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OPERATION 'ROBOT' AND THE POLITICAL ECONOMY OF STERLING CONVERTIBILITY, 1951 - 1952

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"'I've been West a few times, just as you've come here. But who gets the promotions and the big wages - desk bound Party bastards. How lucky you are not having the Party system working against you all the time.'

"'We have got it', I said. 'It's called Eton and Oxbridge.'"

Len Deighton, Berlin Game (Panther, 1984), p. 297.

I

When Winston Churchill's Conservative government came to power in October 1951 it inherited Britain's third serious sterling crisis since 1945. In 1950 Britain had appeared to be on the way to overcoming her persistent dollar problem. The sterling area's net deficit of $1,532 millions in 1949 had been transformed into a net surplus of $805 millions as a result of heavy American raw material stockpiling in aid of the rearmament programme stimulated by the Korean War. Having achieved a surplus with the dollar area for the first time since the war in 1951, the sterling area <u>en masse</u> relaxed the import restrictions imposed to save hard currency in the wake of the 1947 convertibility crisis. But the improvement came to a sudden end during the third quarter of the year. By February 1952 the sterling area reserves, which had risen to $3.8 billions in June 1951, had fallen to $1,800 millions (£643 millions). Further deterioration, to $1,500 millions (£536 millions) by the end of March, was predicted in Treasury and Bank of England forecasts.[1]

The detailed story of the crisis has been told elsewhere and need not be repeated here.[2] It should be said, however, that four factors were responsible. First, the Korean War boom came to an end as the United States cut back on imports of strategic raw materials. Secondly, primary producing members of the sterling area, flush with dollars, expanded imports not simply from Britain but from non-sterling countries including the United States. Thirdly, Britain's own rearmament programme, under which the share of the national product taken by defence expanded from 6 per cent (1950) to 10 per cent (1951-52),[3] diverted resources from the export drive and simultaneously increased the demand for imports. In consequence, independent sterling area countries turned to the western hemisphere for the capital goods Britain was unable to provide at the same time as Britain's dollar deficit was spiralling out of control. By the last quarter of 1951 independent sterling area members were running down their sterling balances to finance dollar imports and in so doing imposed additional strains on Britain's dwindling reserves. Fourthly, as the collapse of the raw material boom coincided with the latest round of trade liberal-ization in the O.E.E.C., Britain's account with the E.P.U. swung from a surplus of $52.8 millions in the first quarter of 1951 to deficits of $171.3 millions and $187.4 millions in the third and fourth quarters respectively.[4] Heavy gold payments resulted, to increase the discomfiture of the new government.

The crisis had serious implications for Britain's inter-national financial role as banker to the sterling area. At the start of 1952 the Churchill government weighed assets of under $2 billions against liabilities of over $10 billions, with no end to the drain on the reserves yet in sight. As early as 27 November 1951, Sir Edward Bridges, Permanent Secretary to the Treasury, had warned that there was a danger of "early bankruptcy".[5] By early 1952, R.A. Butler, the new Chancellor, was warning his Cabinet colleagues that in the absence of action to halt the outflow of hard currency the sterling area would collapse, bringing about "the end of sterling as an international currency".[6]

In these circumstances it seems extraordinary that the remedy favoured by the Bank of England, the Overseas Finance Division of the Treasury and by the Chancellor himself involved making sterling convertible. When convertibility had previously been attempted in 1947 the results had been disastrous: gold and dollars had flooded out of Britain and the experiment was abandoned after just six weeks. Now the Conservative government was proposing something similar at a moment when Britain's dollar problem was no less acute than in 1947 and when her reserve position was if anything more serious. Yet when opponents of Robot within the Treasury and the Cabinet pointed to the risks involved in the plan, suggesting instead continuing inconvertibility and cuts in dollar imports throughout the sterling area they were accused of "escapism"[7] as if there was no practicable alternative. It is of course true that there were substantial differences between the convertibility operation of 1947 and the plan of 1952. These will be discussed during the course of this paper. It is also true that the Robot scheme was ultimately aborted. Nevertheless it would be mistaken to assume that the battle over Robot was merely a technical debate between parties who were committed to the same ends even if they disagreed about the means by which these might be achieved. For more than a generation it has been axiomatic that there was a fundamental continuity, summed up in the term 'Butskellism', in the economic policies of the postwar Labour governments and of the succeeding Conservative administrations of 1951-64.[8] By focussing on the Conservative response to the 1951-52 crisis this paper aims to show that there were fundamental differences of political economy between the two administrations, relating above all to foreign economic policy but touching also on domestic economic management. Only at a time of crisis does a government reveal its true priorities, and the priority after 1951 was liberalisation. Robot may have been killed in 1952, but its spirit lived on to guide Britain back to convertibility in 1958, with lasting consequences for her future economic performance.

II

Britain's signature of Article VII of the Mutual Aid Agreement with the United States in 1942 had of course committed her to work for a postwar world characterised by the elimination of discrimination in international trade. This commitment was reaffirmed in 1945 when the Labour government pledged itself to sterling convertibility and non-discrimination in trade policy in return for the American loan of $3.75 billions. But the Labour government's raison d'etre was social reform and reconstruction. In 1947 the convertibility crisis had revealed the folly of attempting to reconcile Article VII with domestic full employment at a time of world-wide dollar shortage. The government's reaction to the crisis revealed its priorities.

