferences alone would not be such a barrier to American enterprise, particularly as there would be little alternative to buying U.S. industrial products for many months after the end of the war. Such a switch in emphasis was to have some serious consequences for the British.

The year 1942, so far as economic planning between the two countries is concerned, was interesting not so much in terms of substantive negotiations but in the conditions which inhibited the two sides from continuing their planning efforts. Efforts which the 1942 agreement had explicitly stated should be undertaken expeditiously. There were, however, a number of problems arising in 1942 which were to affect the character of further negotiations and which partly explain the reasons for delay.

1942 saw the beginning of the concern with international monetary questions. Questions which were to cause major problems within the U.S. administration. The State Department, under Hull, was determined to bring about a change in the economic relations between states in the post-war world. Hull vigorously pursued a policy which would enable American trade and overseas investments to expand greatly in the period after the war. His central concern was thus to break down the preferential tariff system of the largest pre-war trading bloc.

However, as I have indicated before, trade was simply one component part of the international economy. With regard to monetary policy, an area which necessarily complemented trade policies, the State Department did not have the final say. Indeed, this area became dominated by Morgenthau's Treasury Department. This led to much ill-feeling between the two departments, both on the personal level and over substantive policies. The Treasury cared little for Hull's open-door liberal trade policies. Their concern was to establish monetary stability and the pre-eminence of the dollar in world trade. The ruthless pursuit of such policies by Morgenthau affected the State Department's trade policies to a considerable extent.

First of all the Treasury on a number of occasions offered the prospects of discriminating against American trade interests if there was a scarcity of dollars within the S.F. This was contrary to the basic principle of State Department economic policy. Secondly, Morgenthau in collusion with Crowley's F.E.A., limited Britain's reserves to an inordinately low level, especially in view of the overseas liabilities she was rapidly accumulating. This worried members of Hull's department and Hull himself who wanted economic cooperation from Britain, which Treasury policy might pre-empt if Britain was unable to enter into liberal trade policies because of a gross shortage of reserves. Finally, once the monetary arrangements had been concluded at Bretton Woods, Morgenthau's interests moved somewhat away from economic issues. He now became obsessed with his plans for the pacification of Germany and was prepared to offer the British economic help to assist in persuading them to concur in such policies. At Quebec in September 1944, Morgenthau, as Hull put it, gave the bait of Stage II Lend-Lease

away for British support of his pacification plans. Hull believed such bait should have been used to get an unequivocal British pledge to abolish preferences and other restrictive trade practices. A goal which pointedly indicated that the Article VII provisions of the Lend-Lease Agreement had not satisfactorily resolved the problems of preferences and other types of economic controls so far as the Americans were concerned.

Such conflicts between departments did not create the substantive conflicts of interest between the U.S. and the U.K., but at times they did add to them and certainly caused the British considerable problems. These problems consisted primarily of trying to establish firmly what American policy actually was. This was particularly so in the latter stages of the war and undoubtedly contributed to British misperceptions of what they were, or were not going to get out of the Americans in the financial agreement. A further effect of the U.S. Administration's failure to coordinate and execute policy effectively relates to Lend-Lease in 1945. There were a number of departments involved and this necessarily complicated the problems. However, the State Department and the Treasury both lost out to a considerable extent. Both of them favoured the continuation of extensive wartime Lend-Lease to Britain. Unfortunately in the confusion over detail, it would appear that both Roosevelt and later Truman responded more to the strong and decisive voice of military leaders, particularly Leahy, that Lend-Lease should be vigorously restricted to material directly related to the war effort.

On the British side coordination was better, though there were some notable departmental conflicts. The most serious of these centred on the Agricultural Ministry in 1943/1944, in the aftermath of the Lend Lease negotiations. Strong feelings spread throughout the Cabinet and opinions on the merits and demerits of commercial talks with the Americans were polarised. So much so, that Churchill had to suspend the talks for many months. A pause which was to antagonise the Americans to a marked degree. Thus both sides had inter-departmental problems and coordination difficulties, though as we have seen in detail, such problems seemed to be more widespread within the American administration.

