

PART V

After Normandy

CHAPTER XVIII

STAGE TWO

(i)

The Task Ahead

EVER since Pearl Harbour the British and American Governments had fixed their combined strategy within a framework of time. *Stage I* would end with the overthrow of Germany; *Stage II* with the overthrow of Japan. After *Stage II* would come *Stage III*—full reconversion of the war economies to the purposes of peace.

The habit of giving a precise name to each of these three stages was formed only gradually and the precision of definition was never exaggerated. It was never imagined that any single stage was by itself a completely separable slab of time; continuity between all three stages and some overlap from one to another were invariably assumed, both in strategy and economics. For example, it had been decided at the Washington Conference in the new year of 1942 that the defeat of Germany must be the first aim of Anglo-American strategy; but it was also immediately essential to stem the Japanese advance in South-East Asia and the South-West Pacific. On the agenda of each successive conference a prominent place was given to the war against Japan. Defensive battles in the Far East were fought and an offensive strategy succeeded them. At the height of the Normandy battles, a great concentration of American power was already forcing its way northwards from the Australian bases, while in South-East Asia the British Empire had already assembled land forces to the strength of fourteen divisions.¹

Normandy was the climax, not the end, of Stage I. Yet even by then, it will be recalled, British mobilisation had passed its peak. The following manpower figures, reproduced from the statistical summary, show the trend quite clearly:

	Thousands	
	<i>Mid-1943</i>	<i>Mid-1944</i>
Armed Forces	4,758	4,968
Civil Defence, etc.	323	282
Munitions Industries	5,233	5,011
	10,314	10,261

¹ The actual date for this figure is 1st July 1944: the number of divisions or their equivalent is approximate.

The total number of men and women in the most direct forms of war activity was falling and the strength of the armed forces could be maintained only at the expense of civil defence and the munitions industries. This decline in total mobilisation, trifling though it seemed in its beginnings, was bound to gather momentum; the inflow into the manpower pool could not possibly replace the continuous wastage.

It was fortunate that as British mobilised strength began to decline the American war effort was climbing to its prodigious peak. Even so, the slow waning of British strength might well have had serious results if the battles in France had been less successful and if the war against Germany had been indefinitely prolonged. Fortunately, the British Government knew by the end of 1944 that, although the manpower available for the British war effort was shrinking, the strategical task itself would soon be far lighter. Stage II could not be long delayed.

Mobilisation of the British economy for war has been, up to the present, the central theme of this book; but within two years from the end of the war a new theme—the *redistribution* of resources within the war economy—takes the central place. We are unable to pursue this theme in all its aspects. As ever, the adjustment of British war industries to new demands of strategy falls within the sphere of the historian of war production. Hitherto, we have attempted in each Part of our book at least an outline of the shipping problem; but this time we shall not venture to entangle ourselves in the highly technical and intricate processes of assembling shipping from all over the world in support of offensive operations in the Far East. However, we shall find the problems of external payment returning to a central place in our inquiry. We shall, moreover, continue our study of manpower budgeting, whereby the redeployment of the nation's labour force was centrally planned. This remains for us a main guide in our mapping of Stage II, where our chief concern will be the total reduction of economic effort which might be expected to follow from the capitulation of Germany.

Some reduction there was bound to be. An attack of maximum intensity against Japan would certainly make heavy demands upon the Navy, the R.A.F. and the merchant navy; but although big land forces were required in South-East Asia, the Far Eastern land fronts could not possibly absorb the great armies spread through Europe and Africa. In consequence, Stage II promised some relief to the United Kingdom's overstrained economy.

The extent of this relief depended largely upon Britain's share in the military tasks of Stage II. This was a matter to be agreed with the United States. Some people in the United States had been upbraiding the British for their alleged intention of leaving the Americans to bear the brunt of battle, once Germany had been beaten. Other people (but, indeed, they were sometimes the same) were

anxious to crowd the British out of the Far Eastern war and make the final overthrow of Japan a national rather than a combined triumph. But to the British Government it seemed essential that the United Kingdom should play a significant part in the war effort of Stage II. Any other decision, the Prime Minister argued, would be prejudicial not merely to the interests of the British Commonwealth but to the future of collaboration between the three great world powers and in particular to those good relations—'on which so much depended'—between the British and American peoples. The United States Government thought the same. At the 'Octagon' Conference held at Quebec in September 1944, it was agreed that the British should concentrate on clearing the enemy from Burma and Malaya and that a British fleet should share with the United States fleet the major operations against Japan. Assistance from the R.A.F. in bombing Japan was also envisaged.

The relief to the United Kingdom's economy would therefore be smaller than what might easily have been secured by a more moderate assessment of the nation's duty in the Far Eastern war. When would the relief begin to operate? How long would it last? Stage II would not open until Germany was defeated. When would that be? The forecasts fluctuated with the fortunes of war. From January 1943 to March 1945 the hypothetical terminus of Stage I was officially redefined half a dozen times:

- 1st December 1943—end of 1944.
- 15th June 1944—not beyond 30th June 1945.
- 4th September 1944—by 31st December 1944.
- 25th October 1944—by 30th June 1945.
- 25th January 1945—between 1st July and 1st November 1945.
- 29th March 1945—by 31st May 1945.

