

CHAPTER 4

Imperial Contenders and Britain's Grand Strategy of Restrained Punishment, 1932–1939

In the decades after World War I, Britain was a leading world power (McKercher 1991). New regions in the Near East (namely, the former Ottoman Empire) were included in Britain's empire. Germany had been disarmed under the Versailles Treaty, and its navy was scuttled at Scapa Flow after the Great War. Other potential contenders for regional leadership such as Italy and Japan were relatively quiescent. France gave priority to its army and to the construction of the defensive Maginot line over its navy. Russia had been greatly weakened by the revolution, civil war, and Stalin's purges of the officer corps. The United States returned to a policy of near-isolationism, concentrating its efforts in the Americas. In sum, Britain was in the enviable position of "not wanting to quarrel with anybody because we have got most of the world already, or the best parts of it, and we only want to keep what we have got and prevent others from taking it away from us" (Pratt 1975, 3).

However, by 1930, Britain's global interests were under siege in disparate parts of its empire and by several contenders for regional hegemony. Britain faced Japan, the Soviet Union, and the United States in the Far East, Germany on the Continent, and Italy in the Mediterranean. As well, Britain encountered nationalist challenges within its empire in Egypt and India, and a civil war in Palestine. The Spanish civil war (1936) posed a threat to Britain's passage to its Far Eastern empire through the Straits of Gibraltar and the strategic Balearic Islands. Economically, Britain's traditional exporting industries were succumbing to foreign competition, while Britain's growing dependence on trade with its empire meant, more than

ever, that London needed to protect its foreign commercial interests (Capie 1983, 17–22).

Within Britain, two large and logrolled coalitions battled over which contenders to accommodate, where to punish, and how to appropriate the nation's resources between its political economy and its national security. Critical differences existed between the supporters of the free-trade and economic nationalist blocs on the issues of the restoration of the gold standard, rearmament and arms limitation agreements, peacetime state planning and intervention in the economy, loans to China and Germany, collective security and the League of Nations, and imperial trade preferences. The constituents of the free-trade coalition included the Labour Party, invisible exporters and the City of London (shipping, banking, insurance services), the Bank of England, fiscal conservatives, state bureaucrats and supporting civil servants, exporters and importers who relied heavily on foreign raw materials and markets, and the working class. The free-trade coalition's preferred grand strategy called for cooperation. In the aftermath of World War I, free traders lobbied for the restoration of the gold standard, international banking, and the currency system; a return to fiscal orthodoxy including balanced budgets, reduced government spending, lowered taxes, and retreat from wartime state intervention in the economy; freer trade and the elimination of wartime tariffs and duties; and reliance on collective security, arms control, and arms reduction agreements. Free traders viewed the easing of international tension and the settlement of disputes between nations as essential for improving the international climate for trade. For reasons of economy, they emphasized disarmament, collective security, sanctions, and the League of Nations to promote international peace and European stability rather than relying on the balance of power and rearmament. The domestic consequence of such an agenda would ratchet-up the strength of efficient industry, the City of London, the Bank of England, and bureaucrats such as the chancellor of the Exchequer. Free traders argued that punishing contenders through rearmament or protectionism would result in commercial and military retaliation, undermining Britain's recovering fiscal strength by prolonging defense expenditures.

In opposition, the members of the economic nationalist coalition included inefficient industry, empire-oriented lobbying organizations, colonial bureaucrats, the services (air force, army, navy), and peak business organizations. The economic nationalists' preferred grand strategy was to punish the rising contenders. Their policy package favored massive

rearmament (two-power naval standard, Continental army, and air force with reserves), peacetime state intervention in the economy (termed National Efficiency), abandonment of the gold standard (the gold standard meant higher export prices), international binding trade agreements (covering production, prices, and the allocation of markets), and imperial preferences that would link the empire and the domestic economy. The internal result of such an agenda would enhance inefficient industry, the military services, settler groups, and empire-oriented bureaucrats. Economic nationalists condemned Britain's "lead" in disarmament (the Washington Disarmament Conference meant that Britain would not complete any new capital ships for ten years). They warned that failure to increase Britain's defense expenditure would leave Great Britain vulnerable to attack, undermining its national security. Economic nationalists also warned that the restoration of the gold standard or any rollback of wartime protection and subsidies would destroy domestic industry because of the unfair competition, dumping, protectionism, and tariffs of Britain's major trading competitors.

In contrast to the period prior to World War I, during the two decades prior to World War II, the commercial composition of the emerging contenders shifted from a preponderance of liberal contenders to a preponderance of imperial competitors. By 1932, the foreign commercial policy of Germany, Japan, Italy, and to a lesser extent France had turned toward economic autarky and commercial self-sufficiency, while a liberal United States opposed Britain's colonial rule and sought to reverse London's policy of imperial preferences.

Within Britain, the reversal in the foreign commercial policy of the rising states altered the domestic structure of opportunities and constraints. The outcome was the strengthening of the economic nationalist faction and the weakening of the free-trade coalition, swaying London's grand strategy toward punishment. Some free traders defected to the economic nationalist faction. They joined inefficient industry, who renewed their push for a departure from the gold standard (1931), and imposition of imperial preferences (Ottawa Agreement of 1932) and protectionism (quotas and new tariffs). The military services reversed the Ten Year Rule in 1932 and engaged in a large rearmament program after 1935, limited by free-trade opposition and by industrial bottlenecks. The Conservative Party (the dominant force in the national government) led a successful propaganda campaign resulting in the general public becoming more oriented to defense and empire. Manufacturing and business used their

strengthened bargaining position to advance state intervention in the economy, industrial rationalization, and industrial cartels and international agreements, eroding the principles of free trade.

The City of London, the banks, the Labour Party, the Treasury, and the Bank of England resisted the economic nationalists' grand strategy of punishment. Outward-oriented free traders feared that another war like the Great War would permanently extinguish gentlemanly financial capitalism in Britain (Cain and Hopkins 1993a). They prophesied that strengthening economic nationalists meant the "establishment of a 'new economic order' in which price-fixing and the control of production and competition would replace the market as the main regulatory mechanism of economic life" (Wurn 1993, 49). Even a massive rearmament program carried such risks, since it would require state intervention in industry and would divert resources and factories from export to rearmament. As the Treasury warned, state intervention in managing the economy was turning Britain into "a different kind of nation" (Peden 1984, 24). For the sake of their coalition's survival, free traders pressed for a self-reinforcing grand strategy of cooperation. Free traders moderated the economic nationalists' agenda by (1) restraining Britain's military buildup and more generally imposing fiscal orthodoxy and laissez-faire economics, (2) lobbying for economic and territorial concessions, and arms limitation agreements with Germany, Italy, and Japan, and (3) pressing for free trade within the Sterling Area (which required fiscal discipline at home). The outcome of the free traders' strategy was the delay in Britain's rearmament program.

The combination of Britain's delayed rearmament and the challengers' defecting or not renewing the arms reduction agreements and territorial concessions meant that Great Britain's military capability was insufficient to defend its global commitments (as discussed in chap. 6). Limits on Britain's industrial capacity also restricted the scale of Britain's rearmament program. As one author concedes, "more ambitious plans without strict Treasury control of priorities would not necessarily have resulted in better-equipped forces by the late 1930s" (Bond 1980, 192). Once rearmament began in 1935, bottlenecks, industrial dislocation, shortages of engineers, supplies, and machine tools to manufacture the equipment, and competition among the services for scarce industrial resources restricted Britain's rearmament program.¹ The solution, rejected by the free-trade coalition until the war, was government compulsion of manpower and industry.²

This chapter examines Britain's international environment to explain

London's grand strategy between 1932 and 1939. The first section discusses the contenders for regional leadership that Britain confronted. The next sections focus on how Britain responded to these challenges, the domestic coalitional consequences, and the effect on Britain's grand strategy.

THE EMERGING CONTENDERS FOR REGIONAL LEADERSHIP

Scholars who examine Britain's diplomatic history in the decade prior to World War II tend to focus on Great Britain's position in a single region (i.e., the Continent, the Mediterranean, the Far East, or the empire).³ Had Britain encountered a single challenger it could have concentrated its considerable resources from the other parts of its empire, without any debate over alternative foreign policy strategies and the related financial and security ramifications. By the 1930s, Britain confronted Germany, Japan, and Italy, rising at differential rates and in disparate parts of its empire, as well as challenges from within its empire. As one author notes, "There is no major discussion of British foreign policy in the 1930s which faces the problems, as the Chamberlain administration had to, as part of a concurrent though rarely concerted attack on Britain's position in Europe, in the Mediterranean and the Middle East, and in East Asia and the Pacific" (Watt 1965, 208). Another states that "British statesmen from Lansdowne to Churchill grappled with one overriding problem: how to maintain Britain's leading position in the world as her relative power declined. Rarely was this task more difficult than in the late 1930's" (Lee 1973, 1).

First, Britain confronted a number of contenders for regional leadership. In the Far East, Britain faced Japan, the United States, and (to a lesser extent) the Soviet Union; in the Mediterranean, Italy; and on the Continent, Germany. Second, differential rates of industrial growth meant these contenders encroached on Britain's empire at uneven rates. Germany was the first power to encroach on and, based on some indicators, to surpass Britain in key sectors such as iron and steel production, energy consumption, and relative shares of world manufacturing (Kennedy 1987, 200–202). Behind Germany, Japan overtook France in the 1930s and was rapidly gaining on Britain's industrial lead. On most economic indicators, Italy remained a distant, third-rate power.