Notions of an early return to international economic liberalism were abandoned. Domestic expansion was sustained by the transformation of the sterling area into a discriminatory economic bloc, with tight restrictions on dollar purchasing and controls on the outflow of hard currency from the central reserves. The political settlement of 1945 ensured that Britain's reaction to her deficit with the dollar area would be protection and the planning of foreign trade rather than pre-Keynesian deflation. Convertibility and multilateralism were never repudiated; rather, they were regarded as objectives which could only be achieved without prohibitive domestic consequences once the global disequilibrium had been cured. Responsibility for such a task was seen to rest with the United States. But until the autumn of 1949 at least Washington was never prepared to advance beyond Marshall aid for Western Europe, whereas London wanted a sterling-dollar partnership to revive triangular trade and stimulate international economic expansion.[9]

Whether or not the postwar Labour government's economic policy can be dignified with the term 'planning' there is little doubt that it involved more intervention in domestic and international economic affairs than Britain had ever before experienced in peacetime. The internal counterpart for foreign controls involved rationing, the encouragement of investment in dollar-earning exports, wage and dividend restraint, and a corporatist approach to industrial policy. This combination of discrimination against the dollar and a domestic full employment policy, along with American assistance through Marshall aid, allowed Britain to achieve striking economic success by 1950. Industrial production was rising at a rate of 8 per cent per annum, the balance of payments was in surplus for the first time since the war, unemployment was down to 1.5 percent of the workforce and inflation was less than 3 per cent.[10]

The crisis of 1951 therefore represented a serious setback for British reconstruction. During the General Election campaign Labour's economic competence was challenged by the Conservatives and Liberals, who pointed to the deteriorating external financial position and an inflation rate running at nearly 10 per cent per annum. In view of the fact that Attlee could scarcely have chosen a worse time to go to the polls, however, it is surprising that Labour performed so strongly, recording its highest ever popular vote. But it lost because it registered increased support in its working class heartland and suffered from a middle class swing to the Conservatives in marginal seats.[11]

It was no accident that the middle class vote played such an important part in the General Election of 1951. The middle class, as a proportion of all adults, had risen from 27.1 per cent of all adults in 1931 to 30.4 per cent in 1951. Over the same period the share of the adult population occupied by the manual wage class had fallen from 68.1 per cent to 64.6 per cent.[12] It was this middle class, composed of office workers, professional groups and small businessmen, which resented the outgoing government. The economic crisis provided it with an opportunity to accuse Labour of incompetence. But such charges implied growing alienation from Labour policies and from the social-democratic philosophy which underpinned them. The system of controls, rationing and high personal taxation, vital to reconstruction, was regarded as a disincentive to work and thrift and as the harbinger of socialist regimentation. Rising prices were eroding the value of personal savings. Labour's co-operation with the T.U.C., essential to the counter-inflation policy, was deemed undemocratic and ultimately ineffective. On top of these specific grievances came a more general anxiety that the balance of social and political power in Britain was shifting to organised labour.[13]

In these circumstances it is hardly surprising that, given the demise of the Liberal Party, many middle class voters supported the Conservatives in 1951. Quite correctly the Conservatives were seen as more tolerant of inequalities in income levels, keen to encourage personal initiative and to dismantle controls, biased to economic freedom rather than to intervention, and less concerned to govern with the collaboration of the trade unions. During the election campaign the Conservatives articulated middle class grievances against the new status quo, maintaining that hard work could be rewarded by tax cuts if government spending were reduced. Their 1950 manifesto had claimed that

> if a tenth or even a twentieth of our enormous national expenditure of £3,500 million a year were saved our whole financial position would be relieved, and immediate reductions in taxation could be shared by all.

The 1951 manifesto repeated the pledge to "cut out all unnecessary government expenditure", claiming that "British taxation is higher than in any country outside the Communist world".[14] The Conservative project was to create an anti-Socialist coalition spreading from the centre to the right of British politics. The coalition was to unite in defence of free enterprise and freedom of choice at the market place all those groups antagonised by Labour's interventionist policies.

The rightward drift of the middle class went with the tide taken by small businessmen (64 per cent of whom voted Conservative in 1951 as against 37 per cent in 1945[15]), large-scale industry and the City of London. Between 1945 and 1951 British industry had enjoyed the highest profits in its history,[16] but it nevertheless complained of high taxation and feared further measures of nationalisation if a Labour goverment were elected. It was unsurprising that the City, given its historic role as the world's clearing-house and its consequent interest in the free flow of goods and capital, should have supported a return to economic liberalism.[17]

III

In the postwar era of exchange controls and bulk purchasing the City's voice was muted, but it possessed a powerful spokesman in the Bank of England. Both the City and the Bank had an interest in the preservation of sterling as an international currency. The pound's global role guaranteed the City's attraction as a centre for banking, insurance and investment funds throughout the world. The City's role was at the same time underpinned by the Bank's duty as lender of last resort in times of crisis and by its general obligation to maintain international confidence in the currency. It was this obligation which had given the Bank political power at home and abroad over the preceding century. Britain's increasing dependence on invisible earnings after 1870 made the maintenance of a stable currency vital, and to this end the Bank had manipulated interest rates to enhance its own liquidity and attract foreign capital to London. Perhaps the most glaring example of such management had occurred after the first World War, when Britain had attempted to regain her pre-1914 international supremacy by returning to the gold standard in 1925. Responsibility for the soundness of sterling did not however stop with domestic credit management. During the 1930's, with the collapse in international commodity prices, dominions such as Australia and New Zealand had been forced to accept rigid supervision of their own budgetary and fiscal policies by the Bank, in order to prevent defaults which would have shaken sterling. The interest of the City and the Bank in 'sound money' was supported by the Treasury, whose historic duty as guardian of the public purse had been a guarantee that no elected government would embark on a potentially inflationary spending programme likely to undermine international confidence in the currency. Simultaneously, the Treasury's role had given it institutional power over all the other departments in Whitehall.[18]

The constellation of interests represented by the City, the Bank and the Treasury had left an enduring mark on British development. Industrial capitalism came a poor second to commercial capitalism, and an educational system which ensured that Britain's leaders were trained in public schools designed to produce successive generations of administrators, financiers, merchants and Conservative M.P.'s kept it that way. Down to 1914 more than twice as many pupils from Winchester went into commerce as into manufacturing. The public schools have continued to act as a recruiting ground for the City throughout the twentieth century. Commenting on the post-1945 period Geoffrey Ingham had noted that

> By far the most common social characteristics of City figures have been attendance at Eton and either membership of or kinship affilitation with the aristocracy.[19]

Such had been the power of this dominant elite, and its shared interest with the old export sector of British industry in free trade, that radicals proposing the protection and modernization of the British economy through the agency of a producers' alliance had been effectively marginalised before 1939. Both Joseph Chamberlain, in the early years of the century, and Oswald Moseley, in the years after 1929, had met the same fate.