The assumptions about the duration of Stage II changed less frequently. For a long time the standing estimate was that the Japanese war would last for three years after the end of the German war. In April 1944 this figure was reduced to two years. After the 'Octagon' Conference in September 1944, eighteen months was the constant assumption for the length of Stage II.

The United Kingdom's war effort in Stage II would be large and possibly long-continuing; but it would certainly be smaller than the effort demanded in the last years of Stage I. Despite this, the Government now found itself compelled to count the costs of effort far more anxiously than it had done when national mobilisation was still being pushed to its peak. Before Normandy, it was hard to think beyond the military consequences of effort; after Normandy, the economic consequences insistently challenged thought. By 1944, five years of war—four of them intense—lay behind Britain. Ahead lay

not only Stage II but Stage III—that is to say, peace. Statesmen could no longer treat the economic prospects of their nation in peace as a remote problem of subordinate importance. They were compelled to take stock of what the nation's war effort would cost—of what it had cost already. Britain, by her sacrifices in the war, had put her peace-time future in jeopardy.

Amidst its preparations for continuing the war in Stage II, the War Cabinet found itself ever more deeply involved in study and estimations of the aftermath. Planning for Stage II became inevitably intertwined with planning for Stage III. We shall now proceed to consider in some detail this twofold process.

(i i)

Britain's Dilemma

The British were anxious to take a substantial share in the Far Eastern war; but this would not by any means comprise the whole of their military burden in Stage II. There would also be heavy demands for soldiers and their equipment for occupying Europe and policing the Middle East.

It was difficult to estimate just how big a claim all these demands would make upon the national economy. Until the 'Octagon' Conference, the United Kingdom's strategic commitments in the East remained very unsettled. Moreover, nobody knew how much economic help the United States would give once the war in Europe was over. All the same, some estimates had to be made, however tentative they might be. Early in 1944, after the Chiefs of Staff had calculated the size of the forces needed to carry on a war against Japan after the defeat of Germany, the Joint War Production Staff tried to see what this calculation would mean in terms of manpower for the Forces and the munitions industries. It seemed that the figures, when added up, meant that at the end of the first year of Stage II the Services and munitions industries would need to be at seventy-five per cent. of their strength at the end of 1944. This was the same as their level in mid-1941. The figures assumed help from the United States and Dominions equivalent to 1½ million workers, as compared with the equivalent of about 2.9 million workers at the end of 1943.

These estimates seemed alarmingly high. Later in the year, after the British part in the Far Eastern war had been more precisely determined, the forecasts of the necessary level of mobilisation were moderated. Now it seemed that, on the most favourable assumptions

about aid from abroad, the level of the Services and munition industries at the end of the first year of Stage II would need to be about fifty-six per cent. of their level at the end of 1944.¹ Measured in terms of manpower, this scaling down of the requirements of the Services and the munitions industries seemed at first sight to promise great relief to the overburdened British economy; 4½ million workers would be relieved from direct war employment. But, after allowing for losses of manpower through casualties, annual wastage, the release of women with household responsibilities, and some increase in transitional unemployment, the net increase in manpower available for the civilian sector was expected to be only about 2.6 million by the end of the first year of Stage II.

The addition to civilian resources might still appear appreciable; but it was very small in relation to all the urgent demands that would crowd in upon the civilian economy during Stage II. By the autumn of 1944 the United Kingdom had been at war for five years and had, as the phrase went, 'expended itself' in the common effort. It was absolutely indispensable that the country should be given at last some easement of its burden and the opportunity to make some preparations in Stage II for the colossal task of reconstruction awaiting it in Stage III. The particularly urgent needs were three: first, some easement of civilian living standards; secondly, some rebuilding of capital equipment; thirdly, and most urgent of all, some expansion of exports.

There was no expectation nor claim that civilian living standards should return in Stage II to the pre-war level; but some mitigation of the existing strain was held to be essential.

The British civilian [so ran an explanation to the Americans] has had five years of blackout and four years of intermittent blitz. The privacy of his home has been periodically invaded by soldiers or evacuees or war workers requiring billets. In five years of drastic labour mobilisation, nearly every man and every woman under fifty without young children has been subject to direction to work, often far from home. The hours of work average fifty-three for men and fifty overall; when work is done, every citizen who is not excused for reasons of family circumstances, work, etc. has had to do forty-eight hours a month duty in the Home Guard or Civil Defence. Supplies of all kinds have been progressively limited by shipping and manpower shortage; the queue is part of normal life. Taxation is probably the severest in the world, and is coupled with continuous pressure to save. The scarce supplies, both of goods and services, must be shared with hundreds of thousands of United States, Dominion and Allied troops; in the preparation of Britain first as the base and then as the bridgehead, the civilian has inevitably suffered hardships spread over almost every aspect of his daily life.

¹ The average level for the first year of Stage II would of course be much higher—about seventy-seven per cent.