Third, Britain's regional leadership was challenged by rising contenders in different periods during the 1930s. In 1931, with the invasion of Manchuria, Japan was the first power to challenge Britain's regional hege-

mony. Italy's invasion of Abyssinia in 1935 and its attempt to create a new Roman Empire threatened Britain's passage through the strategic Mediterranean Sea. Although Britain never dominated the Continent, in 1938, beginning with the *Anschluss*, Germany expanded its hegemony over Central and Eastern Europe.⁴

Thus, Britain's decline was far from global, simultaneous, and uniform. Beginning in the early 1930s, Britain confronted Germany, Japan, and Italy on disparate fronts, challenging Britain for regional hegemony. Had Britain confronted a single contender, it could have concentrated its resources in the respective region. Oversimplifying London's predicament makes it hard to understand the difficult problem that Britain faced in striking the correct balance between its rearmament program and its global interests while avoiding financial ruin or leaving the country militarily weak (Kennedy 1983, 27).

IMPERIAL CHALLENGERS

Japan

By the decade prior to World War II, Britain confronted a preponderance of imperial contenders for regional hegemony. The foreign commercial policy of a state reflects whether it will impose an open or closed door commercial order in any locale that it comes to dominate. As imperial contenders, Japan, Germany, Italy, and to a lesser degree, France would create an economically self-sufficient fortress in any locale they controlled. In contrast, a liberal United States favored an open door commercial policy and decolonization. Empowered British economic nationalists clashed with the United States over Britain's imperial preferences adopted at the Ottawa Conference and colonial rule. The United States also viewed Germany's *Mitteleuropa* in central and eastern Europe and Japan's New Order in Asia as an obstacle to the liberalization of global trade.

Until the 1930s, Anglo-Japanese relations were based on decades of cooperation (see chap. 3). As Japan retreated from its support of Britain's Open Door policy in Asia, its commercial and security policies were designed to create an exclusive hegemonic position in the region, beginning with the conquest of Manchuria (1931) and the invasion of Shanghai (1932). During the 1930s, Britain's leaders recognized that Japan wanted to consolidate its hold on north China, dominate the political and economic life of the rest of China, and ultimately extend its control over the rich resources of Southeast Asia. Many in Britain suspected that

Tokyo had long-range designs on Australia and even India. For Britain, Hitler's claim to bring into the Reich merely those neighboring areas with substantial German population seemed less objectionable than Japan's declared goal of a new order in East Asia.

During the mid-1930s, Japan's leaders announced their intention to implement a "Monroe Doctrine for East Asia." The Amu statement (1934), Hiorta's Fundamental Principles of National Policy (1936), and the New Order (1938) all stressed that Japan regarded East Asia as its exclusive sphere of influence (in violation of the Nine Power Treaty) and objected to Western intervention in China (Crowley 1966, 187–210, 279–300). The Asian "Monroe Doctrine" first applied to Japan, Taiwan, Korea, north China, and Manchukuo (the inner ring of Japanese expansion). After 1937, the prospect of Japanese penetration into China south of the Great Wall and into southeast Asia (creating an outer empire) threatened Britain's regional hegemony and the centers of British commercial activity in the Yangtze valley and southern China.⁵ By 1940, Japan openly declared its sphere of influence to include East and southeast Asia, known as the Greater East Asia Co-prosperity Sphere, with Japan, north China, and Manchukuo as the industrial base (Beasley 1987, 233–43). The other countries were to provide raw materials and form part of a vast consumer market, building a degree of economic strength that would enable Japan first to meet and contain any counterattack from outside, then to incorporate India, Australia, and Russia's Siberian provinces by further wars (Beasley 1981, 272). The chain of islands stretching from Malaya to northern Australia was of crucial economic and strategic significance to Japan because of the vital raw materials, especially oil (Lowe 1977, 65).

Japan's bid for regional hegemony would block England's future access to its valuable markets, investments, and resources in the locale, especially the potentially lucrative China market.⁶ Ann Trotter notes that "Japan's aim was the domination of China and that the failure of western powers to assist China would lead eventually to the formation of a Sino-Japanese bloc which would admit westerners only on sufferance" (1975, 35). The combination of the Depression, the loss of its market share in the Americas and Europe, and the cost of rearmament meant Britain's trade with China was more important than ever to maintain a positive balance of trade.

Free traders viewed Japan as a threat to Britain's existing open regional trading order for three reasons. First, Japan would monopolize trade with

China, especially the Yangtze Valley, in the same manner as it did with Manchukuo, excluding Britain from its profitable trade with China. In 1937, Japan restricted foreign shipping on the Yangtze, eliminating British competition. In 1938, the Japanese Diet approved a bill creating a North China Development Company, with the goal of establishing monopolies in transportation, communications, electricity, and mining (Lee 1973, 121–22). Second, as part of Tokyo's attempt to make north China an exclusive domain, Japan moved to incorporate China into its expanding Yen bloc. Japan unsuccessfully sought to do this by replacing the Chinese currency (the *fapi*) with the Federal Reserve Bank notes. In response, Britain's foreign secretary (Viscount Halifax) advocated a 10 million pound loan to the Chinese currency stabilization fund (Lowe 1977, 58–62). Third, Japan's ultimate objective was autonomy and economic self-sufficiency. Japan's leaders defended the concept of the new order, referring in particular to the growth of powerful economic blocs in the world, such as those associated with the British Empire, the United States and Latin America, and Russia.⁷ Monopolization of this sphere would provide the resources and the markets necessary for Japan to build the industrial strength it needed to confront the Soviet Union and the Anglo-American states (Beasley 1987). After 1937, the Greater East Asia Co-prosperity Sphere, stretching from Manchuria to the Dutch East Indies, would grant Japan control over the region's tin, oil, rubber, bauxite, and other strategic raw materials.

Germany

Britain viewed Germany, like Japan, as an imperial challenger seeking to create a closed self-sufficient sphere in central and eastern Europe. Such a sphere would block Britain's future access to the region and strengthen Germany's position when it turned westward. Similar to Japan's, Germany's foreign economic policy evolved from a policy of autarky and self-sufficiency to one of forceful expansion known as *Lebensraum*, or the acquisition of greater living space in eastern Europe.

By 1931, Germany sought to create a self-sufficient sphere in southern and eastern Europe (Stambrook 1972; Boyce 1987). Germany's Chancellor Heinrich Brüning proposed the Austro-German customs union accord of March 1931, reviving the German dream of *Mitteleuropa* and taking the first step toward *Anschluss* with Austria.⁸ Free traders fretted that such a sphere would block Britain's future access to central and eastern Europe. As one author notes, "Such an extension would automatically open the

door for Germany's absolute control of the commerce of Hungary, Czechoslovakia, Jugoslavia, and Italy" (Foerster 1931, 619). He forewarns, "The creation of a Central European national block would inevitably give rise to a Germanic hegemony on the European continent" (622). Germany was negotiating other tariff preference treaties with Romania and Bulgaria (Stambrook 1972, 116). Britain's concern was that Hitler and the National Socialist Party, which advocated economic self-sufficiency and autarky (as well as both *Anschluss* and *Mitteleuropa*), made substantial gains in the 1930 and 1932 Reichstag elections (Kaiser 1990, 371–72). In related events, during May 1932, the Germans announced their intention to leave the League of Nations World Disarmament Conference, and in 1933, Hitler became chancellor, withdrawing from the League of Nations and accelerating German rearmament.⁹

German economic policy challenged liberal trade principles. Under the direction of Hjalmar Schacht at the Reichsbank, the Germans introduced a complex system of controls and the use of foreign exchange (Newton 1991, 183–84). Trade policy was founded on barter agreements with neighboring and Latin American countries, which provided food and raw materials in exchange for manufactured goods (any difference was made up in convertible marks eligible for use only in Germany). By 1936, Hitler supported a policy of economic autarky. Hitler's Four Year Plan was intended to reduce German dependence on foreign suppliers and to conserve available foreign exchange for the importation and stockpiling of strategic materials and food imports (foreign exchange was needed to pay for raw-material imports for rearmament) (Carroll 1968, 122–39). It was urgent to prepare the army and the economy for war in four years. To achieve self-sufficiency, the Plan created rudimentary synthetic oil and rubber industries, as well as increased home production of certain raw materials, such as iron and light metals, which could be substituted for unavailable metals (Weinberg 1980, 23–25). The problem with such a plan was that German dependence on overseas raw materials would always require substantial German participation in world trade (Murray 1984, 5–6, charts 1 and 2).

Neither a policy of participation in the global trading order nor economic autarky could satisfy Germany's economic needs (Craig 1978, 698). For Hitler, the ultimate solution lay only in the conquest of *Lebensraum* (Calleo 1978, 94, 97, 105–7; Deist 1994, 381–82). Hitler proposed to solve Germany's economic problems by conquering Austria and Czechoslovakia in order to clear land for German colonization (Kaiser 1990, 371). A dom-

inated Eastern Europe would serve as a territorial and agricultural base from which Germany could compete with the British Empire and the United States.¹⁰

Italy

In 1935, like Japan and Germany, Mussolini began to advocate a commercial policy of economic autarky and imperial grandeur under a Third Rome. Known as the “March to the Ocean,” it would establish Italian hegemony over the entire Mediterranean, making Italy “the mistress of the Mediterranean” by linking Libya, Ethiopia, and the Sudan via French North Africa (Cassels 1983, 260–68; McKercher 1991, 752). Italian agricultural policy or “the battle for wheat” was aimed at freeing Italy from dependence on foodstuffs from abroad. Yet, Italian autarky was largely impossible since Italy was highly dependent on foreign strategic raw materials and imported energy (Murray 1979b, 45).