The necessity for a massive national productive effort after 1940 ensured the temporary eclipse of the dominant class. The manpower budget replaced the balanced budget; and following the convertibility crisis, as during the war, the sterling area had been subordinated to the demands of the national economy rather than the other way around. Yet for all its radicalism the postwar Labour government had never challenged the system of educational and social privilege which had for so long sustained Britain's gentlemanly elite. It was true that the Bank of England had been nationalised in 1946, but as Susan Strange has noted, the material significance of this act had been minimal. The Bank retained its independence, its recruitment was unaffected and its politico-economic priorities remained unaltered from prewar days.[20] The advent of a Conservative government dedicated to the restoration of market capitalism therefore allowed the Bank and the City to emerge from what had been little more than a state of suspended animation. In December 1951 London was re-opened as a market-place for international foreign exchange.

The sterling crisis of 1951 was a result of bad luck and poor judgement. World economic instability and the acceptance of a defence burden too great for the resources of the national economy had precipitated the run on the reserves and stimulated the leap in the rate of inflation. For the Bank and for the new administration, however, the crisis was a verdict on "much of the methods and policies of the past twelve years".[21] The existence of speculative trading in uncontrolled foreign markets for sterling, a side-effect but hardly a cause of Britain's problems., was seized upon by the Bank to reinforce its ideological distaste for a continuing regime of controls. It might seem strange that Britain's inability to control such activity in areas beyond her government's jurisdiction should lead the Bank to press for liberalisation. But the Bank argued that the speculation could only be suppressed if sterling were kept out of non-resident hands and thus lost its status as an international currency.[22] In reality there was no need to take such drastic action to control cheap sterling transactions, which lost their intensity as the balance of payments gradually improved during the spring of 1952. The real issue was not the perceived impossibility, except at an unacceptable cost, of measures to prevent speculation, but Britain's adjustment to disequilibrium via continuing inconvertibility and the planning of foreign trade. It was the maintenance of this policy which could not be contemplated: restricting the use of sterling would diminish its international attractiveness, ultimately depriving the Bank of its historic function and resulting in the City's inability to attract foreign funds.

Britain's deteriorating external financial position was a matter of serious concern to the Treasury as well as to the Bank. At a meeting of Second Secretaries on 27 November 1951 Sir Edward Bridges argued

> that in his view the economy was heavily overloaded. The only course left open to us was ruthless reduction in Government expenditure.[23]

It was felt that a policy of greater economy, accompanied by a rise in the Bank rate, would check Britain's propensity to import and reduce the rate of inflation. Until January 1952 the Treasury does not seem to have advanced very far beyond pressing for orthodox deflationary measures. At this point, however, the Commonwealth Finance Ministers' Conference intervened. The call for greater restraint in sterling area dollar purchasing was not well received by the representatives, in particular by those from Australia, South Africa or Ceylon.[24] During the course of discussions it became clear that these dominions possessed misgivings about remaining within the sterling area if they were deprived of free access to hard currency. This implied, of course, the termination of dollar pooling arrangements and the introduction of convertibility. The Australians, whose sterling balances had totalled £531 millions at the start of October,[25] went so far as to argue for convertibility in capital as well as in current transactions.[26] As a result of this experience serious doubts about the maintenance of inconvertibility were raised in the Treasury as well as in the Bank of England. Given the Treasury's historic alliance with the Bank and the City the prominence of liberal sentiment is unsurprising. The leading liberals in the Treasury were Sir Edward Bridges, Sir Herbert Brittain, Sir Leslie Rowan and R.W.B. Clarke, from the Overseas Finance section. Their motives for a return to convertibility were similar though not idential to those of the Bank. Concern for international confidence in the currentcy dominated the Bank's thinking. The Treasury liberals accepted the desirability of this objective, but above all viewed liberalisation as a cure-all for domestic inflation and strains within the sterling area.

Having become convinced of the need for a return to convertibility Clarke and Rowan in particular successfully sought to persuade the Chancellor of the desirability of such a move. They argued that inconvertibility implied the continuing insulation of Britain and the sterling area from the world economy. Clarke said that this policy

> was fundamentally escapist, for the rest of the free world cannot isolate itself from the U.S.A.[27]

For Clarke, the dollar shortage now reflected "fundamentally the inadequacy of British (and other non-dollar countries) competitive power".[28] Isolation, by encouraging the development of a distorted system of international trade and payments, with the world divided into a low-price dollar area and a high-price non-dollar area, only exacerbated this inadequacy. Discrimination against the dollar and the existence of sheltered markets in the sterling area had allowed Britain to avoid adjusting her costs and prices to those prevailing in the United States for too long. Competition in the market-place via convertibility would facilitate such an adjustment, thereby reducing the rate of domestic inflation.

There was nothing value-free about the advice given to Butler by Clarke and the Treasury knights. Why should there have been? The policy recommendations were tailored to suit the economic liberalism which it was the Treasury's duty to defend. Clarke's view was that

> it must be in our interest to have sterling convertible for we cannot possibly trade and ship and insure and all the other things we do unless sterling is convertible.[29]

The vitality of finance and of commercial capitalism was identified with the health of the national economy. In 1951-52, and after, Britain's ruling elite considered itself to be acting in the public interest when it argued for the restoration of the liberal system it had been trained to administer. Spending cuts, decontrol and convertibility did not merely represent policy options: they were the domestic and international economic expressions of British liberal society.

IV

Given the Conservatives' antipathy towards planning it was to be expected that Butler would prove sympathetic to the advice he was receiving from the Bank and from officials in the Treasury. Andrew Schonfield went so far as to say that

> the liberal ideology of the market-place never established quite so firm a grip on any Tory administration before that of 1951-5.[30]

It was not that the new government was explicitly anti-industrial: rather, its policies were formulated within a framework of assumptions which identified real prosperity and growth with competition.