This was the price of total war which the British people were well satisfied to pay. But the cumulative effect was a severe strain. It was felt to be reasonable and necessary that the United Kingdom should permit itself, by the end of the first year of Stage II, to restore production in the general field of civilian consumption goods from the 1944 level of fifty per cent. of the pre-war output to seventy-five per cent. A restoration so limited would still leave many heavy burdens upon the civilian population; even so, it would call for nearly a million extra workers in civilian industry.

The second urgent need was to make a start in the repair and replacement of the nation's capital equipment. By 1944, this could hardly be much further postponed, whether the German war ended or not.¹ There were two especially strong claims upon additional resources. One was housing; by the autumn of 1944 bad housing, especially in the London area, had become one of the gravest handicaps to efficiency. The other was industrial and public utility maintenance. We have already seen the difficulties of the railways. Repair and maintenance had also been purposely neglected in such important industries as iron and steel, chemicals, textiles and the generation of electricity. Indeed, much plant was already in a condition in which continued working depended on a substantially increased allocation of manpower to provide for proper overhaul and repair. The total manpower requirements for absolutely essential restorations of the nation's capital equipment by the end of the first year of Stage II were formidable. For building needs, the estimate was about half a million extra workers;² for the maintenance and renewal of plant, the estimate approached three-quarters of a million extra workers.

Third and outstanding among the United Kingdom's 'civilian' tasks in Stage II was the recovery of the export trade. This was, in sober truth, a matter of national life and death for a nation of 47 million people crowded into an area one-third the size of Texas. The intense mobilisation of military and industrial strength that the nation had achieved would not have been possible if its own efforts at home had not been supported by supplies from overseas. Large quantities of these supplies had come from American lend-lease and Canadian mutual aid; but other large quantities had been procured by sacrificing claims on imports which had been earned in the past and by incurring debts which represented future claims upon British exports. Meanwhile, the volume of exports had been depressed to below one-third of their level before the war. The balance sheet that the Government was studying in the autumn of 1944 could hardly have been gloomier. The assets sold amounted to about

¹ cf. Chapters XVI and XVII.

² Even with this increase, the labour force in building and civil engineering, would be over 200,000 less than the number in employment in these trades in mid-1939.

£1,000 millions; the external liabilities incurred totalled over £3,000 millions.¹ And the nation's capacity to earn the means of foreign payment from day to day and month to month was gravely impaired.

The heaviest liabilities incurred during the war were to India, Egypt and other countries of the Middle East where there had been a great outpouring of expenditure whether on troop pay, the building of airfields, railways or roads, payment of local labour or the purchase of supplies. Although some of these liabilities might be funded or even possibly written off, there remained a very large balance which the countries concerned would wish to use when the scarcities of goods and shipping no longer restricted them. Repayment would have to take the form of direct British exports additional to those required to pay for necessary imports.

The volume of exports needed to pay for imports would be very great. When allowance was made for the decline in other sources of external earnings, it appeared that at least a fifty per cent. increase over the pre-war volume of visible exports would be necessary in order to pay for the pre-war volume of imports.² And this increase of exports, as has already been said, must start from a base more than seventy per cent. lower than the 1938 level. Even after full allowance was made for lend-lease and mutual aid from Canada, the United Kingdom's visible exports in 1944 were not sufficient to finance one-seventh of its remaining current overseas requirements. Obviously, something must be done soon in preparation for the day when lend-lease and mutual aid would be withdrawn. In 1944 that day seemed more distant than it really was; but even then it was impossible to deny the need for making a start on recovering and expanding exports. The Government hoped that in the first year of Stage II, exports would be about double the 1944 level, or about sixty per cent. of the pre-war volume. This would mean an increase of nearly a million workers on exports by the end of the first year of Stage II.

It is now time to add up the total of the manpower required for the three urgent purposes that have been enumerated—exports, some restoration of housing and capital equipment, a severely limited easement of depressed civilian standards. With a few miscellaneous items added, the total requirements of labour came to 3.4 millions. The total supply in sight was 2.6 millions.³ The sum did not work out. For a nation which had inflicted upon itself so ruthless a distortion of its economic life, the requirements that have been listed were modest indeed; they were no more than 'make do and mend'. Yet they would have to be cut: or else the programme for the war against Japan would have to be cut. The United Kingdom's dilemma might

¹ Cmd. 6707.

² The figure of 50% assumed no alteration in the pre-war terms of trade.

³ See p. 519.

indeed become more painful still. For the figures summarised above had been constructed on very favourable assumptions about the continuation in Stage II of lend-lease supplies. Would these assumptions be justified or refuted?