The monetary talks were to be a victim, at times, of such misunderstandings, and poor communication between the two countries. The latter aspect was sometimes deliberately fostered by both countries to enable the development of coherent plans which could then be submitted to the other side. This idea seems to have been in evidence on both sides of the Atlantic in the early stages of the monetary talks and resulted in two very different plans being developed.

The monetary talks were very much of a mixed blessing for the British. Their, or rather Keynes', original hopes had to be severely modified as the talks progressed, and despite the resumption of commercial talks in late 1944, the monetary talks were kept tightly compartmentalised on American insistence. The U.S. insisted that the monetary talks should continue on the lines which had been adopted, and should not be significantly influenced by the resumption of wider talks on Article VII⁽¹⁷⁾. This enabled the talks to reach what appeared to be a satisfactory conclusion at Bretton Woods, but the British were not immune

(17) See p.236.

to the idea that the I.M.F. commitments would have to be commensurate with other commercial understandings that might be negotiated. One precaution the British took against untoward developments was the isolation of the problem of Sterling Area accumulated balances.

This was an issue that was regarded as a delicate problem by the British, and one in which they did not want American interference, as it might be a make or break issue so far as Sterling Area economic and political cohesion was concerned. The resuscitation of British fortunes by 1945 made the Sterling Area, once again a viable, though poor second best, alternative to collaboration with the U.S. If Britain was forced to radically alter her hopes of such collaboration, then this alternative had obviously to be maintained. A second precaution was the British insistence on certain safeguards in the agreement; the most important of which was the lengthy transition period.

The British were, however, placed in a difficult position by concluding the Bretton Woods Agreement prior to agreements on commercial policy. Pasvolsky, and other Americans, had agreed that all such agreements would have to 'hang together', but such statements were mere reassurances; they in no sense stipulated how the various agreements were to be interconnected. As we have seen, the commercial talks themselves were far more inconclusive than the monetary talks and were of little help to the British in the immediate post-war years. Furthermore, the final nature of this 'hanging together', was determined by concessions forced from the British in return for financial aid. Thus the transition period, which Britain had so arduously struggled for, was drastically reduced.

At the inaugural meeting of the I.M.F. in Savannah, Georgia, in 1946, the British although they were the only country to oppose the U.S., had to accede to yet a further modification of the I.M.F. This further modification was to the active/passive nature of the Fund. American proposals for the management of the Fund made it obvious that they were determined to develop a more active and more positive policy for the Fund than had been envisaged by the British at Bretton Woods. It was a very different conception than that which had been tacitly agreed to by Keynes in return for his abandonment of proposals relating to unitas. However, the credit agreement had not yet been passed by Congress, so there was danger in any further British opposition on this. The final 'modification' of Bretton Woods consisted of certain declarations by White on the scarce currency clause.

"Very definitely this country assumes no moral responsibility for a scarcity of dollars
... the responsibility for the correction of the maladjustment is not a unilateral one. It will be the duty of the Fund to make a report not only to the country whose currency is scarce but also to the countries who are exhausting or are using the resources of the Fund in a manner which is not consistent with the purposes of the Fund." (18)

Thus on three major issues, the transition period, passivity and scarce currency, the U.S. was able to alter the nature of the Fund by interpretations which Britain was in no position to challenge, or by demanding concessions for financial help, which Britain was in no position to refuse.

The study of the monetary talks also indicates the shift in negotiating procedures which gradually took place in the U.S. during 1943. This shift was from close and somewhat

(18) Quoted in Gardner, H.N., Op.Cit. p.137.

exclusive negotiations with the British to negotiations with a number of nations. Such talks had the appearance though not the substance of multilateralism. This more than anything else proved the death knell for a satisfactory conclusion of the talks to establish general rules and procedures for commercial policy.