Italy’s commercial policy of autarky concerned Britain. Free traders warned that an economically backward country like Italy would block Britain’s future access to its markets and investments in the region. Unable to compete with more efficient foreign powers, Italy would exclude them from any region that it came to dominate. As one author claims, “Italy was in decline and therefore dangerous” (Pratt 1975, 84).

Finally, by 1930, Aristide Briand, the prime minister of France, was one of the primary advocates of a Pan-European Union, including a customs union or Continental trading bloc (Pegg 1983, 83–86). Supporters emphasized the need for expanded trade between the industrial western states and the agricultural eastern states. Germany opposed the Pan-European Union because it would undermine its own plans for a customs union with the smaller states in south and central Europe. Britain opposed the “United States of Europe” plan because its Continental competitors would gain trade advantages through moderate or high external tariffs (Pegg 1983, 99).

L I B E R A L U N I T E D S T A T E S

Unlike Germany, Japan, and Italy, the United States was a liberal contender. The Reciprocal Trade Agreements Act (1934) authorized the president to lower tariffs, reversing the protectionist trend in American commercial policy (the Fordney-McCumber Act of 1922 and the Smoot-Hawley Tariff of 1930) (Lake 1988, 204–5). One goal of the United States was the restoration of the Open Door economic trading order (Gardner

1969; Williams 1972; McKercher 1993). U.S. Secretary of State Cordell Hull called Britain's protectionist Ottawa Agreements "the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life" (Gardner 1969, 19). Britain's imperial preference system was seen as a barrier to American recovery from the Depression since foreign markets could provide an outlet for surplus agricultural and manufactured products (Williams 1972, 233).

During World War II, Washington used the Atlantic Charter (Anglo-American declaration of war aims, signed in 1941) and the Lend-Lease Act to pressure London to reverse its imperial preference system, open the Sterling Area, and restore the gold standard (Cain and Hopkins 1993a, 99–102). The United States tried to write a nondiscrimination clause into the Atlantic Charter calling for "access, on equal terms, to the trade and to the raw materials of the world that are needed for their economic prosperity" (Gardner 1969, 46–47). For the sake of good Anglo-American relations, President Franklin Roosevelt agreed to Prime Minister Winston Churchill's request to water down the accord by replacing the clause "with due respect for our existing obligations" (Kimball 1971, 250). The Lend-Lease Act (1942) was less vague: Clause VII called for the "elimination of all forms of discriminatory treatment in international commerce and . . . the reduction of tariffs and other trade barriers" (Kimball 1971, 253).¹¹ The goal of both clauses was to destroy Britain's imperial economic bloc and to break up the Sterling Area.

In addition to destroying Britain's imperial preference trading system, the United States sought to dismantle the British Empire (at least until the rise of the Cold War) by promoting a policy of self-determination. Part III of the Atlantic Charter called for "sovereign rights and self-government restored to those who have been forcibly deprived of them" (Graeber 1984, 87). Further, Roosevelt repeatedly offered advice to Churchill on the desirable steps toward Indian independence. With such a policy, the United States operated at cross purposes with Britain in the Middle East and Asia.

BRITAIN'S GRAND STRATEGY

In confronting new and old protagonists, within Britain the members of the opposing free-trade and economic nationalist blocs struggled over how to respond to these challenges. Free traders and internationalists preferred cooperation with contenders, translating into an outward-oriented policy of freer trade, disarmament, participation in the League of Nations, fiscal

orthodoxy, and resumption of the gold standard. Such cooperation would strengthen efficient industry, the City of London, fiscal conservatives, the Treasury, and the Bank of England. Enhanced free traders would lobby the government to adopt a more conciliatory policy toward liberal United States and even imperial Germany, Italy, and Japan. Constituents of the economic nationalists favored punishing contenders by means of increased military spending, imperial preferences, and abandonment of the gold standard, supported by state intervention in the economy. Punishment would bolster the military, inefficient industry, and colonial-oriented bureaucrats. Strengthened economic nationalists would press for a more belligerent stance toward imperial and liberal contenders alike.

Britain's World War I strategy of punishment greatly empowered the members of the economic nationalist coalition, with domestic economic considerations (state intervention in the economy, industrial protection, closer union with the empire) taking precedence over international concerns.¹² This shift in the domestic balance of political power was apparent by 1916, with the Paris Agreements in which Britain and its allies pledged to deny Germany and Austria most-favored-nation status after the war (Newton and Porter 1988, 50). Gains for the economic nationalist faction included a reversal in the declining trend in agricultural development by the war, which agriculture sought to retain in its aftermath.¹³ Wartime protectionism benefited inefficient industry and state managers. The war also enhanced the position of the military services, resulting in new naval construction, an air force with air reserves, and a Continental army. Invisible exports were hurt by the decline in the international service economy, domestic tariffs and duties, and the beggar-thy-neighbor economic policies. The embargo on foreign loans undermined the City and meant that British customers cut off from credit had to make new arrangements, often turning toward New York (Cain and Hopkins 1993a, 41). Concomitantly, the war weakened fiscal conservatives such as the Treasury, who strove to contain expenditure, while the Bank of England's control over the money supply was eliminated with the suspension of the gold standard (1919).

The war challenged traditional economic orthodoxy by enhancing the role of the state, big business, and peak business organizations (Tomlinson 1990, 62–68). By 1918, two-thirds of the economy and nine-tenths of imports were subject to direction by bodies authorized by the government (Newton and Porter 1988, 36; Cain and Hopkins 1993a, 49). Numerous ad hoc commissions and boards were set up to regulate and coordinate business, such as the Ministry of Munitions, Coal Controller, and Ship-

ping Controller. Regulation and management of the economy meant intervention in the conduct of industrial firms, coordination of railways, the manipulation of investment into useful enterprises, the ban on specific exports (chemicals required for the production of explosives), heavy duties to discourage the misuse of limited shipping cargo space (McKenna duties), and currency controls to prevent the loss of foreign exchange.¹⁴ Other state schemes included the central allocation of resources and price fixing of munitions and food, import licensing, railroads, and shipping insurance. As well, the state intentionally encouraged the development of peak industrial organizations and big business in Britain, and the cooperation between capital and labor (Holland 1981, 299–300).

Finally, enhanced economic nationalists, with the support of the Conservative Party, pushed to expand Britain's imperial interests in Asia, Africa, and the Pacific (Beloff 1970). During the war, Prime Minister Lloyd George summoned an Imperial Conference, creating the Imperial War Cabinet, which regarded the western front as little more than a disagreeable necessity (Howard 1972, 64). Lloyd George's War Cabinet included well-known imperialists such as Milner, Curzon, and later Smuts, while Leo Amery was an adviser on Middle East issues. In 1916, Britain and France partitioned the Middle East into respective spheres (Sykes-Picot Agreement), and in 1917, Lloyd George diverted resources to Palestine, ordering General Allenby, the new commander in Egypt, to strike the Turks as hard as possible.

Between 1917 and 1923, strengthened economic nationalists attempted to translate their wartime gains into tariff reform, imperial preferences, and empire self-sufficiency in foodstuffs. Tariff Reformers and newly formed organizations such as the British Commonwealth Union, the British Manufacturers' Association, the National Union of Manufacturers, and the British Empire Producers' Organization provided much of the resources to advance the particularistic agenda of imperial preferences and empire consolidation. At the Imperial Conference (1917) an imperial emigration program was proposed. For national security, segments of industry, especially engineering and provincial businessmen, lobbied for Britain to retreat behind its empire through imperial preferences and imperial self-sufficiency over inter-Allied cooperation (Cain and Hopkins 1993a, 51–52). To slow Germany's industrial recovery and block the renewal of postwar German commercial competition, economic nationalists pressed for reparations in the Versailles settlement. As Liberalism weakened, the Conservative Party was convinced that its hour had come

and that imperial economic unity offered far greater benefits (Kennedy 1981; Turner 1988).

C O N S T I T U E N T S O F T H E
F R E E - T R A D E C O A L I T I O N

In the aftermath of World War I, the free traders were no longer the dominant coalition, and their agenda became to roll back the wartime gains of the opposing economic nationalist faction (McRae and Cairncross 1984, 15–16; Newton and Porter 1988, 55–63; Tomlinson 1990, 53–59, 79–89, 113–21). The members of the free-trade coalition generally agreed that the best solution to Britain's dilemma was an easing of international tension, retreat of the state from intervention in the economy, and the freeing of international trade from artificial restraints. Specifically, the Bank of England was determined to restore the gold standard, to control the money supply, and, most important, for London to resume its position as the world's money market. The Treasury's intent was to return free trade, balance budgets, and restore economy in public spending; reduce high wartime tax; and roll back the state as regulator of the economy. Fiscal conservatives argued that wartime protection was corrupting the political process by creating powerful vested interests whose influence would be difficult to resist. They countered that the problem of the staple industries was that they needed to "put their house in order" and address the issue of inefficiency. The City's interest was to restore the international service economy, which would help pay for imports, produce a balance of payments surplus, generate capital for foreign investment, and stimulate demand for British exports. Finally, the Treasury, the Bank of England, and the City of London especially opposed the military's program for peacetime rearmament for fear that it would bring inflation and a subsequent economic crash in Britain's recovering economy.