By the end of 1944, it had become a matter of extreme urgency to get these issues settled in discussion with the Americans. In preparation for the discussion, the British Government had to get them clear in its own mind. Were the economic difficulties that confronted it something for which it need apologise? If this were so, it must apologise because Britain had for year after year fought the war too hard. A lower target of military endeavour in Stage II would mitigate present difficulties, but could not cure them; they were the ineluctable consequence of the limitless endeavour to which Government and people had committed themselves in the summer of 1940. Ever since then, Britain's military effort had been discordant with her economic strength; the resources necessary for victory could not be mobilised without casting away resources necessary for the nation's livelihood when victory was achieved. This had been the United Kingdom's dilemma throughout five years of history which could not now be rewritten. The point was forcibly put by Lord Keynes in the United States. The British war-time story, he wrote, was one

of financial imprudence which has no parallel in history. Nevertheless, that financial imprudence may have been a facet of that single-minded devotion without which the war would have been lost. So we beg leave [he added] to think that it was worth while—for us, and also for you.

Could the sale of investments, by these tests, be called imprudent? And what of the weight of external debt? The British, when they stood alone, had felt that for themselves at least the future must be entirely sacrificed to the overwhelming needs of the present. They had borne the main cost of the war over a vast area stretching from North Africa to Burma. If they had stinted their expenditure they would have been unable—to cite but one example—to hold Rommel at one of the critical moments of the war.

In a war allegedly governed by the concept of the pooling of resources among Allies, the British had taken upon themselves a sacrifice so disproportionate as to jeopardise their economic survival as a nation. So far as external payments went, that sacrifice was already at its extreme limit when lend-lease was introduced. Lend-lease eased the burden upon the balance of payments; the British used this easement to put upon their own backs a still heavier burden of national mobilisation. It was on the strength of lend-lease that they had sacrificed the export trade upon which, when peace returned, they would depend for daily work and daily bread.

The level of lend-lease supplies during Stage II was clearly the first matter which must come up for discussion at Washington.

If a satisfactory agreement were reached on this point, it would see the United Kingdom through Stage II. But in preparation for Stage III the British must begin to pay their own way. The British believed it essential to raise their exports by the end of the first twelve months of Stage II to a level one-third below that of 1938. This ambition was not extravagant; but if it were to be achieved, it was necessary that the United States should cease to attach to their supplies under lend-lease conditions which jeopardised the recovery of the British export trade. The lend-lease white paper of September, 1941,¹ would have to be withdrawn.

There was a third problem of equal significance for British solvency on international account. This was the problem of gold and dollar reserves. At the outbreak of war, net reserves were valued at rather more than £600 millions. By the time the Lend-Lease Act was passed, the reserves were practically cleaned out. Largely as a result of the quartering of United States troops in the sterling area, the net reserves showed a substantial rise after Pearl Harbour;² by the end of 1944 they were about £420 millions.³ Even this figure was very low when compared with the figure for external liabilities. It was essential that Britain should hold substantial gold and dollar reserves at the end of Stage II; they would be needed to provide a minimum reserve against grave contingencies, working balances to cover short-term requirements in international trade, reserves against the needs of the sterling area, and a means of paying for part of the inevitable deficit in the United Kingdom's balance of payments in the early part of Stage III. It therefore became a cause of great anxiety when, in the last half of 1944, the United Kingdom's gold and dollar reserves threatened to fall once more owing to the reduction in the numbers of American troops stationed in the sterling area. If no remedial measures were adopted, it seemed likely that the British Treasury would enter Stage III with reserves of possibly not much over £250 millions; with liabilities perhaps nearly fifteen times greater; and with a cumulative adverse balance on current account in the first three post-war years that could scarcely be put at less than £1,000 millions. This did not seem the proper outcome of the sacrifices and efforts of the British people. It did not seem consistent with the principle of pooling that had governed so many Anglo-American policies. Nor did it seem politically wise: on the contrary, it might well be dangerous if one of the major Allies should enter the period of pacification,

¹ See p. 245 above.

² This troop pay was the important new source of dollar earnings. In addition, the United Kingdom continued to acquire gold against sterling from South Africa.

³ Cmd. 6707.

resettlement and reconstruction unable merely on financial grounds to take its national part in the sharing of duties and tasks. His Majesty's Government wished therefore to establish that it was in the mutual Anglo-American interest that the British reserves of gold and dollars should not suffer by the end of 1945 any significant deterioration below its level at the autumn of 1944.

There was clearly a wide field for discussion between the United States and the United Kingdom.

(iii)

Anglo-American Negotiations

Britain's three major Stage II problems—the level of gold and dollar reserves, export freedom and the future of lend-lease supplies—were all very closely connected. In the autumn of 1944, they were all brought together at Washington. This section will review the course of the Washington negotiations, the agreements that were made, and the sequel to those agreements. Before doing so, however, it must survey in retrospect the earlier Anglo-American discussions on each of the three problems taken separately.

The original doctrine of the Lend-Lease Act had been formulated at a time when the United States were still neutral. Behind the Act was the emotional drive of the campaign 'to defend America by helping the Allies'—'all aid short of war'. This meant a very great deal at a time when the British Commonwealth stood alone in its fight against the Axis powers; but it fell short of that complete pooling of resources which became the official doctrine when America's very benevolent neutrality towards Britain was transmuted into an unlimited war partnership. As has been shown earlier, the doctrine of pooling became an important reality in many physical resources.¹ But there was never any comparable pooling of financial resources. In the field of finance, it was not the doctrine of the mature war partnership, but the earlier doctrine of lend-lease, that reigned. This fact had important implications for the level of Britain's gold and dollar reserves.