The British, as I have indicated before, were prepared to adopt more liberal economic policies and go a long way, voluntarily, to meet American demands on this, provided this did not further undermine the economic position of Britain which had been so weakened by the war. A vital aspect of this need to be reassured was a positive framework for trade and commercial activity such that there would be reductions of trade barriers in other countries and commercial behaviour compatible with her own. As far as the U.S. was concerned, the British wanted substantial across-the-board reductions of tariffs in return for Britain's eventual abolition of preferences. However, by mid-1945 the Americans had made it clear that this was out of the question, and furthermore, they also adopted a policy of inserting an escape clause even in bilaterally negotiated reductions. A policy which was to be later formalised by Truman in 1947 by an executive order.

Such policies posed many problems for the British. They eventually concurred in the American compromise procedure of a nucleus of nations bilaterally reducing tariffs on M.F.N. basis, but this was still profoundly unsatisfactory. The main problem was the complexity of such negotiations and the time required to carry them out. If Britain's economic transition problems were to be rapidly overcome so that she could enter into the

American spirit of trade liberalism, then trade opportunities would have to be opened up immediately and on a large scale. Britain was not in the competitive position she had been in during the 1930's. She had an enormous ground to make up simply to achieve her pre-war commercial standing. Thus, Britain was very reluctant to abandon her protected empire trading base, which could act as a source of recovery in return for tariff reductions negotiated over a lengthy period of time. As we have seen, there were a number of other troublesome commercial problems, for example, on agriculture and state trading, but this was really the crux of the commercial talks. Thus, although the 1945 joint statement on commercial policy was regarded as satisfactory, it was simply a statement of intent. There was nothing definitely concrete about it and in this sense it was a major disappointment for the British. The various talks on economic issues were not 'hanging together'. The positive nature of the I.M.F. was not reflected in the commercial talks. As far as the British were concerned, whatever resulted from the projected conference, on commercial and trade policies, would be too late and probably too piecemeal. There was little or no reassurance here for the British to commit themselves to the abolition of the economic system based on sterling and the empire and enter into liberal trade policies advocated by the U.S.

There was a significant failure on commercial policy for the British. If there was no substantial complement to the I.M.F. in commercial terms, then this in itself was a challenge to the viability of the monetary institution. However, this was by no means all of the picture. The British had even greater problems, as the war drew to a close, which were used by the Americans. During the war, as we have seen in

chapter five, the Americans controlled the level of British reserves by manipulating Lend-Lease supplies. This weakened Britain's international monetary standing. Furthermore, a cruel dilemma developed. Britain's monetary position was weakened by American actions which caused suspicion and resentment among the British. These feelings gradually developed into deep scepticism regarding America's likely post-war policies. Over-dependence on America was seen as undesirable. Thus to maintain an alternative to in-depth cooperation with the U.S., the British compartmentalised the problems of the sterling balances. They were to be dealt with by Britain alone. Although this safeguarded some kind of alternative for Britain, it exacerbated her poor monetary position. The balances were not to be radically reduced nor partially liquidated with the help of international economic institutions.

The position of sterling and Britain's trade and reconversion problems made it obvious that above all else Britain must have some financial assistance if her economy was not going to collapse. The abrupt ending of the war and Lend-Lease made the issue even more crucial. Liberalised trade policies and a radical re-organisation of international exchange by the I.C.U. might have been sufficient to save the British economy, but these had been modified or delayed by the failure to resolve satisfactorily differences of interest between the U.S. and the U.K. The U.K. had no alternative but to act as supplicant to the U.S. for financial assistance.

It was estimated that Britain had spent over £7,500m on the war effort or one quarter of the nation's pre-war wealth.

In 1945 the nation's imbalance between revenue and expenditure was running at £1,200,000 p.a. The British could not ignore the priority of seeking financial assistance.