The members of the free-trade bloc included the Labour Party, Liberals, trade unions, invisible exports, the City of London, the financial community, the Bank of England, fiscal conservatives, pacifists, state fiscal bureaucrats (chancellor of the Exchequer, Treasury advisers, and supporting civil servants), exporters and importers who relied heavily on foreign raw materials and overseas markets, and the working class. The free-trade coalition favored a grand strategy of cooperation through (1) arms limitations and disarmament agreements to prevent a costly arms race, and reliance on collective security to lower the cost of hegemony, (2) retreat from empire and, concomitantly, a reduction in imperial defense, and (3) restoration of fiscal orthodoxy (including balanced budgets, debt-funding, and cuts in

public expenditure), a return to the gold standard (which was necessary for a revival of trade), deregulation of the economy, and rolling back state economic management. One of the central strategies of the free trader coalition was to cultivate the growth of moderates within rival imperial states, especially free-trade-oriented business, who would pressure their respective governments for commercial and military restraint.

The Treasury Department

As the central department of finance, Britain's Treasury Department pressed for rolling back state intervention in the economy and the high levels of public spending to prewar norms of policy. The Treasury Department was responsible for the oversight of all government spending, and it had the final say on all issues relating to budgetary control and debt management (Shay 1977; Peden 1979, 38–44; 1983, 374–78; Kennedy 1981, 230–36). The Treasury had influence over what proportion of the national wealth should be allocated to defense and how the services would allocate their resources. First, the Treasury was responsible for levying and creating new taxes. Second, since there was no Ministry of Defence, the allocation of funds was negotiated directly between the Treasury and the three services.¹⁵ This meant that the Treasury also had the function of coordinating among the services, thereby preventing a chaotic competition among the services for scarce resources that would have slowed the rate of rearmament; hence it had a substantial voice over Britain's grand strategy (see the appendix for a discussion of the concept of Treasury control). The autonomy of Britain's Treasury was intended to safeguard the country's fiscal strength by preventing excessive extraction of societal resources for military purposes, while allowing for modest increases in the rate of defense spending.

The theoretical approach of the Treasury's fiscal policy remained rooted in the Gladstonian tradition of limited government expenditure, low taxation (especially direct taxation), adherence to the gold standard, debt reduction, and minimal intervention in the economy in order to safeguard Britain's financial strength.¹⁶ The heart of the Treasury's position was that finance was the "fourth arm of defence," upon which the three branches of the Services (and traditionally Britain's allies) would rely in the event of a prolonged war.¹⁷ To pay for future wars, Britain's leaders intended to use its creditworthiness, the sales of foreign securities, and running down its war chest, which was composed of gold and foreign exchange reserves (Peden 1979, 1984).

In the aftermath of World War I, the priority of the Treasury was to

lower direct and indirect taxes. The Treasury opposed high taxation in peacetime because it would leave little room for expansion during war. To protect Britain's international creditworthiness, London renewed its debt repayment to the Sinking Fund. While Britain's tradition of war finance had dictated that the national debt should be kept down to the lowest possible level by paying for wars out of current taxation, and in particular through an income tax, the outcome of war was often high debt. However, failure to meet past debt responsibilities would damage Britain's ability to obtain new foreign loans at reasonable interest rates during an emergency and would erode foreign confidence in Britain's economic stability.

The Bank of England

For the Bank of England, the Treasury's fiscal sibling, the central concern was the restoration of the gold standard, which had been suspended in 1919. The Bank of England was supported by financiers, overseas banking, insurance, shipping, and the Treasury, who viewed a fixed currency and stable exchange rate as essential for the revival of trade (Newton and Porter 1988, 59). The service economy urged the government to return to the prewar gold standard as quickly as possible in order to restore the financial position of the City of London and to help businessmen, particularly exporters (Skidelsky 1976, 30–33). Montagu Norman, the governor of the Bank of England (1920–44), warned that if Britain failed to go back "the world center would shift permanently and completely from London to New York" (Tomlinson 1990, 54). This policy posed a challenge to industry since restoration of the gold standard involved an overvalued pound, especially in relation to the dollar, further disadvantaging British exports (Longstreth 1979, 164–67). Returning to the prewar valuation left the prices of British goods about 10 percent above their real value (Brawley 1993, 155). Suspicion was heightened among economic nationalists by the fact that the inner cabinet of the Bank consisted of directors of merchant banks, acceptance houses, and overseas banks, ship owners, and merchants, but only a few industrialists (Williamson 1984, 108). The Bank of England also advocated the establishment of central banks throughout Europe, which would be free of political control and would cooperate to manage the new financial order.

The City of London

Invisible exports favored a return to free trade and fiscal orthodoxy. While weakened by World War I, beginning in 1921, the City of London (ship-

ping, banking, creditors, bondholders, insurance services, and overseas investment) along with the Treasury and the Bank of England reasserted their authority over economic policy in order to restore the prewar liberal trading system. The City opposed a large rearmament program, fearing that excessive borrowing might lead to inflation and weaken Britain's recovering economy. By the mid-1930s, the City preferred to rely on private industry for rearming, rather than state arms factories. Detractors of wartime duties and imperial preferences included those who relied heavily on foreign raw materials and markets, such as shipbuilding, and the working class, who feared higher food prices.

The Labour Party

The Labour Party also favored financial orthodoxy. The Labour Party functioned as a pressure group for labor and the trade unions, supporting cheap consumer imports and the export orientation of British industry on which much union strength had been built. Labour also supported expenditure on welfare, clashing with the Treasury Department. Yet, as Tomlinson notes, "we cannot see the early 1920s as a period when a growing labour movement fought against prevailing economic orthodoxies" (1990, 67). Labour and its constituents regarded disarmament, collective security, and consultation among League of Nations members (rather than balance of power diplomacy) as the only certain method for preventing war (Gordon 1969, 47–54; Hall 1976, 478–80; Schmidt 1986b, 279–88). They opposed the economic nationalists' rearmament proposals for fear that "unilateral" British rearmament risked igniting another arms race. In the 1935 election, the Labour Party declared that "the best defence is not huge competitive armaments, but the organisation of collective security against any aggressor and the agreed reduction of armaments everywhere" (Shay 1977, 58). Consequently, Labour members urged the government to take all steps necessary to bring the 1932 League of Nations World Disarmament Conference to a successful conclusion.

SUPPORTERS OF THE ECONOMIC NATIONALIST COALITION

In opposition, empowered economic nationalists sought to perpetuate their windfall from punishing Germany and the Great War. Their desired grand strategy was to punish the rising contenders through immediate rearmament, which meant repealing the Ten Year Rule, expanding the wartime duties and tariffs to include imperial preferences, extending state

management over the economy, and blocking calls for a return to the gold standard. As the party of protection and empire, the Conservative Party clamored for reserving access to its empire markets for its own industry, while blocking non-empire competition, and correcting the deficiencies in the nation's defenses.¹⁸ Economic nationalists also called for repealing the Ten Year Rule (1919), which instructed the military services (army, navy, air force) to plan their budgets on the assumption that no major conflict would occur for ten years, countering that Britain could afford a large rearmament program.

Industrialists

The members of the economic nationalist coalition included inefficient industry, state managers, members of the military services, state bureaucrats such as the members of the Committee of Imperial Defence, and empire organizations. Inefficient British industry (including iron and steel, the motor car industry, cotton, and coal), industrial lobbying organizations (such as the National Union of Manufacturers or NUM and the Federation of British Industry or FBI), and the Association of British Chambers of Commerce supported tariff reform, imperial preferences, and management of the British economy.¹⁹ More threatening to free traders, by the mid-1930s, the FBI rejected conventional economic beliefs, calling for managed international trade. This entailed binding international agreements or producer alliances between industrial competitors (in Britain, Germany, and Japan) by creating a managed price-system, sector production, and the joint development of markets. Another grievance common to industrialists was the overvaluation of sterling due to the restoration of the gold standard in 1925 (Holland 1981, 288). Industrialists opposed the return to gold because it meant higher export prices, tighter international markets, and scarcer investment capital due to high interest rates (Bright 1985, 222).

The Military Services

The members of the Navy and the Army (Chiefs of Staff, COS) called for immediate rearmament, earmarking greater resources to defense, while complaining about the lax armaments policy.²⁰ Since 1919, conscription had been abandoned, defense Estimates lowered, and disarmament advanced (in the 1921–22 Washington and 1930 London Naval Treaties). In 1924, strong opposition to armament expenditure by the Labour government halted construction of the Singapore naval base (which was

approved in 1921). In 1925, a one-power naval standard was adopted (Peden 1979, 6).

In 1933, the COS provided a detailed report of the existing deficiencies in the defenses of the empire. They argued that only from a position of strength could Britain negotiate with Germany, Japan, and Italy. The military recommended a large rearmament program, including the upward revision of the navy's existing one-power standard to a two-power standard, completion of a fifty-two squadron bomber and substantial reinforcements of the Fleet Air Arm, and an army expeditionary force to defend the Low Countries. In response to the free traders' call for economy and retention of the Ten Year Rules, proponents for higher defense spending argued that the danger of underrating Britain's defense might lead to "defeat in war and complete destruction," while the danger of overrating the nation's financial resources could "only lead to severe embarrassment, heavy taxation, lowering of the standard of living and reduction of social services" (Shay 1977, 201).

British naval men scorned the Washington and London Naval Conferences. Economic nationalists were determined that the country's "lead" in disarmament should go no further. At the Washington Naval Conference, Britain accepted a one-power standard in battleships and established a naval holiday from battleship construction until 1936.²¹ As a result, the Admiralty was faced with scrapping twenty capital ships. At the London Naval Conference, delegates agreed to limit cruisers, destroyers, submarines, and smaller auxiliary ships. Because of these treaties, between 1923 and 1934 there could be rebuilding and re-equipping of the fleet on only a minor scale. The military also called for greater imperial defense, including the construction of a naval base at Singapore. Singapore was selected as the site to defend Britain's interests in the Far East. The Admiralty argued it was essential that Singapore be built up to defend itself during the six weeks it might take for the main fleet to arrive.