These reserves had been exhausted when the Lend-Lease Act came to the rescue; moreover, heavy external liabilities had already begun to pile up. Between 1941 and 1944, the dollar earnings of the sterling area increased, largely as a result of heavy expenditure by American troops in the United Kingdom and throughout the sterling area. The United Kingdom therefore accumulated new reserves, though far

¹ See Chapter XIII, section (ii).

more slowly than it was accumulating new external liabilities. In Washington it was recognised that reasonable reserves were an essential part of the financial and economic mechanism of the United Kingdom's trading relations with a large part of the world; nevertheless, lend-lease was still regarded even after Pearl Harbour as a means for providing the British with those necessary 'defense articles' that they could not procure themselves. It was felt that lend-lease could not be defended before Congress if it permitted British reserves to rise indefinitely. The rise would have to be curbed.

The British felt this doctrine was wrong. They could point out that the reserves of the other Allies who were receiving lend-lease—notably Russia—did not receive the same critical scrutiny. They also felt, even more strongly, that the mountain of external debt they were shouldering was an inescapable necessity of the war. Unless the growth of their liabilities, which were expressed in sterling, was offset by the maintenance of minimum gold and dollar reserves, countries normally willing to hold sterling might well become apprehensive to the point of withholding supplies. On the other hand, American opinion maintained that the external liabilities were largely towards the Dominions, India or non-belligerent members of the sterling area and that American generosity could not be called upon to compensate for a lack of comparable generosity within the sterling area.

This doctrine could not be pushed to a logical extreme. The United States might have set an artificial ceiling on the United Kingdom reserves. But to do this they would have had to make a very sharp cut in essential lend-lease supplies or to ask the United Kingdom to meet the cost of the American troops throughout the sterling area.

The growth of British reserves could not be stopped; but it could be restricted. From the discussions that continued throughout 1943, various new restraints emerged. First among them was the demand for an increased contribution from the British Empire under the head of reciprocal aid. Secondly, the scope of lend-lease was narrowed.

The flow of reciprocal aid from the British Empire to the United States had begun voluntarily, in fact if not in name,¹ even before Pearl Harbour. After Pearl Harbour it was rapidly increased; but it did not include raw materials and foodstuffs from the Colonies and Dominions. In the summer of 1943, the Americans proposed that they should be henceforward included. They also proposed that figures of reciprocal aid should be published.

Hitherto, the British Government had been, for various reasons, averse from collecting or publishing any particulars of reciprocal aid. To keep accurate records meant building up new staffs; it seemed impossible to put authentic figures of money value on some important

¹ The Mutual Aid Agreement of the spring of 1942 recorded an accomplished fact.

items;¹ above all, it seemed undesirable to reintroduce dollar and sterling signs into mutual aid. These objections had considerable weight; but in the summer of 1943 the War Cabinet decided that it was still more desirable to make known the great and growing importance of reciprocal aid. It therefore authorised the preparation of a white paper giving the facts.² At the same time it agreed that raw materials from the United Kingdom, the Colonies and Southern Rhodesia should be given as reciprocal aid. The United States Government would also be invited to suggest a similar arrangement to the Governments of the Dominions and India.³

In meeting these requests from the Americans, the British Government believed that it would be furthering the principle of pooling, which was in general terms accepted on both sides. But another and indeed almost contradictory objective—that of curtailing the growth of British gold and dollar reserves—had not disappeared from the American scene. This problem was now attacked from the lend-lease side. In October 1943, the United States declared that capital goods such as industrial equipment, machine tools, materials and equipment for petroleum production were no longer eligible for lend-lease; a few months later there were discussions with the Foreign Economic Administration⁴ over a longish list of 'questionable' lend-lease items. These measures reflected the continued belief in Washington that Congress would be critical of charges on the American economy which would enable the United Kingdom to build up its reserves or develop at the expense of the American taxpayer British export industries which would compete directly with American exports. In 1944, the Lend-Lease Act would have to be renewed and a presidential election was to be held. These facts doubtless influenced the detailed action of numerous Washington departments with which the British Government was conducting lend-lease operations.

Side by side with the negotiations about reserves and the scope of lend-lease and reciprocal aid, there had been negotiations about superseding the 1941 white paper on export policy.⁵ This white paper had been published well before Pearl Harbour and was a unilateral declaration of British policy. In Washington, however, it was always regarded as a binding agreement which the United States were entitled to interpret and to police. There were, understandably enough,

¹ e.g. the value of new designs and certain fundamental research.

² *A Report on Mutual Aid*, Cmd. 6483, November 1943; cf. the Second Report, Cmd. 6570, November 1944 and the Third Report, Cmd. 6931, October 1946.

³ The arrangements with Australia and India provided that they would supply raw materials under reciprocal aid; but part of the cost was in certain contingencies to be borne by the United Kingdom.