In April 1952 Butler told the Cabinet that Britain's balance of payments difficulties and her external financial policy could not be separated. He warned against thinking

> that we can allow ourselves all sorts of indulgences and fancies in the internal field without doing any harm to the Balance of Payments. It is probably true to say that nothing in the administration of the Socialist Government since the war was more disastrous than the failure to grasp this simple truth.[31]

What was needed was some method of ensuring the automatic adjustment of internal policy to balance of payments disequilibria. The appropriate mechanisms were convertibility and the manipulation of the Bank rate, which would reduce domestic activity in periods of overheating and check the outflow of short-term capital from London.

Such a policy smacks of pre-Keynesian orthodoxy and is in many respects reminiscent of the one adopted to facilitate Britain's return to gold in 1925. Then as now the leading advocates of such measures were to be found in the City of London, the Bank of England and the Treasury. But in 1951 there was a difference. Churchill's administration was not intent on a counter-revolution which would sweep Keynes out of Whitehall. Throughout the election campaign party spokesmen had reaffirmed their commitment to the Welfare State:[32] victory would have been impossible without such a pledge. In consequence the Conservatives were caught between two objectives which were potentially contradictory. On the one hand they were publicly bound to sustain the Welfare State and undertake a major housebuilding programme. On the other hand they were committed to the restoration of economic liberalism in domestic and foreign economic policy. The first policy involved maintaining high levels of government expenditure; the second, given the balance of payments crisis, involved deflation. Keynesian teaching, however, not only suggested a way of resolving this dilemma but also pointed to the means by which the essential elements of the 1945 settlement might be reconciled with the needs of Conservatism's most important constituency, the City of London.

The key to reconciliation was the exchange rate. A debtor nation like postwar Britian required trade and exhange controls if it was to maintain a fixed rate and the full employment of resources. Butler, desiring to abandon controls but keep the full employment of resources, opted for Clarke's suggestion of a floating exchange rate. Convertibility followed naturally from a float, "unless we abandon sterling completely and trade only in foreign currencies".[33] It was argued that in the circumstances of 1951-52 a float would remove pressure from the reserves, with the strain of the balance of payments deficit being taken by the rate. The domestic economy would no longer be protected from the consequences of external indebtedness, since the falling exchange would result in rising food and raw material prices. The need "to pay our way" would become obvious to "every family in the country" because of the rise in the cost of living. At the same time the rise in the cost of imports and the fall in the price of exports would set up forces bringing the economy automatically back into balance. With the price mechanism providing an inventive for industry to concentrate on exports there would be no need to restore Britain's international competitiveness through the politically unacceptable course of a massive deflation.[34]

The convertibility plan, codenamed 'Robot', surfaced in January and February 1952. The proposal for a floating rate distinguished it from the unhappy experience of 1947; but there were two other important differences. First, convertibility was to be restricted to non-residents of the sterling area; and secondly, 90 per cent of the sterling balances were to be blocked and funded over a period of years.

The Bank of England's support for this scheme is not as surprising as it may appear. First, the plan delivered the major prize of convertibility. This in itself would enhance the attractiveness of the currency by making it welcome to non-residents of the area. The Bank did not however believe that the reserves were large enough to support a fixed rate, and rather than diminish the currency's international appeal by devaluing for the second time inside three years it preferred a float which could be kept within reasonable limits if supported by "determined internal measures".[35] Secondly, a float would protect the reserves, whose continuing health was essential to Britain's international financial role. Thirdly, blocking the sterling balances, though distasteful, was preferable to running the risk of vast capital transfers out of sterling in the early stages of convertibility. Cameron Cobbold, the Governor of the Bank, warned Butler on 14 February that

> Nobody will really believe that sterling is immune from recurring crises until either the overseas sight liabilities have been dealt with or the central reserves have grown to a figure which can cope with them.[36]

Confidence in the currency would be enhanced, not reduced, by floating and blocking, together with the judicious management of the domestic Bank rate. Finally, given that the Bank's immediate priority was to encourage foreigners to make more use of sterling in international trade and finance, there was no pressing need to advance beyond convertibility for non-residents. But residents of the area would not be deprived of access to 'overseas' (in other words, convertible) sterling for long. It was intended that Robot should be

> a major step on the way to convertibility which would be followed at a later date by granting convertibility to sterling area nations on the same basis as it is now proposed to grant it to foreigners.[37]

In the meantime Britain would purchase all imports bar those from the sterling area with overseas sterling. Discrimination in favour of soft currency blocs, with the exception of the sterling area itself, would become pointless and it would be possible to purchase food and raw materials in particular in the cheapest markets.

The Robot plan reflected the Conservative aim of replacing Labour's social-democractic Keynesianism with a more liberal variety in tune both with the interests of Britain's dominant class and with those of the coalition it had mustered in 1951. Robot went before the Cabinet on two occasions, in February and in June 1952. During the February discussions it was pointed out that

> Under the planned economy the Government themselves assumed responsibility for varying the pattern of consumption by making adjustments in import programmes. There was something to be said, politically, for moving towards the system by which individuals were influenced by the operation of the price mechanism to make their own adjustments to changing economic circumstances.[38]

Free enterprise would flourish in an economy whose level of demand could be managed through a floating exchange rate to give Chancellors

> an external regulator for the balance of payments corresponding to the internal regulator provided principally by Bank rate.[39]

Labour's network of controls could be abandoned and demand management through fiscal, monetary and exchange rate policy would return the conduct of economic affairs to the hands of the traditional authorities - the Treasury and the Bank of England.[40]

V

Butler had argued that the Robot scheme gave Britain "the chance to take a powerful initiative in the world economy".[41] For the plan's supporters it was both inevitable and desirable that Britain's return to convertibility and resumption of her role as the world's clearing house should result in the destruction of the international trade and payments' structure which had developed after 1945. In particular the introduction of sterling convertibility for non-residents would undermine the E.P.U., which since the summer of 1950 had simultaneously provided institutional backing for the interdependence of Marshall Europe and ensured the multilateral clearing of payments within the O.E.E.C.[42]

The automatic settlement of debts within Marshall Europe had represented an advance on the bilateral clearing arrangements prevalent between 1945 and 1950. These agreements, while protecting the gold and dollar reserves of participating countries, had been unsatisfactory to an American administration seeking to construct a West European community integrated by the free movement of men, goods and capital between member states. At the same time bilateralism had been distasteful to persistent creditors on intra-European account such as Belgium, anxious to use this surplus to import freely from the dollar area. O.E.E.C. members most committed to full employment policies, notably Britain, France, the Netherlands and the Scandinavian countries, had strongly resisted American and Belgian efforts to reintroduce the dollar into intra-European trade between 1948 and 1950. They feared with justification that the result would be deflation for deficit countries, followed by savage protection and the downward spiral of intra-European trade.