Empire Organizations

Empire organizations such as the British Commonwealth Union, the Imperial Lobby, and the Empire Industries Association lobbied for imperial preferences, the importance of empire markets, and safeguarding home industries from foreign competition.²² They called for empire self-sufficiency in foodstuffs and committed Britain to tax empire goods less heavily than foreign goods. There were renewed calls for Britain and the other empire countries to admit empire products free or at lower rates

(New Zealand and Canada were especially eager). Empire organizations protested returning Germany's former colonies and criticized America's anti-imperialist ideology, which they feared and resented (as well as America's economic internationalism).

ENTRENCHED FREE TRADERS AND THEIR SELF-REINFORCING STRATEGY: COMMERCIAL AND MILITARY COOPERATION

The foreign commercial policy of the rising contenders and the domestic distributional consequences guided Britain's grand strategy. In facing imperial Germany, Italy, Japan, and to a lesser extent France, the military, inefficient industry, and colonial bureaucrats pushed for a grand strategy of punishing these emerging contenders. Economic nationalists were joined by free traders who argued that the loss of Great Britain's access to global markets would have a detrimental effect on Britain's wealth and balance of trade. The empowered economic nationalist coalition used these gains to exert pressure to advance their agenda of empire, protectionism, rearmament, and state management of the economy. For the economic nationalists, the 1931 election was an overwhelming victory for pro-tariff Conservatives (forming the national government), replacing the pro-free-trade Labour government (1929–31). The 1935 election of Conservative Prime Minister Stanley Baldwin was a further mandate for their agenda and against Labour's reliance on collective security and economic sanctions, disarmament, and free trade (Robertson 1974; Dunbabin 1975, 591–93).

To preserve their faction's existence, the embattled free-trade coalition lobbied the government for a self-reinforcing grand strategy of cooperation with liberal and imperial contenders. Such a strategy would have the domestic consequence of moderating the rollback of their faction's relative power; it would retard their economic and political demise. Free traders lobbied to restrain the extreme military and commercial programs of the economic nationalists, calling for limited rearmament, naval arms limitation agreements, territorial concessions, and free trade within the Sterling Area. As a number of authors conclude, although rearmament began in earnest in 1935, the shortage of skilled labor (especially engineering) and productive resources in key industries created bottlenecks, thereby further limiting the scope of Britain's rearmament. One proposed solution, which was rejected by free traders, was the creation of a "semi-war" state organization to allocate manpower.²³

A B A N D O N M E N T O F T H E G O L D S T A N D A R D ,
I M P E R I A L P R E F E R E N C E S , L O A N S , Q U O T A S ,
A N D P R O T E C T I O N I S M

Encountering predominantly imperial contenders had the domestic consequence of strengthening the economic nationalist coalition while ravaging the service industries of the City of London. Enhanced economic nationalists pressed for an imperial economy: the abandonment of the gold standard, adopting imperial preferences, British tariffs, quotas against Japanese exports, loan and credit embargoes against Germany, and trade sanctions against Italy. Economic nationalists argued that British financial and trade concessions would be used to expand Germany's and Japan's potential for aggression. Other traditional supporters, such as the National Union of Manufacturers, pressed the government to take action against German-subsidized exports, while the Lancashire textile industry pushed for protection from Japanese competition and preferences in the empire (Lowe 1981, 148). FBI-TUC discussions, representing organized management and organized labor, articulated a joint program for the development of imperial preferences (Dintenfass 1991, 84–85).

New converts to the economic nationalist coalition included organized labor (Trades Union Congress, or TUC), shipping, and even bank directors and City financiers, who turned toward protectionism, import controls, and the empire to save themselves (including the chairmen of the “big five” clearinghouses) (Williamson 1984, 119–20; Cain and Hopkins 1993a, 73–75). The Banker’s Industrial Development Corporation (BIDC), established with government encouragement and funding from the Bank of England, a variety of banks, and the City institutions, supported industrial reorganization (Newton 1995, 488). The BIDC limited the competition in cotton spindles, while the National Shipbuilders’ Security purchased and disposed of redundant shipyards to reduce capacity in shipping. Finally, as other states embraced economic nationalism, the proliferation of bankruptcies and factory closures in Britain caused many free-trade constituents to swing around to a pro-tariff and pro-empire position.

Many free traders were harmed by the global trend toward self-sufficiency and exclusive commercial spheres (Roberts 1991, 65–67). As Eric Francis notes, “London’s position as a centre of world banking, insurance, shipping and merchanting had inevitably been seriously affected by

the decline in foreign trade, and more especially by the growth of barter, exchange clearing and other forms of direct trading, which by-passed the established channels of international distribution and finance" (1939, 293). In all, earnings fell from 200 million pounds in 1926–30, to 110 million pounds in 1931–33, to 51 million pounds in 1934–38 (Roberts 1991, 68). Relatedly, the marine insurance business conducted by British insurance companies suffered. The merchant banks, which specialized in the finance of international trade and foreign loan issuing, businesses that issued long-terms loans for overseas borrowers, and commodity traders and the commodity markets were also adversely affected.

Abandonment of the Gold Standard

The expanding political clout of the economic nationalist coalition contributed to the abandonment of the gold standard in 1931 and the adoption of imperial preferences in 1932, further weakening the members of the free-trade coalition. The abandonment of the gold standard was a major defeat for the Bank of England, the City of London, the Treasury, and the financial community, thereby marking the end of the Bank's independent authority over monetary policy and, more important, the demise of London's role as the center of international finance (Longstreth 1979, 171–73). With abandonment, the government, advised by the Treasury, replaced the Bank of England as the authority over monetary policy.²⁴ As one author summarizes, "The thirties thus constituted a decade in which the political power of banking capital was definitely diminished" (Longstreth 1979, 171–72). Free traders were further weakened in 1931 by the imposition of an informal embargo upon capital issues in London for non-empire borrowers. The main City casualties were the merchant banks that for decades had specialized in loans on behalf of foreign clients (Roberts 1991, 66).

Imperial Preferences

Supporters of free enterprise were dealt a second blow when empowered economic nationalists advanced their dream of Empire Free Trade, intensifying the global trend toward autarky.²⁵ The Conservative Party, empire visionaries, and industry supported imperial preferences in order to protect British industry against non-empire competition. They also hoped to direct British investment toward the empire, encouraging self-sufficiency and expanding the demand for British exports (Tomlinson 1990, 76). Collin Brooks, a financial journalist, noted that there were "two bodies of

opinion, a small minority, no longer very vocal, who deprecated, whatever the emergency, any departure from the principles of Insular Free Trade, and a large majority in favour of the use of tariffs" (1931, 221).

In August 1932, at the Ottawa Conference, Britain formally adopted a commercial policy of imperial preferences.²⁶ In 1931, Neville Chamberlain, with support from the Conservative Party, introduced the Import Duties Bill calling for (1) imposition of a general customs duty of 10 percent on almost all imports, (2) the exemption from the duty of goods from within the empire, pending the Imperial Economic Conference to be held in Ottawa, and (3) the exemption of certain other goods, which were placed on a free list.²⁷ The Ottawa Conference produced a network of twelve bilateral agreements among the commonwealth countries, granting special trading privileges to British Commonwealth countries. Britain offered imperial preferences in return for concessions by the Dominions for British manufactured goods (the exchange was primarily foodstuffs from the Dominions for British manufactured goods).²⁸ In addition, the British colonies of Sierra Leone, Nigeria, Gold Coast, and Gambia put tariffs on foreign imported goods while giving preference to British cottons. In 1934, Britain abrogated the Indo-Japanese commercial treaty (1904) in order to stem the flow of Japanese cotton textiles.

COMMERCIAL CONCILIATION

Members of the free-trade faction responded to these external pressures by pushing for economic cooperation with imperial Japan, Italy, and Germany. The City had an interest in restraining the scope of the economic nationalists' trade and financial punishment of these states. Free traders advocated extending credits, loans, and trade concessions rather than tariffs, quotas, and imperial preferences in order to moderate Berlin and Tokyo's foreign policies. Invisible exports, banking, the City, shipping, and insurance recognized that the benefits would accrue to the trading community.

The goal of the free traders was threefold. First, free traders feared that punishing these imperial contenders risked exacerbating Britain's financial difficulties and the contenders'. As Germany had been Britain's best customer before the war, the governor of the Bank of England believed that Britain's economic well-being and the cure to its unemployment and stagnant economy depended on returning Germany to the liberal fold and on restoring German economic health (Coghlan 1972, 208). The City of London and British banks continued to maintain extensive credit lines to

provide Germany with foreign exchange to purchase British and Commonwealth goods, the latter experiencing serious debt to London (Forbes 1987, 580). Worse, free traders recognized that Germany's reliance on credit after 1932 had led to a grave foreign exchange crisis that could be resolved by conquest (Parker 1975, 646; Deist 1994, 383). Free-trade supporters proposed extending foreign credits and lower tariffs to Germany so that Hitler could purchase the British goods that Germany needed, quelling the urge to expand (MacDonald 1972; Wendt 1983; Peden 1984; Schmidt 1986b; Forbes 1987; Newton 1991, 1995). In the Far East, to obtain fair treatment for British trade and enterprise in China (and hopefully Manchukuo), London had to keep the goodwill of China without antagonizing Japan (Trotter 1975, 10; Bennett 1992).