The Americans used Britain's financial needs to press their demands for trade and monetary liberalisation. William Clayton was largely in charge of this, with the additional help of Fred Vinson from the Treasury. Clayton had shifted somewhat from Hull's position, as we noted above, and thus found it easier to cooperate with the Treasury Department, though he was still more sympathetic toward the British on the need for adequate liquidity for expanding her trade. The details of the loan agreement do not require reiterating. The Americans pursued a policy which they believed would benefit them greatly in economic and commercial terms. The argument that Congress forced such a policy upon them, is, as we have seen, spurious. Clayton confessed to Vinson the need to extract such commitments from Britain which were embodied in the financial agreement long before the talks were of concern to Congress.⁽¹⁹⁾ The repeated invocation of Congressional opposition indeed appears to have been very much a bargaining ploy. For example, there was never much trouble over Lend-Lease appropriations.

1943		1944		1945		(20)
H.	S.	H.	S.	H.	S.	
407 - 6	82 - 0	334 - 21	63 - 1	354 - 28		unanimous voice vote.

(19) See p.361.

(20) House and Senate voting on Lend-Lease appropriations from 'Congressional Politics in the Second World War', Roland Young, Columbia U.P. 1956.

As Keynes commented, the House investigation into the alleged misuses of Lend-Lease was a damp squib. Furthermore, Lend-Lease to China continued for many months after the end of hostilities despite declarations by the State and Treasury Departments on the impossibility of Lend-Lease continuing on any grounds other than those of 'prosecution of the war'.

So what was Britain left with at the end of 1945? The memories of victory blended sourly with the realisation of her economic position. The I.M.F. could not bring about the radical change Keynes had originally envisaged, and the nature of the I.M.F. was in fact contrary to many of the original aspirations of the British Government. The transition period was drastically reduced, imposing convertibility obligations on Britain for currently earned sterling for July 1947. The Fund was to be more political and active than originally thought and the British escape clause, the scarce currency provisions, could be rendered ineffective by American interpretations regarding what constituted 'acting contrary to the aims of the Fund'.

The whole monetary vision for the post-war world was further undermined by the lack of a complementary commercial and trade institution. For the British the time factor here was crucial and in fact their fears were well founded. Not only regarding the revival of American protectionism which led to the abandonment of the I.T.O. in 1950, but also with regard to the lengthy negotiations which were necessary even to get the G.A.T.T. agreement into some shape. It was eventually instituted in 1947. For Britain the second major defect regarding trade was her critical financial standing. Here the U.S. took a hard line. They refused to bolster Britain's

financial position to an extent which would re-create her financial independence. The U.S. was determined that Britain should not be able to turn in on herself and the empire,⁽²¹⁾ for her economic salvation. Thus they refused to allow the U.K. to use the dollar credit to finance or liquidate sterling debts. The credit had to be a minimum. A minimum which would enable Britain to function economically and cooperate with the U.S. A minimum which would allow Britain the strength to make sterling convertible in the near future to facilitate U.S. trade with the Sterling Area, but not enough strength to stand independently of the U.S. A minimum which would allow Britain to revive and collaborate in liberalising world trade without being too much of a competitor. The Americans believed that they had indeed struck the nice balance required in the financial agreement.

The Americans believed they had succeeded in their economic policies. The British were committed to the I.M.F., which would be greatly influenced by America, and to early convertibility. Convertibility which would be accompanied by the abolition of the dollar pool, the basis of sterling monetary discrimination against trade with the U.S. In addition, Britain was committed to the eventual abolition of preferential tariffs and a number of other general policies which were to be taken up at the projected international conference on trade and commerce. At the same time the U.S. believed it had ensured both institutionally and in practice the dominance of the dollar in world finances and international transactions and had avoided any major commitments to liberalisation of trade which would severely damage American domestic industries.

(21) See p.405.