The E.P.U. represented a halfway house between the liberal aspirations of the United States and Belgium and the anxieties of the powerful debtor nations. The Union was characterised by a complex system of rewards and punishments designed to provide a mildly expansionary impetus to intra-European trade and facilitate smooth adjustments to disequilibria. Through membership of the Union each O.E.E.C. country calculated net surplus and deficit positions in intra-European trade and offset these against a quota, established at 15 per cent of its turnover in Marshall Europe for 1949. Net debtors received credit and paid gold on a sliding scale; for net creditors the position was reversed. The United States provided $350 millions towards the working capital of the Union; and discrimination against the dollar was to be continued. Western Europe's progress towards the establishment of a single market was meanwhile given additional encouragement by a new programme of trade liberalization under which O.E.E.C. members were committed to remove 75 per cent of their 1948 import quotas by February 1951.

The unhappy history of the trade liberalization programm has been recounted by Alan Milward.[43] Suffice it to say that by the end of 1951 action by Britain and France to check balloo ing balance of payments deficits had brought the programme to a halt. The Conservative government swallowed its liberal prejudices and under the pressure of the emergency embarked in December on a series of reductions in imports from Western Euro At the same time the tourist allowance for overseas travel was immediately halved to £50 and subsequently further reduced to £25.[44]

The crisis placed a question-mark over the future of the E.P.U. It was regarded "as one of the outstanding achievements of the O.E.E.C. and of the European Recovery Programme".[45] Over the first 19 months of its existence multilateral clearing had settled 40 per cent of the total of surpluses and deficits incurred by member countries. The equivalent proportion for the Intra-European Payments Schemes operating prior to the establishment of the E.P.U. had been just 2 per cent.[46] But the vast swings in members' creditor and debtor positions, and especially in those of Britain and France, exposed two important weaknesses. First, it was beginning to appear that the Union's stock of convertible assets was inadequate; and secondly, related to this handicap, there was the problem of Belgium's persistent surplus, running at $59.2 millions at the end of 1951, which threatened to drain the E.P.U. of gold[47].

Neither the British Treasury nor the Bank had any serious interest in managing the latest crisis to befall the O.E.E.C. through the methods of intergovernmental negotiation characteristic of European cooperation since 1947. Indeed, preoccupation with the present and future international position of sterling overrode concern with the problems facing European recovery. Operation Robot involved unilateral action, but inevitably its implementation would have portentous consequences for the E.P.U. Given access to convertible sterling, European members would not let it accumulate within the Union: rather, they would convert it in the market, while continuing to make payments through the mechanism of the Union. The upshot would be that Britain would become a creditor of the E.P.U., ultimately draining it of gold, while other members became debtors. Britain would be faced by savage restrictions on her exports to Western Europe. Sterling exports would in fact become 'dollar hard': by reducing expenditure on them non-sterling nations would possess more convertible currency with which to meet their dollar deficits. To counter this eventuality the British were prepared to intensify discrimination against imports from the O.E.E.C.[48] The only way Britain could avoid emptying the E.P.U. of gold would be by leaving it altogether, but there was no guarantee that such action would prevent a downward spiral of trade, intensified by depriving Marshall Europe of access to sterling balances worth £326 millions on 31 December 1951.[49] Throughout the winter and spring of 1951 British delegates at the O.E.E.C. and those responsible for European recovery policy in London manfully argued that the United States should act to increase the E.P.U.'s stock of convertible assets.[50] Little did they know that their masters in London were actively contemplating measures which utterly contradicted these recommendations.

Robot was therefore not only incompatible with the British membership of the E.P.U.: in all probability it would result in the emasculation of the Union itself and in the destruction of the expansionary twist it had hitherto given intra-European trade. This much was recognised in Whitehall. One Treasury paper argued that the

> General disinflation which would accompany Robot would be likely to make for a considerable reduction in the overall dollar deficit of the non-dollar world.[51]

The plan's supporters were however sanguine about its implicati for European recovery. They did not believe that the recovery of output and trade in the non-dollar world was genuine, given the discrimination, controls and excessive credit provision which had protected it from American prices. Robot, by facil-itating a leap to the economic unification of the non-communist world, would ensure real recovery. The E.P.U. could be replace by a less inflationary payments' mechanism based on sterling, thereby assuring Britain of the financial leadership she had enjoyed in Europe up to 1931.

The Bank of England recognised that the E.P.U. had provided a valuable service in the cause of multilateral trade in Marshall Europe. Yet its value had been reduced by "the gigantic credit element in it".[52] Robot, however, could reconcile tighter credit with multilateralism:

> It has not yet been sufficiently appreciated that convertible sterling and an open London market is, in itself, an international clearing system. It is a different world from that for which the E.P.U.... was designed, and the two cannot exist together.

The international market required, first, one currency acceptable to all traders, and secondly, the free buying and selling against that currency of all others cleared through the market. In other words, to take an example, the Dutch central bank had to be free to buy or sell French francs against sterling, and the Bank of France had to be free to buy or sell Dutch guilders against sterling.

Operation Robot would assure the first of these two requirements. The fulfilment of the second needed the consent of the European nations. The Bank believed that consent could be won if Britain established a sterling-based Payments' Club, with all members possessing overseas sterling accounts.[54] Sterling would thus become freely transferable in Europe and usable for current payments on a world-wide basis. Membership would be restricted to countries keeping a fixed rate with the pound, which itself would of course float against the dollar, to ensure that disorderly cross rates did not encourage speculative movements. There would moreover be a general understanding that no member would sell surplus sterling on the market to increase its dollar reserves.