Second, the City believed that trade would improve Germany and Japan's political-economic climate by strengthening moderates and domestic free-trade constituents. A strong economic connection existed between the major financial and commercial institutions in London and Berlin. After 1919, British merchant and joint stock banks had raised money for the reconstruction of German cities and financed German transactions. Further developing the Anglo-German financial partnership was encouraged by the Bank of England and its governor to show that commercial and industrial collaboration and not aggression would bring prosperity to Germany (Newton 1991, 183; Cain and Hopkins 1993a, 97–99). Free traders appealed to their moderate German counterparts in charge of economic affairs. The intent was that British penetration would pull Germany away from economic autarky, state subsidies, and currency control, and toward a more open and orthodox economic policy (MacDonald 1972, 106, 117; Wendt 1983, 163–64). Free traders countered that any attempt to block short-term loans to Germany would weaken economic moderates (while a budget crash risked contributing to external expansion for raw materials) (Kennedy 1983, 103). As Chamberlain argued, there are sections in Germany "which are anxious to restore international good relations and thereby alleviate the economic difficulties" facing their country (MacDonald 1972, 109).

In the Far East, the Treasury pushed for strengthening Japanese moderates over naval and military extremists.²⁹ Cooperation would bolster the "better elements" in Tokyo, strengthening the reformers in the Konoe government (Lee 1973, 141).³⁰ To advance this agenda, in 1935, the Treasury sent Sir Frederick Leith-Ross to China and Japan (known as the Leith-Ross Mission) with the immediate goal of providing a currency loan

to China. Before departing for the Far East, Leith-Ross conducted interviews with bankers, financial interests in the City, and businessmen interested in trade with China.³¹ Joint Anglo-Japanese financial cooperation on aid to China might give way to a solution to Manchukuo, save the Washington Naval Conference system, arrive at a working arrangement in regard to occupied China, and lead to Japan's return to the League of Nations (Louis 1983, 366).

Finally, neither the Treasury nor the Bank of England wished to become involved in the considerable rescue operation that would inevitably follow from the termination of financial relations with Germany or Japan (Newton 1991, 185). British international creditors that had issued a large volume of short-term credits to Germany opposed calls for stringent exchange and import control arrangements (183–84). Germany had already issued decrees halting the withdrawal of foreign loans, endangering the City. As the Governor of the Bank of England warned, punishment will result in “a loss or freezing up of £35,000,000 of British money” (186). In 1931, in response to the high levels of capital withdrawals from Germany that escalated into a Europe-wide scramble and at the behest of the City Bankers and the Bank of England, London erected the Anglo-German Standstill Agreement (renewed annually until 1939) (Roberts 1991, 64). The Standstill Agreement froze existing credits while interest payments continued, with the goal of keeping the German banks afloat and, more broadly, liberalizing Anglo-German trade. In conjunction (and in opposition to the FBI), bankers called for the temporary suspension of German reparations until conditions improved.³² Thus, as one author summarizes, free traders lobbied for “a wide range of measures of co-operation in foreign trade and finance which could be appropriately deployed to keep a foot in the door in Central Europe, to check the general drift towards autarky, to relieve international political tension and thus preserve a basis for the re-establishment in the future of the world economic order with the inclusion of Germany” (Wendt 1983, 165).

In the Far East, the inflation rate in China and the instability of China's currency caused alarm in London's financial circles (Trotter 1977, 43). To put China on sound financial ground, the Bank of England, the commercial banks (Hongkong and Shanghai Bank), insurance and trust companies, businessmen, and the commercial and industrial lobby proposed a joint Anglo-Japanese loan to China in 1935 (and another in 1937, issued in London and guaranteed by Britain and Japan). The joint rescue pack-

age, the reconstruction of China, and currency reform would benefit British industry by improving economic stability in China.³³

By 1937, there was declining support among free traders for accommodating Germany and Japan.³⁴ For instance, the British Bankers' Association passed a resolution that no new credits should be granted for financing German business that could be financed by means of a Standstill Agreement (Forbes 1987, 584, 586). After the outbreak of the Sino-Japanese War (1937), Britain's policy toward Japan became less conciliatory, with commercial groups clamoring for economic retaliation (Lee 1971, 156–65; Trotter 1977, 44–45; Lowe 1981, 161–62). Stephen Endicott suggests that British loan discussions, support for China's currency reserves, and aid in the building of strategic railroads might have pushed the Japanese military into action in 1937 (1973–74, 494–95).³⁵ Japan's actions threatened Britain's position in Shanghai, its stake in the Maritime Customs, and its shipping and railway interests, while British economic activity throughout north China suffered heavily.³⁶ Japan was also engaged in a major campaign to undermine the Chinese currency in the hope that the leader of the Chinese Nationalists, Chiang Kai-shek, would be destroyed and that occupied China would be completely absorbed into a yen bloc. To resist Tokyo's further encroachments in China, the City of London, with the support of the Treasury and the Bank of England, extended loans to strengthen China's Nationalist government (and prevent its collapse), encouraged British firms to negotiate partnerships with Chinese corporations (T. V. Soong's China Development Finance Corporation), fostered British investment and trade through Hong Kong, and constructed the Burma Road to deliver supplies (completed in 1938).³⁷ In 1938, the cabinet approved a scheme for a British stabilization loan for China's currency (Lee 1971, 163). In 1939, London announced a loan provided by four banks (two Chinese and two British), with the British contribution guaranteed by the Treasury.

THE STERLING AREA: THE TRIUMPH OF ORTHODOXY

Within the empire, beleaguered invisible exports ensured that orthodoxy triumphed in the Sterling Area, reinforcing fiscal conservatism (Longstreth 1979, 172; Tomlinson 1990, 102–3, 113–21). Free traders argued that protection would foster inefficiency within the trading bloc (Tomlinson 1990, 75). First, in the Ottawa Agreements, London granted generous provision for the empire in British markets, to the detriment of British manufacturing, allowing the Dominions to secure a relatively

greater share of the British market than London secured in the empire markets. This was not a sign of British weakness or the power of the empire countries, but reflected the residual strength of invisible exports (Cain and Hopkins 1993a, 87, 306). Since the empire countries were borrowers and were dependent on Britain's financial services and shipping, they had heavy bills to meet for invisible items. Colonial debtors needed preferential treatment to obtain sterling to service their debt to the City.

Second, as in the past, the prerequisite for the Sterling Area was a stable pound (many countries' exchange rates were pegged to the pound). Free traders still aspired to maintain a high degree of financial authority within the sterling camp in order to retain the confidence of sterling holders. As Cain and Hopkins note, "If, by 1931, they could no longer manage a world economy, the British still aspired to run an empire" (1993a, 73).³⁸ This was the price Britain had to pay for a smoothly functioning sterling bloc. Third, the Bank of England pursued central bank cooperation within the empire. This included the development of central banking in the Dominions, which maintained a close liaison with the Bank of England and facilitated monetary cooperation. With the development of Dominion central banks, the responsibility of the Bank of England as the center of the whole system was considerably increased, becoming the central bank of central banks (Stewart 1937, 191–94). Finally, the Treasury extended "Treasury control" or its supervisory role to the colonies. The Treasury placed foreign loans under its strict control, lending capital only to the Sterling Area, especially the Dominions. The purpose was to contribute to the stability of exchange rates in the bloc and to help keep non-Dominion currencies linked to the British pound and stable in relation to sterling (185). One unintended consequence of the ability of colonies and dominions to borrow freely on the London market was the strengthening of ties between the City and the empire (Peden 2000, 258).

R E A R M A M E N T

In 1932, the Cabinet revoked the Ten Year Rule, warning that this did not justify immediate increases in defense spending without considering Britain's economic crisis. The Ten Year Rule assumed "that the British Empire will not be engaged in any great war during the next ten years, and that no Expeditionary Force is required for this purpose" (Gibbs 1976, 3). The combination of the Depression, societal pressures, and Treasury control contributed to the further reduction in military spending. The outcome was that actual military preparedness fell well below the minimum

levels dictated under the Ten Year Rule. With the suspension of the Ten Year Rule, the military services began to make new demands for military expenditure. In response, in 1934, the Cabinet created the Defence Requirements Committee (DRC) with the goal of preparing a program for Britain's rearmament "for meeting our worst deficiencies."³⁹

The DRC's Three Reports

Between 1934 and 1935, the DRC issued three reports on Britain's rearmament program. Much of the early discussions in the DRC focused on a dispute over Britain's priorities: whether the Continental or Far Eastern theater would receive priority. The navy favored the Far East, while the air force emphasized the dangers of an air threat from Germany, and the army called for the need for a Continental Field Force. The Foreign Office (Sir Robert Vansittart) and the Treasury (Sir Warren Fisher) argued that Germany posed the greatest threat. Maurice Hankey (the secretary to the CID) was convinced that Japan posed the long-term threat to Britain's empire. The compromise reached by Hankey was that Japan posed the immediate threat and Germany the long-term threat.