On paper the American goals seemed to have been realised; but time and circumstances were to have some untoward effects. The British refusal to write off sterling balances, despite a general commitment to the Americans to do so, and the devaluation of the U.S. credit because of the removal of economic restrictions in the U.S. were to have important consequences. Consequences which were to undermine the standing of sterling. The incompatibility of American demands and British beliefs concerning the nature of American policy and the effect it would have on Britain resulted in British attempts to maintain the Sterling Area as far as possible. The results of the war-time economic negotiations were very unsatisfactory for the British and there is some evidence to suggest that they believed the development of events would radically alter the relationships the U.S. had attempted to impose upon them. It did not take long for men like Robert Boothby to moot the possibility that circumstances would force the British to repudiate some of the agreements entered into with the U.S. (22) Atlee himself was later to comment:-

"I think we had to (i.e. accept the U.S.-U.K. Finance Agreement). We weren't in a position to bargain. We knew the convertibility clause was quite impossible and would create great difficulty later on and we told the Americans so. But they wouldn't see it and we were forced to accept the fact that without the convertibility clause there would be no loan." (23)

There was indeed little doubt that the British were bludgeoned into this agreement. For example, Dalton records in his memoirs how, in the closing stages of the talks, he began to prepare a speech announcing the breakdown of negotiations. (24)

(22) See Hansard, 1946, July 19, Col. 1621.

(23) "A Prime Minister Remembers", Williams, F. Heineman 1961, U.K., p.134.

(24) See Dalton, Op.Cit. p.84.

There is little need to wonder on this for of the four minimum requirements, the British insisted on; (1) I.M.F. scarce currency rights, (2) the right of withdrawal from the I.M.F., (3) the I.M.F. transition period, (4) that there should be no connection between the finance agreement and other areas of economic concern, only the former two were in fact conceded by the U.S.

And so, despite repeated claims that Britain would not enter into agreements which she would be unable to keep, it would appear that in the end this was what she was forced to do. The Americans, as subsequent events were to show, had overplayed their hand. The inability of sterling to countenance convertibility in 1947 was an ex post facto justification of Britain's concern with prevailing conditions. Though, of course, some of these untoward conditions were brought about by herself in response to fears of American policies. International exchange was not placed on a multilateral basis for many years. The soft currency areas of the British Empire and also Western Europe lasted for many years, and were in fact supported by the Americans - though now on the grounds of economic considerations coloured by strategic policies. The E.P.U. for example was not wound up until 1958.

It would be wrong to dismiss both British and American politico-economic policies as failures. Both countries argued and bargained for their own perceived interests. They compromised on many issues, and circumstances beyond their control modified much else of what they attempted to do. The inability of these two nation states to fully trust each other and the clash of economic and political interests resulted in

ambiguous undertakings on both sides and a failure to resolve the substantial problems. Consequently in the years that followed the competition and conflict of interests continued unabated. Britain continued to make discriminatory trade agreements, the first one as early as September 17, 1946, with Argentina⁽²⁵⁾, and as feared, she had to fall back, largely on to the Sterling Area as a safety net. Unfortunately the basic weakness of the area was to perpetuate many political and economic problems for this country. Over specific commodities, such as oil, tensions were soon to mount between the two countries as they vied for the control of raw materials and political influence. In the I.T.O. talks and later in the G.A.T.T. talks many of the commercial and trade problems which had been broached on during the war were to reappear once again.

Nevertheless, a working system of international trade and monetary exchange was established. The worst characteristics of the depression years were avoided, though such results were more attributable to Marshall Aid and other types of military and economic assistance from the U.S. rather than the economic plans of the war years. In brief the post-war economic system was more ad hoc and piecemeal than it has often been characterised. Furthermore, it did not resolve the differences of the two major architects of post-war economic plans. Neither did it establish a neutral system of economic rules and regulations. Guidelines were established but the conflict of interests continued, pursued in the traditional manner: the exercise of political power and influence.

(25) See Snyder, Dalton correspondence October 31, December 17, 1946, January 27, February 4, 1947 in Hansard, February 10, 1947, Cols. 22 - 25.