Three ground rules were to govern the operation of the Club.First, convertibility was to be limited, to begin with at any rate, to current transactions. Secondly, the large automatic provision of credit which characterised the E.P.U. would be replaced by more limited facilities to be agreed in consultations between the Bank of England and each member. Clearly, given the low level of Britain's reserves convertibilit was incompatible with an automatic liability to extent credit to members of the Club, and 'consultations' notwithstanding it was suggested that facilities should not exceed 10 per cent of those obtaining in the E.P.U.[55] Thirdly, as the Agent, the Bank would buy sterling or sell members' currencies to maintain fixed exchange relationships in the Club, and would organise monthly multilateral compensations.

There can be little doubt that the effect of the Club on the level of activity in Western Europe would have been deflationary. The Bank's belief that by placing the dollar risk on the United Kingdom[56] the scheme offered the Europeans all the advantages and none of the disadvantages of convertib- ility was disingenuous. The low level of credit would inevitab have forced debtors to make deflationary adjustments. This was by no means unwelcome to the Bank, keen to restore "the monetar link between internal and external conditions" provided until 1931 by the gold standard.[57] But there was no reason why tight money and greater use of the price system should have been congenial to European countries dedicated to the creation of an external environment which would guarantee reconstruction, growth and employment.[58] The implications of the Schuman Plan and of the various schemes for agricultural integration being touted in the O.E.E.C. under the impact of the demise of trade liberalisation pointed to progress in the opposite direction to the one favoured by the Bank. In these circumstances European debtors would have been likely to favour discrimination against Britain as the best cure for disequilibrium as well as the most effective means of holding onto convertible sterling. Since it was explicitly intended that the rules of the Payments Club were not to extend to trade practices[59] there was no reason why members should not resort to discrimination and the competitive scramble for hard currency which had characterised the 1947 crisis.

It was therefore unlikely that many O.E.E.C. countries would be prepared to risk following Britain in the event of Robot's implementation. There was no enthusiasm for convertibility on the part of the majority in the O.E.E.C. at any point in 1952. A survey of members' attitudes to the question undertaken by the Managing Board of the E.P.U. later in the year revealed that most believed sterling convertibility to imply the end of the Union, involving

> the return to greater trade restriction and bilateralism: they fear that the scarcity of the dollar would sooner or later force us to follow a more restrictive policy; and, in any case, most members, whose currencies would remain inconvertible, would be forced into bilateral arrangements one with another on the demise of the E.P.U. and this would lead to bilateral trade again.[60]

The attractions of a sterling-based Payments' Club were therefore bound to be small, yet the Bank believed that the Scandinavian countries, the Netherlands, Belgium, Portugal and France at least were likely clients for membership. Germany, Austria, Switzerland and Italy would be likely to remain outside the system.[61] Far from bringing greater stability to intra-European trade, Robot would mean the economic division of Western Europe and the fragmentation of the 'Little Europe' composed of France, the Benelux countries, Italy and West Germany so painfully constructed after 1950. It is hard to think of a great testimony to the fundamental unreality and recklessness of the Robot project than its requirement that O.E.E.C. countries should reverse the policies of the past five years and disintegrate the emerging structure of European integration.

VI

The consequences of Robot's implementation would have been profound at both the domestic and at the international levels. The plan's opponents fortunately occupied powerful positions in Whitehall and in the Cabinet and did not hesitate to point to its defects. Within Whitehall the most significant protests came from Sir Robert Hall, head of the Cabinet Office Economic Secretariat, and from Sir Edwin Plowden, head of the

Central Economic Planning Staff. The Cabinet was divided over the issue, with the loudest dissent coming from Churchills's old friend and adviser Lord Cherwell, now Paymaster-General, from Minister of Housing Harold Macmillan and from Lord Swinton, Chancellor of the Duchy of Lancaster. The details of the bureaucratic infighting that surrounded Robot have been recorded elsewhere.[62] Suffice it to say that the scheme came before the Cabinet on two occasions, in February and June 1952, and was rejected on both occasions. Influenced by Cherwell and convinced that Britain could not embark on such a drastic change of policy with a divided Cabinet, Prime Minister Churchill vetoed the scheme.

The government rode out the crisis on the basis of measures taken in the winter of 1951-52 to cut imports and tighten domestic credit. The drain on the reserves became less acute in the spring, and by July Clarke was able to inform Sir Leslie Rowan that the restrictions had operated successfully enough to end anxiety about any future substantial fall in the reserves.[63] Over the year as a whole the decrease in the reserves amounted to £175 millions, most of which flowed out in the first quarter of the year before the import cuts had time to bite. In 1953 the reserves increased by £240 millions.[64] At the same time Britain began to benefit from favourable terms of trade following from a 25 per cent reduction in commodity prices which began in 1952. As a result of this good fortune Britain's foreign exchange earnings were swollen by between £400 millions and £500 millions in 1954. Meanwhile the end of the boom in raw material prices helped to push down the rate of inflation from its postwar high of 10 per cent in 1951 to under 2 per cent by the end of 1953.[65] Robot's supporters had predicted catastrophe if their scheme were not adopted. But the failure of nemesis to appear bore out what many of the critics had suspected. Robot was not a dispassionate scheme for economic crisis management but an ideological project. In postwar Britain a run on the reserves was guaranteed to produce the economic equivalent of a moral panic in Whitehall. The sterling crisis of 1951 was no exception and provided those seeking to mobilise support for Robot with an ideal opportunity.

Robot was in fact shot through with intellectual dishonesty. R.W.B. Clarke, the only Keynesian in favour of the plan, looked back to the 1930's when, he argued, currency management ensured that the strains of adjustment to external disequilibria were taken by the exchange rate rather than by deflation and unemployment.[66] But given Robot's objectives there was never any serious prospect that either the Treasury or the Bank would allow the British economy to be protected against the full deflationary effects of the dollar shortage by sterling depreciation. A genuine float and convertibility in the circumstances of 1951-52 would in all probability have precipitated a steep fall in the value of sterling and diminished its international attractiveness. The floating rate was "regarded as a weapon to assure the value and stability of the currency" and required the support of tough domestic measures if it were not to become "a polite name for progressive devaluation".[67] Robot notwithstanding, sterling required stability and this could only be assured by spending cuts and a rise in the Bank rate.