In the initial stages, the DRC's rearmament program was intended to remedy, by 1939, the worst deficiencies in the defense services that disarmament and the Ten Year Rule had caused, while a longer period would be necessary to remedy all military deficiencies.⁴⁰ According to the DRC's First Report, in the Far East, the Navy would play the primary role, while the Army and Air Force would help defend ports and bases.⁴¹ To deal with Japan, the DRC called on Britain to modernize its old capital ships and to replace obsolete ones, and to build up Singapore's defense by 1938 in order to demonstrate Britain's commitment to the region, followed by a new attempt at diplomatic rapprochement with Tokyo.⁴² The Navy concurred that the most likely threat came from the capital ships of Japan, and not Germany, since the latter was building pocket battleships to raid British commerce (Peden 1979, 114–15). The Admiralty supported the principle of "showing a tooth" to demonstrate Britain's readiness and capacity to send a sufficient fleet to Singapore to prevent unreasonable Japanese action (Shay 1977, 33; Peden 1979, 110).

The DRC's Third Report (1935) called for revising the navy's existing one-power standard to a two-power standard (referred to as the New Standard). The New Standard would ensure that the Royal Navy would be sufficient in size to send a fleet to Singapore to meet the Japanese threat in the Far East, while maintaining a force in its home waters to defend

against Germany and a force to protect its trade routes.⁴³ In 1937, on the first possible day allowed by treaty, Britain laid down five new battleships. In 1938, two additional battleships were laid down. Modernization of older ships was also important to the capital ship program.

While the DRC viewed Japan as the immediate threat, Germany was seen as the long-range threat to Britain's national security interests. Britain's primary fear was that Germany might launch a preemptive knockout air strike against Britain. In order to deter a German air attack, the DRC recommended the completion of fifty-two bomber squadrons and substantial reinforcements of the Fleet Air Arm. The DRC also called for the creation of air reserves. An Army expeditionary force was to be prepared to put four infantry divisions, one tank brigade, one cavalry division, and two air defense brigades on the Continent within one month of war, with the goal of defending the Low Countries (Gibbs 1976, 110–11).

Free-Trade Opposition

Free-trade constituents were apprehensive about the economic nationalists' program of punishing Germany, Japan, and Italy through rearmament. First, they believed that such an expensive program could not be financed without doing damage to the economy and threatening Britain's promising economic recovery. Second, they feared that another Great War would enhance the role of the state in the regulation and management of the economy, curbing the influence of traditional finance and the City (as World War I had shaken gentlemanly capitalism). Such an outcome would permanently shift the locus of relative political strength to the economic nationalist faction. To save their coalition, the free trader solution was to moderate the extreme policies of the economic nationalists' rearmament program, press for arms limitation agreements with Germany and Japan in order to lower the cost of hegemony, and exchange British credits and loans for arms control arrangements, participation in collective security, and their return to the League of Nations.⁴⁴

Free traders, especially the Labour Party, Treasury, the Board of Trade, and the Bank of England, opposed the DRC's rearmament program for three reasons.⁴⁵ First, Britain was already running a trade deficit, and the DRC's rearmament program would increase the size of this deficit. Between 1931 and 1938, Britain ran a balance of trade deficit and a balance of payments deficit in every year except for 1935 (Murray 1994, 403). Britain's dependence on foreign imports for food, raw materials, and engineering products required that England maintain a high level of exports in

order to strengthen its balance of payments. Rearmament would require an increase in imports and shift production from exporting industries (it was estimated that as much as 25 to 30 percent of the cost of rearmament would come from imported raw materials) (Shay 1983, 92). As such, Britain would have to increase its exports or run a negative balance of payments, drawing down its foreign currency, gold reserves, overseas investments, and ability to raise credit abroad—the main components of its war chest. The Treasury feared that a long-run balance of payments deficit would reduce international confidence in the stability of the pound, further undermining Britain's financial reserves.⁴⁶ This would be reinforced by the loss of foreign confidence in sterling on the part of holders of short-term capital (Parker 1975, 645; Peden 1984, 17).

Second, export trade opposed massive prewar rearmament because it would cause dislocation of both skilled labor and industry from civil trade. The most troublesome bottleneck from the perspective of the armament industries was associated with the shortage of skilled labor and machine tools. After World War I, Britain experienced a rapid demobilization of its war industry. The movement of skilled labor and the conversion of civilian industry to military production would hurt Britain's export trade and balance of trade by diverting labor and factories from the production of foreign-exchange-earning export goods (Thomas 1983, 563–65). Free traders especially opposed calls for industrial mobilization, compulsion of industry for rearmament, and interference in such matters as the level of profit.⁴⁷ After 1938, with the weakening of the free-trade coalition, the government asked industry to give priority to rearmament orders.

Third, free traders resisted financing the DRC's rearmament program by large increases in government borrowing or taxation (Peden 1979, 1984). Borrowing was opposed by the Treasury because deficit spending would cause inflation and perhaps a financial crash on the scale of 1931. Inflation would adversely affect trade by increasing the price of Britain's exports, resulting in a rise in imports and a decline in exports. Alternatively, increased taxation was opposed by the Treasury because it would lower consumer demand (hindering Britain's economic recovery) and draw down Britain's ability to mobilize additional resources in the event of prolonged war.⁴⁸ The only choice was financial stringency.

The Free Traders' Alternative Rarmament Program

The free traders advanced an alternative rearmament program.⁴⁹ Their solution to imperial Germany's military challenge was to build up the RAF

(Peden 1979, 106–50). The RAF was viewed as the most cost-effective “shop window” deterrent against a German air attack. Britain would construct as many frontline bombers as possible, with few air reserves. Initially, the purpose was to discourage Germany from trying to compete with Britain, accepting a permanent inferiority in the air. Later, the goal was to deter Germany from attacking by demonstrating that Berlin could not win a short war with a knockout blow. In the worse-case scenario, once the nation survived, Britain could focus on a more offensive and Continental role. In 1937, with the advent of radar, which would allow fighters to find and confront an enemy’s attacking bombers, as well as with advances in fighter planes, the Treasury called for the construction of cheaper fighter planes over more expensive bombers (Smith 1978, 315, 329–34; Peden 1979, 128–34; Greenwood 1994, 30–31).

One debate between the Treasury and the Air Staff centered on the question of reserves. The Air Staff called the Treasury’s policy “window dressing” (Shay 1977, 41–44). They demanded that sufficient reserves also be provided in order to maintain Britain’s frontline strength despite losses (Peden 1979, 118–20). The Treasury argued that the bulk of the reserves should be provided only after 1939. A second debate, after 1937, centered on the ratio of bombers to fighters (Shay 1977, 172–73). Chamberlain and Fisher favored cheaper fighters, while the Air Staff backed bombers. According to the government, one bomber cost the equivalent of four fighters (Peden 1979, 134).

To curb Japan’s naval rearmament and to prevent a prohibitively expensive naval race in the Far East, free traders supported the Washington and London Naval Agreements.⁵⁰ For free traders, naval arms limitation with Japan between 1921 and the mid-1930s constituted the most successful aspect of their effort to reduce the military spending of a rival power. The Washington Naval Conference approved three agreements: the Four Power Treaty, the Nine Power Treaty, and a naval construction ratio. First, bowing to American suspicions, Britain replaced the Anglo-Japanese Alliance of 1902 with the Four Power Treaty signed by the United States, Britain, Japan, and France. The four states agreed to common consultation, with disputes to be referred to a conference of the major interested powers. Second, the Nine Power Treaty affirmed China’s integrity and sovereignty, preserving the territorial status quo. Third, the Washington Conference called for the immediate cancellation of all existing capital shipbuilding programs, a naval holiday of ten years duration in which no capital ship construction would be allowed, and the scrapping of

a number of new and old ships.⁵¹ This ratio just permitted the Admiralty to send a fleet to the Far East while keeping a one-power standard against the next largest European navy (Kennedy 1976, 341).

At the London Naval Conference (1930), the Labour government signed a second naval limitation treaty with Japan. Unresolved at the Washington Conference was the matter of limiting warships displacing less than ten thousand tons. While Japan pushed for a 70 percent ratio in heavy cruisers, Britain and the United States advocated to extend the 60 percent ratio for capital ships to all categories of vessels. The compromised agreement was a 10:6 ratio on large cruisers, parity on submarines, and a 10:7 ratio on other categories of auxiliary craft.

To moderate Germany's military buildup, while preventing a repeat of the costly naval race that preceded World War I, free traders supported diplomacy in the form of the Anglo-German Naval Agreement (1935).⁵² The Naval Agreement permitted the maintenance of a German navy no larger than 35 percent of the size of Britain's surface fleet in all classes of vessels and 45 percent in submarines. For financial interests that were anxious to limit overall spending on armaments, restricting the German fleet allowed Britain to rearm at the moderate pace dictated by fiscal orthodoxy, while providing for a sufficient force to protect against Japanese aggression in the western Pacific (Howard 1972). There was also the belief that bilateral negotiations might move from naval matters to the urgent question of air power and a multilateral Air Pact directed against surprise aerial bombardment. Between 1934 and 1938, Britain launched several attempts to conclude an air pact with Germany. Britain had added pressure to reach an agreement with Germany, because in 1934, Japan announced that it did not intend to renew the Washington and London Naval Treaties when the latter expired in 1936. Yet, free traders opposed any upward revision of the Navy's one-power standard to a two-power standard since it might trigger competition with Germany and Japan.

Free traders, especially the Treasury, opposed expenditure for a Continental size army in peacetime and during the initial stages of war (see Peden 1979, 113–50, for army, naval, and air policy; Cain and Hopkins 1993a, 96–105). A Continental army was expensive and would cause economic dislocation by diverting manpower from production. Instead, British labor (kept at home) would build the equipment to support the armies of its Continental allies. Eventually, Britain might have to commit an army to the Continent (Murray 1979a). As well, with the advent of long-range aircraft the RAF could simply fly over the Low Countries,

reducing their strategic worth and further reducing the Continental role of the army (rejecting a “Continental Commitment” for a doctrine of “Limited Liability”). Finally, the outbreak of civil disturbances in Palestine beginning in 1936 required eighteen battalions of the British army.