⁴ In September 1943, the Office of Lend-Lease Administration became a subordinate department of the new Foreign Economic Administration.

⁵ See above, pp. 243–246.

fluctuations of tightness and relaxation in the interpretation of British obligations under the white paper. But even at the height of the war, when the quantity and direction of the British export trade were largely governed by shortages of goods and ships, the white paper restrictions were burdensome. They would become intolerable if they were allowed to persist into the days when British industry would have spare pockets of capacity which might be devoted to the export trade. The problem was very delicate both for the United States Government and the United Kingdom Government; so much so that the protracted negotiations which began in August 1943 had not reached a satisfactory conclusion by the summer of 1944. By then, Stage I was drawing to its close and it was time for the wider discussions about the whole formidable problem of Stage II. It was therefore tacitly agreed to adjourn the white paper discussions and bring them within the general Stage II talks.

The need for these wider talks was becoming urgent. Since the spring of 1944 a good deal of thought had been given on both sides of the Atlantic to the principles that should govern lend-lease aid to the United Kingdom in Stage II. The British were feeling towards the idea that munitions should be on a proportionate basis: lend-lease aid in Stage II, that is to say, would bear the same relation to aid in Stage I as the British war effort in Stage II bore to the war effort in Stage I. No such formula could be applied to non-munitions. These needs in total would also be lower; but clearly Britain required, for instance, just as much food to fight Japan as to fight Germany. On one point the British were emphatic: they were resolved that no encouragement whatever should be given to any suggestion that would involve Britain in a debt to the United States arising out of Stage II.

An opportunity for airing the whole subject officially arose when the 'Octagon' Conference met at Quebec in September 1944. There, the Prime Minister expressed his hope that the President would agree that, during Stage II, the United Kingdom should continue to get food, shipping and so on from the United States to cover its reasonable needs. He hoped that munitions aid would continue on a proportionate basis even though this would enable the United Kingdom to set free labour for rebuilding exports and urgent home needs. The President agreed, with the reservation that it would be better to work on figures than a proportionate basis. He affirmed, moreover, that all these supplies would naturally be on lend-lease. The Prime Minister said that obviously no articles obtained on lend-lease or identical thereto would be exported or sold for profit; but he emphasised how essential it was that the United States should attach no conditions to lend-lease supplies that would jeopardise the recovery of Britain's export trade. The President thought that this too would be proper.

As a result of this conversation an agreement was initialled by the President and the Prime Minister. This agreement established an Anglo-American committee to consider the scope and scale of 'Mutual Lend-Lease Aid' in Stage II and to recommend the amounts to be provided. The Committee was to be guided in its deliberations by the conversation between the President and the Prime Minister.

This Quebec directive was very brief and was capable of different interpretations both in principle and in degree. Nevertheless, it seemed to the British that the discussions had been given the impulse they needed and focused in accordance with the right principles.

The combined committee assembled in Washington in October. The American members were headed by Mr. Morgenthau, Secretary of the United States Treasury, and the British members by Lord Keynes, who represented the Chancellor of the Exchequer.¹ The British members had decided to present their requirements under every head as part of a fully documented case which would vividly picture the British economy, the extent of the nation's sacrifices and the seriousness of its financial position. It was thought essential that the American officials, many of whom were entirely ignorant of the realities of the British dollar and sterling position, should have this knowledge. Lord Keynes indeed expressed his conviction that 'in the past we have made a great mistake and handicapped our representatives in Washington by an economy of information. So-called "reasons of security" must be reckoned at least as one of the minor, if not sometimes a major inefficiency of the machine of war.' The decision to present a full written document was amply justified. The Americans welcomed it and—to quote Lord Keynes again—it 'won over to our support an army of honest Ministers and clever heads scattered all over the administrative area.'

The British document affirmed four basic principles. These were:

1. Lend-lease munitions should be sufficient not only to provide the categories of requirements that the United States alone could produce in time, but also to make possible the release of manpower in the United Kingdom.
2. The British civilian was entitled to some easement in living conditions both by releasing manpower for civilian production and also by a lend-lease programme, especially for food, which would allow some raising of standards.

¹ The British delegation was most ably supported by the British Civil Secretariat which acted as a Cabinet Office in embryo in Washington and by the British Supply Council and the missions in Washington. Lord Keynes wrote, 'I venture to say that we have never had a more brilliant effective team than were assembled [in Washington] this autumn under the captaincy of Mr. Ben Smith . . . The present members of the British Supply Council have been serving the State in exhausting and exacting conditions with a mental and moral stamina which is beyond all praise.'

3. There should no longer be any restrictions on the recovery of the British export trade.
4. It was in the mutual interest that the British reserve of gold and dollars—already dangerously inadequate—should not deteriorate any further.

The first three principles were explicitly in accordance with the Quebec agreement. It was to prove a disadvantage that the last principle also had not been discussed and agreed there. New figures that had been gathered after the Quebec Conference made it plain that the strengthening of British reserves was growing increasingly urgent.