Macmillan, Cherwell and Hall fastened onto the deflationary implications of the scheme. Macmillan called it a 'bankers' ramp'.[68] Cherwell accepted that

> the bankers honestly believe that, if only the pound could be left to market forces, with the Bank of England free to intervene when necessary by varying the Bank rate at their discretion, all would be well. The country's economy, they think, would be taken out of the hands of politicians and planners and handed over to financiers and bankers who alone understand these things.[69]

In consequence, when exports failed to pay for imports, sterling would depreciate until the price of food and raw materials rose to a level beyond the means of ordinary people and industry respectively. Only then would imports fall, and if the dollar gap were still not closed

> the Bank Rate will have to be raised until more firms are forced to close down and dismiss their workers, leading to a further fall in demand for imported raw materials and food. If a 6% Bank Rate, 1 million unemployed and a 2/- loaf are not enough, there will have to be an 8% Bank Rate, 2 million unemployed and a 3/- load. And so on until the gap is closed.
>
> If the workers, finding their food dearer, are inclining to demand higher wages, this will have to be stopped by increasing unemployment until their bargaining power is destroyed.

Dollar crises would no doubt come to an end - but at the cost of neglecting the real economy in favour of financial manipulation. The Conservatives would be deprived of power "for a generation".[70]

This devastating verdict on Robot was shared by Robert Hall. Focussing on its implications for Britain and for

European recovery he argued that it meant

> abandoning the objectivesof a high level of employment and international trade as these have been understood in recent years.

Such criticisms enhanced the Cabinet's misgivings about the schemes and were ultimately central to its rejection. Whatever the proponents of Robot may have claimed it was clear that the plan involved exactly what Cherwell and Hall had said. Butler was forced to admit as much during the first round of discussions in February.[72] Anxiety over the probable disruption of the E.P.U. did not play as important a part in the Cabinet discussions as concern for Robot's domestic implications. But there is no doubt that fear about its international repercussions, above all in the field of relations with Western Europe, did nothing to help Butler's cause.[73] It would however be fair to say that the Conservative government's inability to command a popular majority of the electorate was crucial to Robot's demise. Even if the Tories had been willing to return to the policies which had made them so unpopular in 1945 the balance of social forces in Britain provided them with no mandate to do so. The shift to the right which had taken place in British society since 1945 and 1951[74] had not gone so far as to permit toleration of a return to mass unemployment as a tool of economic policy.

The shift to the right did however rule out serious consideration of Sir Robert Hall's suggestion that Britain should not reduce her defences against the dollar shortage but insulate herself further. In Hall's plan the sterling area hard currency pool was replaced by the division of reserves between each independent member so that balancing with the dollar area could be undertaken on a bilateral basis. Discrimination against the dollar should be intensified by further cuts in hard currency imports and the reduction or even elimination of gold payments in the E.P.U. in favour of expanded credit facilities. Such measures would reverse the trend, likely to be reinforced by Robot, to

> the progressive restriction of non-dollar production and trade through non-dollar countries trying to relieve their dollar deficits by deflation or import restrictions designed to earn dollars from or reduce dollar payments to each other.[75]

The objective was to expand trade between soft currency areas. Such measures undoubtedly represented a move towards a 'two-world' system of trade and payments outside the communist bloc, but this was preferable to reducing trade with the western hemisphere and within the non-dollar world to a standstill because of an ill-advised move to convertibility.

The plan was a non-starter. It could not be reconciled with the government's Atlanticism and from within the Treasury Overseas Finance responded that Washington would view it as a blow to Anglo-American unity

> and to the whole concept of the free world seeking to work against the Communist world. It will, in fact, be regarded by them as an attempt to establish a third force.[76]

Clearly Britain's postwar commitment to the Atlantic alliance acted as a serious constraint on policies which advocated planned rather than liberal capitalism. But the United States had reluctantly accepted the foreign trade policy followed by the Labour governments;[77] and the invocation of Atlanticism was in reality a neat handle for the elements within the British elite which had their own reasons for returning to liberalism. And behind the City, the Bank and the Treasury marched the anti-planning coalition built up in 1951: the political agenda no longer had room for the prospect of indefinite controls.

It therefore followed that the failure of Robot did not deter the Conservatives from moving towards convertibility. In the summer of 1952 the O.E.E.C. published its fourth report on The Internal Financial Stability in Member and Associated Countries. The report was marked by its economic orthodoxy and called for a concerted move to general convertibility.[78] The response of the Western Europeans was guarded, and the consensus was that convertibility, although a clear objective of foreign economic policy, would have to await measures designed to overcome the dollar shortage.[79] Since the report's conclusions squared so clearly with London's views of the international economic situation it may seem surprising that it received no endorsement from the British government. Britain's reaction was however governed by tactics rather than by strategy. In the autumn of 1952 the Conservatives were designing a second convertibility plan, known as the 'Collective Approach'. The Collective Approach involved a joint move by Britain and the sterling area to convertibility, with American assistance for the area reserves to obviate the need for the drastic adjustment involved in Robot. But public discussion of the scheme in the Managing Board of the E.P.U.

> would surely lead to speculation as to our intentions and hence very probably to financial speculation on the £(sic). This is surely something that we should avoid at all costs.[80]

Further, the British wished to preserve the fiction that they had an open mind on the subject in order to facilitate persuasion of the Commonwealth at the forthcoming finance Ministers' Conference. The tactic worked and the essentials of the Collective Approach were put to the United States early in 1953.

The new Eisenhower Administration however refused to support the plan, committed as it was to trade and private investment rather than public assistance as the most effective means for overcoming the dollar shortage. The British were however not deterred. The diminishing dollar gap which followed from the expansion both of America's military role overseas and of U.S. based multinational corporations in Western Europe combined with the improvement in Britain's external trade position to weaken the deflationary potential of moves towards a one world system in 1953 and after. In consequence restrictions on the international use of sterling were lifted, the Bank rate being manipulated to check any drains of capital, until full convertibility for current transactions was reintroduced in 1958.