When embarking upon a research project one of the main driving forces must be the belief that something needs clearer, or more comprehensive, explanation. For me this was certainly the case. The literature on the area I have looked at is varied in quality and inconclusive in nature. Substantial accounts of the politics of international economic relationships are few and far between and this is so with regard to the war. Obviously it is possible to pick up snippets of information from books concerned more with traditional political foreign policy. Indeed I have tried to indicate that the politics of international economic relationships cannot be fully understood out of the wider political context. The obverse of this is, however, equally true. It is this deficiency in the economic sphere which I have tried to repair. It would be inappropriate here to present an extensive bibliographical analysis, but I would like to provide some indication of the usefulness and merits of a cross-section of the literature I have used. In the following review I do not give full book references, though such references may be found in the bibliography.

I. M. Drummond's 'Imperial Economic Policy 1917-1939', is a particularly good introduction which gives a detailed picture of Britain's inter-war politico-economic policies. Although Drummond indulges in anachronistic judgements on substantive economic policies he does construct a detailed historical account based on foreign office and other government documents. L. C. Gardner's 'Economic Aspects of New Deal Diplomacy' is a much less detailed account, which covers the economic side of American foreign policy, but it does provide a useful introduction to a more detailed consideration of American war policies.

Hull's memoirs Vol. II, and Woodward's 'History of the Second World War' are two books which give a more general picture of the foreign relations of the two countries. Woodward in the later expanded edition uses references to foreign office documents to substantiate the quite detailed case he puts forward. These books, in conjunction with the State Department's F.R. publications and books such as Cadogan's diaries, Leahy's autobiography, Sherwood's work on Roosevelt and Hopkins and D.C.Watt's 'Personalities and Politics', provide an interesting view of some of the most important characters who appear in the account and of some of the wider political and military issues.

So far as secondary source factual information is concerned, there are a number of good reference books. The greatest wealth of information is to be found in the official British Civil Series publications such as R.S.Sayers on financial policy and Hargreaves and Gowing on civil industry and trade. A further useful volume is W.H.McNeil's 'America, Britain and Russia: their Cooperation and Conflict 1941-46'. From the American side, H.A.Notter's 'Postwar Foreign Policy Preparation 1939-45', and E.F.Penrose's 'Economic Planning for the Peace', are books in a similar vein. They are primarily factual in content, concerned with the institutional make-up of the various branches of government that participated in economic planning and although they provide an interesting catalogue of the outcome of negotiations, they rarely delve into how such results came about.

Clayton's papers, Dalton's memoirs and Blum's account of Morgenthau's wartime term of office provide more detailed reasoning for the various economic policies and negotiations that

went on during this period. However, as I have indicated in the narrative, both Dalton and Blum, on behalf of Morgenthau, at times appear to be more concerned with giving an apologia for certain actions rather than recounting how they happened. Nevertheless, read judiciously they form a crucial part of the narrative. There are of course a large number of other autobiographical and biographical works that I have consulted and of these J.P. Young's on the I.M.F., and the autobiographies of Acheson and Robbins and Harrod's biography of Keynes probably provide the most useful information, ideas and evidence of reasons on a wide spectrum of the economic problems.

There are three other secondary source books on which I should comment. The first of these is Kolko's 'The Politics of War'. I have already made my objections to Kolko fairly clear. However, some of the historical evidence he presents to illustrate his thesis is obviously valuable and a substantial contribution toward understanding the wartime relations of Britain and America. David Rees's book 'Harry Dexter White - A Study in Paradox', is rather disappointing in its lack of original historical material. To be fair to Rees, he was obviously more concerned with a kind of psychological history of White than with a detailed historical explanation. What information he does give concerning the wartime negotiations is largely culled from Blum and Gardner.