The affirmation of these four principles was reinforced by detailed information about the United Kingdom's external finances, its civilian living standards and its manpower problem.¹ We have already told this story in the first section of the present chapter. We need not tell it again and shall therefore proceed at once to the specific requirements that were set down in the British document.

First were the munitions requirements.² These were put forward in detail. They were based on the agreed military tasks and the size of the Forces needed to fulfil them. They assumed that Stage II would begin on 1st January 1945 and last for eighteen months. They had been calculated after taking account, among other things, of probable stocks of munitions, existing capacity, the fact that many types of equipment were made only in the United States and the limited manpower resources of the United Kingdom. The total known munitions requirements under lend-lease in the first year of Stage II added up, in money terms, to about fifty-four per cent. of the 1944 total. In the interests of coherent economic planning, both in the United States and the United Kingdom, it was desirable that the programme of delivery should be as firm as possible. The British therefore asked that protocol status should be given (as had always been done for Russia)³ to whatever level of supplies was agreed.

Non-munitions requirements were also put forward in detail. They were based on the principle that food, raw materials and other essential imports, in so far as they were drawn from the United States, should continue in Stage II to come under lend-lease. These supplies seemed no less part of the war effort than the direct munitions supplies. Some of them, such as oil and shipping, were used

¹ This material was reviewed in the introduction to the document and set out systematically in three appendices.

² In accordance with past practice, the munitions and non-munitions programmes submitted included in certain cases the requirements of Australia, New Zealand and India. The United Kingdom negotiators also gave, for the sake of completeness, a list of the direct demands from these countries; the negotiation of assistance was of course a matter for the United States Government and the Governments concerned.

³ See above, p. 361.

in very large measure for direct war purposes. Others, such as the supplies of food, might, to a certain extent, be procured elsewhere; but any attempt at large scale switching of British imports from America to (say) Australia was bound to impede the combined war effort. However, the British excluded from their list of requirements under lend-lease nearly all metals, minerals, chemicals and all manufactured articles for civilian use except open-cast mining machinery and agricultural machinery. By these exclusions they hoped to strengthen their case for export freedom. All in all, their total non-munitions requirements for the first year of Stage II amounted, in money terms, to about seventy-one per cent. of the 1944 total.

The third section of the British document made suggestions about methods for preventing the threatened deterioration in the gold and dollar reserves. There were two main methods. One was to re-include in the lend-lease programme certain items that had been cut out at one time or another and to add one or two others.¹ The second method was to settle certain outstanding claims over past transactions that had been held in abeyance when British balances were rising; chief among these was the claim for aircraft engines paid for in cash by the British before the inauguration of lend-lease and diverted thereafter to the United States War Department. A third method for relieving the pressure upon the gold and dollar reserves might also have been advanced—namely, the restriction of reciprocal aid. But the British were resolved to propose nothing that might in any way damage the principle of pooling, which was indeed the foundation stone of their own case.

It is not . . . difficult to take some practical measures [so ran their document] which would bring us nearer, if only a very little nearer to what the situation would have been if the principle of financial pooling could have been fully carried through.

Finally there came the request for freedom to export. The British document explained why a big recovery in exports was necessary and why a beginning must be made at once. It proposed that, as from 1st December 1944, His Majesty's Government, acting in agreement with the United States Administration, should withdraw the white paper of September 1941, so that from that date British exporters would be free unconditionally to export any article to any market. It explained in full detail under all heads the careful measures that had been taken or would be taken to ensure that British export industries received no unfair competitive advantage from American lend-lease supplies.

¹ The most important items were tobacco, 'off-shore' sugar, crude oil purchases for the Curaçao and Bahrein refineries, certain shipping expenditure in dollars, machine-tools, material for the repair and equipment of bomb-damaged houses and civilian relief supplies for liberated British territories in the Far East.

The British document, as has already been said, gave the negotiations an excellent start. The atmosphere in Washington was co-operative. On the whole, the talks went well.

To begin with munitions: the Americans accepted the British requirements, with much less question than on previous occasions, as being the proper and necessary consequence of the strategic decisions of the Combined Chiefs of Staff. The British did not have to accept any important curtailments of the demands they had brought from London except where they were themselves satisfied that a reduction could be made safely or where there were genuine supply difficulties on the American side. In the end, they secured eighty-two per cent. of what they had asked for at first¹ and ninety-eight per cent. of their amended requests. They did not, however, hold what they had secured on completely sure tenure. For some items that were likely to be scarce—nearly one-fifth of the agreed total—there was no firm commitment to supply. And the munitions undertakings as a whole did not achieve that protocol status the British had desired. Indeed, the agreement made at Washington was altogether informal. No final and formal document was drawn up for signature on both sides. The sub-committees which had been considering the Navy, Army and Air Force requirements simply sent the schedules of 'acceptances' to the main Morgenthau committee; their covering letters did not exclude the possibility of subsequent excuses and retreats. Nor was the Morgenthau committee kept in existence to serve if need be as a court of appeal. However, these uncertainties did not at that time seriously qualify the satisfaction the British felt at the outcome of the talks about munitions.