Finally, Chamberlain argued that a strong British economy would deter emerging contenders from challenging its regional hegemony (Coghlan 1972, 215; Smith 1978, 330–32; Greenwood 1994, 30). The Treasury’s position was that Britain had a financial advantage over its enemies in a long war due to its strong economy and large war chest. Britain’s superior war potential would deter a rising challenger because any conflict would become a costly and protracted war, which Britain would win. Consequently, Britain had to safeguard its fiscal strength, for if the emerging challengers detected a strain in Britain’s economy, they would no longer be deterred by the prospect of a prolonged war (Peden 1979, 65).

The Treasury’s financial concern was not unwarranted. As Britain’s peacetime defense spending increased, its gold reserves began to decline. Britain’s defense spending jumped from 8.1 percent of GNP in 1938, to 21.4 percent in 1939, to 51.7 percent in 1940 (Dunbabin 1975, 588). Between April 1938 and March 1939, Britain’s gold reserves alone declined from 800 million pounds to 300 million pounds (Parker 1975, 643; Peden 1984, 17). By 1939, Britain had already diminished its war chest to pay for the necessary imports (compared to 1914, Britain had less resources and could not borrow from the United States, because the 1934 Johnson Act banned loans to defaulting nations). By 1941, gold stocks had dwindled to almost nothing and Britain was dependent upon American financial and military assistance to defend its empire.

The Collapse of Free-Trade Resistance

By 1936, Britain committed itself to full rearmament, reflecting the weakening of the free-trade coalition and the defection of many of its core supporters to the economic nationalists’ side. As Hancock and Gowing note, “after 1935, the initiative passed to the men who were attempting, very often under great pressure, to build up the war sector of the British industry” (1953, 45). In 1936, the cabinet approved the whole of the DRC’s new program, except for the proposed expenditure on the Territorial Army. In the same year, the Treasury relaxed the procedure for the annual Estimates, funding individual projects rather than allocating sums annually, speeding the construction period (Peden 1979, 40). By 1937, Sir Thomas Inskip (Minister for the Co-ordination of Defense), who was

authorized to review defense spending and supported the Treasury view, called for maximum armaments production between 1938 and 1939.⁵³ His rationale was that Britain could bargain only from a position of strength (Shay 1977, 189–93, 214–16; Peden 1979, 92–100). Even the Labour Party stopped voting against the military Estimates and passed a resolution stating that “we must confront potential aggressors with an emphatic superiority of armed strength,” but they still opposed military conscription (Gordon 1969, 66–77; Lloyd 1970, 197; Shay 1977, 218). The public was also more vocal concerning the conduct of the rearmament program. Indeed, budget rationing barely survived the Anschluss (Greenwood 1994, 33). After the Munich Conference, the Treasury recognized that it was “being progressively put out of action” (Peden 1979, 44) and that “Treasury parsimony” would no longer effectively set limits on the production of weapons (Parker 1981, 313).

Between 1933–34 and 1938, defense spending more than doubled, from 103 million pounds to 262 million pounds, and then nearly doubled again by 1939, to 400 million pounds (Thomas 1983, 554, table 1). The most dramatic increase in defense outlays was on the air force, whose plans were increased from the DRC’s recommendations in 1934. Naval expansion was restrained by the terms of the Washington and London Naval Treaties until 1937, and after 1937 by limitations in industrial capacity. After 1937, expenditures rose rapidly, as if the full two-power standard was in effect (Bright 1985, 241). The Admiralty was able to lay down nearly all the major fleet units it planned in 1936–39 for the New Standard, especially in terms of capital ships and cruisers (Peden 1979, 165). Until 1934, the Admiralty had enjoyed preeminence among the services, leaving it with fewer shortages than the other branches.⁵⁴ In contrast, the army was restrained until 1939 and then drastically expanded by conscription, although this move was opposed by the Labour Party.⁵⁵

Shortages of skilled labor in key industries slowed rearmament. In response, economic nationalists advanced their agenda of state intervention, compulsion, and defense production through the force of law, while free traders resisted calls for government control of wages, prices, profits, and production (Shay 1977, 92–102). In 1938, the Cabinet asked industry to give preference to military work, speeding up the rearmament program, however, only on a voluntary basis that rejected the use of state controls (Barnett 1972, 415; Peden 1979, 128–33). There was also discussion of a scheme to create a “shadow armaments industry” of new factories built

through government contracts and managed by existing firms (Dunbabin 1975, 597–98; Peden 1979, 46, 100, 171–72).

DISTRIBUTIONAL CONSEQUENCES

The grand strategy of restrained punishment altered the relative balance of domestic power, ratcheting-up the strength of the supporters of the economic nationalists while weakening the entrenched free traders. Economic nationalists translated these political and economic gains into a successful propaganda campaign leading the general public to depart from the traditions of free trade, fiscal orthodoxy, arms limitations, and collective security to become more defense, protectionist, and empire oriented (Darby 1987, 125–26). The outcome benefited inefficient industry, empire-oriented bureaucrats, and the military services.

As the free traders feared, empowering economic nationalists meant the death of “gentlemanly capitalism,” with the state playing an important role in managing the economy and industry. At home, the government led the reorganization of industry. Arguing that British industry was too individualistic and too competitive, the state supported huge industrial consolidation, strengthening monopolistic tendencies and thereby breaching economic liberalism. The government also directly intervened in the economy to promote industrial planning. A Director General of Munitions Production was appointed followed by the creation of a Directorate of Industrial Planning to survey the industrial capacity of the country and its readiness to convert to the production of weapons in time of war. A Ministry of Supply was created to control the distribution of raw material to those industries most vital to the nation’s defense.

Abroad, the Federation of British Industries (FBI), the primary business lobby, called for binding agreements with Japan and Germany to protect Britain’s market share and to limit competition in manufacturing (Holland 1981, 295–96). In 1937, the FBI invited the Japan Economic Federation to a conference to push for comprehensive cartels, including a managed price-system (contacts ceased once fighting on the mainland intensified) (Newton 1995, 492–94). Next, the FBI called for an Anglo-German cartel of producer alliances covering production, fixing prices, and allocating markets and quotas (Holland 1981, 296–98). In 1938, the FBI initiated conversations with the Reichsgruppe Industrie (RI) on industrial relations, resulting in the Anglo-German Coal Agreement (1939) allocating to Britain and Germany quotas for the total exports of

the European coal-exporting countries. The sequel, the Dusseldorf Agreement, was intended to increase the consumption of British and German products through the regulation of production and consumption by market sharing, quotas, fixed prices, and joint development schemes (Francis 1939, 325–28; Newton 1995, 495–96).

CONCLUSION

The shift in Britain's international environment guided London's grand strategy by altering the relative political power of domestic actors and interest groups. In contrast to the decades prior to World War I in which Britain confronted a mix of liberal and imperial contenders, during the interwar period, Britain confronted mostly imperial contenders, especially in regions that were important markets. Specifically, Germany, Japan, Italy, and to a lesser degree France sought to impose a system of economic autarky and commercial self-sufficiency in any region they came to dominate, blocking Britain's future access to its traditional interests in the locale.

Confronting predominantly imperial contenders altered the domestic structure of opportunities within Britain, strengthening economic nationalists, while diminishing the standing of the free traders, especially the City as a financial center. Empowered economic nationalists translated these gains into a program of imperial preferences, tariffs, duties, and embargo on capital issues for non-empire borrowers; rearmament; and retreat from laissez-faire economics through abandonment of the gold standard, producer cartels, state intervention in the economy, and industrial planning.

For reasons of economy and to safeguard their faction's existence, the entrenched free-trade coalition pushed for a self-reinforcing strategy of cooperation with Germany, Japan, and Italy. Their fear was that the economic nationalists' agenda would completely destroy gentlemanly capitalism in Britain. Cooperation had the domestic consequence of moderating the rollback of their faction's relative political power, even though it risked undermining the nation's interests (see chap. 6 for an extended discussion of this point). After 1935, the impact of the free-trade coalition was felt more on their resistance to the economic nationalists' calls for transitioning to wartime government control over the economy than on restricting military Estimates. As one author notes, three changes would have made Britain more prepared for war by 1939: (1) the creation of a Ministry of Supply (to organize the economy by implementing physical

controls); (2) securing labor's and industry's cooperation to shift skilled labor into defense industry and training unskilled labor for these tasks; and (3) Chamberlain as prime minister in 1935 rather than 1937 (Shay 1983, 90). The first and second options were resisted by the free traders. Free traders feared that minor state encroachment and partial controls would lead to general controls and would require government intervention further back and forward, destroying their laissez-faire precepts of liberalism and voluntarism.

One lasting consequence of empowering economic nationalists was that it made it difficult to reverse Britain's grand strategy in later periods. The superior strength of the economic nationalists retarded Britain's liberalization, even after other states, such as the United States, reversed their foreign commercial policy. As a result, empowered economic nationalists clashed with the United States, whose goal was to dismantle the British empire and to roll back imperial preferences. Washington used the leverage created by London's dependence on American financial assistance during the war to punish Britain by destroying its imperial economic bloc, dismantling Ottawa, and breaking up the Sterling Area (Kimball 1971). The United States included clauses in the Atlantic Charter and the Lend-Lease Act calling for the elimination of nondiscriminatory trade barriers. Not surprisingly, Winston Churchill called Lend-Lease the "most unsordid act."