The third book is in fact Gardner's 'Sterling Dollar Diplomacy'. Much of what Gardner says is to the point and accurate. However, in many cases he does not fully substantiate his judgements clearly and this at times leads him to make mistakes. My main objection to Gardner is similar to the one

I levelled against Kolko and that is that the grounds are not fully demonstrated on which judgements are passed and on which the narrative is constructed. Furthermore, the lack of detailed documentary research has caused Gardner to omit much information concerning problems such as Lend-Lease and how they vitally affected Britain's position. He also fails to see the cruel dilemma of choice that faced the U.K. The choice being between in depth cooperation with the U.S. and placing her faith in America responding in a favourable manner, or retaining an economic system based on sterling and preferential trading. Although, in the end, the British compromised, the perception of the choice had a vital and fundamental effect on British policy. A point Gardner largely overlooks.

Finally, concerning the materials I have used, I must say something on my primary sources. It would be impossible for me to go through all the documents I have used and pass individual judgements on all of them as to their merits and reliability. And yet, in a sense, this is what I have already done in writing this account. As I stressed in the introduction, each piece of evidence has to be handled in a particular way. Judgements about evidence depends greatly on the context within which the historian perceives it. For example, judgements about the 'Pasvolsky Memorandum' are far more difficult to make than those on a memorandum which is simply for informing people within the State Department of a particular state of affairs. In the latter case the primary goal ceteris paribus may be inferred as being to impart information. In the case of the Pasvolsky Memorandum, there is a whole spectrum of possible political motives which could be placed upon it.

Such complications make judgements about the memorandum, the reasons for its composition, etc., very difficult to assess. Unfortunately I fear there is little else that can be said about the reliability of source materials because this appears to be a matter of contingencies. Thus general characterisations are not really appropriate.

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To conclude, it might be appropriate to suggest some criticisms of this work. First of all because of the type of explanation I have adopted it is extremely complex and somewhat dry. It would be wrong to allege, however, that I have indulged in an exercise in which one cannot see the wood for the trees. It is a difficult piece of work to read but simply because the trees are described in great detail this does not prevent one from identifying the wood. The complexity of the work is really unavoidable as my understanding of an historical account necessitates the detailed study of evidence and its incorporation into the narrative to demonstrate the grounds on which my judgements and the narrative stand.

Secondly, the thesis has an obvious bias toward British sources. Unfortunately the money was not available for me to travel to the U.S. to consult unpublished documentary evidence. I have compensated for this in two ways. First of all by making the narrative primarily concerned with British actions and reactions to stated American policies. And secondly, I have tried to supplement the information from published U.S. diplomatic documents with very detailed studies of some of the admirable auto/biographies that the American participants have produced.

Thirdly, I have restricted myself to certain types of negotiations. Negotiations which were concerned with politico-economic relations, an area which I considered to have been only inadequately explained. However, to make the claim that Anglo-American war-time relations cannot be fully understood without looking at the economic dimension of such relations, poses a problem for myself and this thesis. For although I have presented a very detailed account of the economic dimension, I have said little about the strategic and more purely political relationships between the two countries. I have on a number of occasions made allusions to such developments and indicated how they affected the economic talks. What I have not done is to demonstrate what effects the economic issues had on wider political and possibly strategic relationships and decisions. This is certainly a failing of the thesis, but no more so than works which have been written about allied diplomacy, oblivious to the under-currents of the politico-economic relationships.

This then is both an end and a beginning. My work on Anglo-American politico-economic relations is not exhaustive. It is not exhaustive even within the artificial limits I have imposed. Not only might further histories be written on this area which will modify and perhaps improve some of the inferences and judgements that I have made, but hopefully someone will establish how these negotiations affected other aspects of the war. In so doing I am sure that much of what I have said will be seen in a different light and altered accordingly. But now there is something concrete and substantial to amend, modify or refute for the grounds on which this work has been done are given as far as my capabilities of intellectual rigour permit.

In this sense I have brought to an end the chaos of countless discrete pieces of evidence, existing without any relationships connecting them together. In that end there is the possibility of a new understanding of the war, of Anglo-American relations and of much that has affected the world's post-war international politico-economic relationships.

The End

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