Their non-munitions programmes also went through successfully. They were piloted by the British missions in Washington, treating with their usual opposite numbers in the Administration. The Americans accepted the case for a moderate easement of living conditions in Britain. Under every head, the British received substantially what they asked, subject to the possibilities of supply. Food, for example, remained subject to allocation by the Combined Food Board; but full financial cover was obtained under lend-lease for British requirements. Unless supply impediments arose the required quantities would be allocated at the appropriate times.

The British case for the strengthening of their financial reserves did not fare quite so well; for the good intentions of the American negotiators were to some extent frustrated by circumstances beyond their control. One result of the negotiations was very satisfactory in British eyes; the 'heresy' (as Lord Keynes termed it) that lend-lease aid was excessive if British reserves rose materially above

¹ The short fall was equivalent to one year's output of 50,000 workers—quite an appreciable figure in the context of British needs.

\$1,000 million was at long last rooted out. The American delegation was convinced that new and special relief should be given to British reserves to the extent of 400 or 500 million dollars. Unfortunately, when it came down to detail, this proved impossible. 'Off-shore' sugar and civilian tobacco, the two really significant items which the British hoped to see restored to lend-lease eligibility, remained ineligible—in the one case because of a genuine shortage in the United States, in the other because of an imagined shortage.¹ The second method of relieving British reserves—by satisfying the hitherto disputed claim in respect of aircraft and munitions purchased before lend-lease and subsequently handed over to the Americans—might on this occasion have been adopted, had not the War Department discovered that the appropriation from which the claim could have been met earlier had by now expired. The Americans did their best to make good, by a surprising number of minor expedients,² these two major disappointments; but they still fell short by about 200 million dollars of the level of 400–500 million dollars which they had accepted as desirable.

Finally, there was the problem of the United Kingdom's freedom to export. In long term, this was the most important problem of all. The Quebec agreement had placed it on an entirely new footing and the United States Administration now appreciated Britain's need to restore her export trade. But the immediate problem facing the American negotiators was how to grant Britain her export freedom without antagonising politically important sections of American opinion.³ In the end, they did what was substantially necessary without full and formal acknowledgement of the necessity. The British had hoped for complete export freedom as from 1st January 1945. It was withheld in form until the end of the German war; but the British were assured that from 1st January onwards it would be granted by administrative action.

All the negotiations were completed before the end of November 1944.⁴ Their success was a good augury for the continuation into Stage II of the firm and intimate partnership which had already returned such rich dividends in the combined assault on Europe. And

¹ Tobacco leaf was not at all scarce but during the negotiations cigarettes became scarce in American shops owing to shortages of labour and packaging: it was therefore politically difficult to restore tobacco to lend-lease.

² One item for which the British were particularly grateful was the acceptance for lend-lease eligibility of a programme of emergency houses. This was a considerable stretching of the strict interpretation of the Lend-Lease Act.

³ British public opinion about export restrictions was also very restive.

⁴ The link between the Stage II talks and the discussions that led up to the Anglo-American Loan Agreement should be pointed out. The latter discussions are outside the scope of this volume. But the arguments of the United Kingdom at the end of 1943 and the response of the American Administration were in fact a development of the presentation made in the Stage II talks.

if the partnership were further strengthened in Stage II, this in turn would augur well for the work to be done in Stage III—the restoration of stability and freedom to an afflicted world. In November, 1944, hopes were indeed high. The Washington agreement was the climax of a unique collaboration in which two great peoples had directed their efforts and sacrifices towards a common purpose loyally pursued.

But anticlimax followed in the spring and summer of 1945. Its chronicle may be omitted from this book; the larger part of the story belongs to the political history of the United States. Suffice it to say that, although some of the Administration's undertakings to the British Government—which, as we have taken pains to emphasise, were never technically and formally binding—were loyally kept, others were in danger of being washed away by new tides of feeling and opinion that swept through Congress and the American people. A day came when the President of the United States issued a directive for the allocation of military equipment under lend-lease which contradicted the principles and plans that had been mutually agreed at Washington. He was a new President. Mr. Roosevelt had died on 12th April 1945.

In the early winter of 1944-45, the auguries had been good for the orderly transition from one phase of the war to the next and thereafter from war to peace. The combined action which had governed the mobilisation of economic resources for war was now helping to infuse order and method into the reverse process, now already beginning. Plans for partial reconversion were proceeding in the United States, the United Kingdom and Canada and information about them was being exchanged through the Combined Production and Resources Board. The whole process was regulated by the agreements that had been reached on the level and content of lend-lease and mutual aid. To the British, who had taught themselves to allocate their scarce resources with unprecedented rigour, a firm definition of international commitment was indispensable if they were to make the best of their national task. But that definition crumbled.

The disintegration had begun before Stage I ended. In Stage II it proceeded apace. Stage II became a chaos of uncertainties, which ended luridly when two atomic bombs were dropped on Japanese soil. That was an event of secular significance; but the present book is concerned with nothing more than its short-term consequences for one country. After practically no time of transition, no time to restore neglected plant or build up reserves or expand export production, the United Kingdom was plunged straight into the grim difficulties of Stage III.