The increasing openness of the British economy subjected it to a series of damaging speculative shocks during the 1950's. The era of stop-go commenced as industry's needs for sustained investment and growth were subordinated to restrictive short-term measures to stabilise sterling. Throughout the 1950's, however, full employment was underpinned by international economic expansion: the contradictory implications of the dual commitments to the 1945 settlement and to the liberalisation of the British economy were generally concealed. Only in 1957, when the Chancellor, Peter Thorneycroft, rejected Keynesianism in favour of monetarism in an effort to eradicate inflation completely and hence assure external investors of sterling's soundness, did they become apparent. The pursuit of a sound currency and zero inflation naturally squared with the City of London's desire to expand its cosmopolitan activities. But the appeal of Thorneycroft's policy went beyond the Square Mile. The search for "rational calculation in free market activity"[81] through deflation suited the needs of middle class consumers and of the owners of capital rather than those of industrial producers.[82] With a 7 per cent Bank rate and cuts in the investment programme of nationalised industries it was hardly surprising that economic activity declined. The level of industrial production fell from 67.8 in 1957 to 67.2 in 1958 (1975 = 100).[83]

Thorneycroft was unable to gain Cabinet approval for his full package of spending cuts and resigned early in 1958. Just as the Conservatives had rejected Robot so they rejected Thorneycroft. The coincidence of boom conditions in the international economy with pressure from the producing classes represented by the F.B.I. and the T.U.C. reinforced the hand of expansionists. But the priority Thorneycroft had given to sterling was not questioned then or in succeeding years. Yet the events of 1957 revealed what was to become increasingly clear in the future: defending the international status and acceptability of sterling involved creeping deindustrialisation at home. Operation Robot in 1952 marked the postwar resumption of this conscious effort by Britain's dominant class to ensure the identification of finance's needs with the health of the national economy. There is no need to invoke conspiracy theories to explain the success of this effort: it ran in parallel with the liberalism of middle class consumers, small businessmen and rentiers[84] who make up the electoral bedrock of modern British Conservatism.[85]

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Appendix

Rent, Dividends and Net Interest as a Percentage of the GNP (at current market prices) 1946-1960 (£m.)

	GNP	Rent, Dividends and Net Interest	Percentage of GNP*
1946	8,855	1,274	14.39
1947	9,458	1,357	14.35
1948	10,469	1,217	11.62
1949	11,204	1,204	10.75
1950	11,762	1,268	10.78
1951	12,942	1,268	9.80
1952	13,994	1,285	9.18
1953	14,485	1,393	9.62
1954	15,812	1,447	9.15
1955	16,987	1,534	9.03
1956	18,244	1,547	8.48
1957	19,231	1,633	8.49
1958	20,082	1,844	9.18
1959	21,180	2,056	9.70
1960	22,965	2,372	10.33

* The 1946 figure of 14.39 per cent in itself represented a sharp fall from the 1938 level of 22.58 per cent. The continuing substantial decline in rentier incomes as a proportion of the GNP up to 1952 reflected the policies of cheap money and dividend restraint followed by Labour to support its reconstruction programme. The halt to and subsequent reversal of the decline stemmed in large measure from the Conservative reliance on the Bank rate to manipulate economic activity, and from the ending of dividend restraint.

Source: C.H. Feinstein, Statistical Tables of National Income, Expenditure and Output of the U.K., 1855-1965 (Cambridge, 1972), Tables 1 and 10.

Notes

* I am most grateful to the Wolfson Foundation for a grant which made possible the research on which this paper is based.

1 P.R.O. T 236/3240, draft memorandum by the Chancellor, 'External Action', February 1952; memorandum by G.L.F. Bolton, 'Plan for Overseas Sterling', 16 February 1952.

2 Joan Mitchell, Crisis in Britain, 1951 (London, 1963).

3 Andrew Schonfield, British Economic Policy Since the War (London, 1958), 56.

4 Alan S. Milward, The Reconstruction of Western Europe 1945-51 (London, 1984) 458.

5 P.R.O. T 236/3240, minutes of a meeting held on 27 November 1951.

6 P.R.O. T 236/3240, draft memorandum by the Chancellor, 'External Action'.

7 P.R.O. T 236/3240, memorandum by R.W.B. Clarke, 'Convertibility', 25 January 1952. There is an excellent account of the Whitehall debate about 'Robot' in Alec Cairncross, Years of Recovery: British Economic Policy, 1945-51 (London, 1985), chapter 9. Cairncross however views the scheme merely as an ill-considered panic response to a balance of payments crisis and does not touch upon its ideological implications.

8 See for example Samuel Brittan, The Treasury under the Tories (London, 1964) 162.

9 See Scott Newton, 'Britain, the Sterling Area and European Integration, 1945', Journal of Imperial and Commonwealth History 13, 3 (1985), 163-182.

10 Teddy Brett, Steve Gilliatt and Andrew Pople, 'Planned Trade, Labour Party Policy and U.S. Intervention: The Successes and failures of Post-War Reconstruction', History Workshop Journal, 13 (1982), 136.

11 Labour won 48.8 per cent of the poll but only 295 seats whereas the Conservatives captured 321 seats with 48.0 per cent of the poll.

12 John Bonham, The Middle Class Vote (London, 1954) 113.

13 Bonham, 183-84.

14 The manifestos quoted in Bonham, 105-28.

15 Bonham, 76.

16 A.A. Rogow and Peter Shore, The Labour Government and British Industry, 1945-51 (Oxford, 1955) 68.

17 A characteristic statement of finance's viewpoint can be found in Lord Balfour of Burleigh, 'Controls: Financial v Physical', Lloyd's Bank Review, 25 (1952) 1-12.

18 This section owes much to Geoffrey Ingham, Capitalism Divided? The City and Industry in British social development (London 1984) Chapters 5 and 6.

19 Ingham, 141-42.

20 Susan Strange, Sterling and British Policy (London, 1971) 232.

21 Bank of England, Adm. 14/30, 805/1, Thompson-McCausland, 31 October 1951.

22 Ibid.

23 P.R.O. T 236/3240, minutes of a meeting held on 27 November 1951.

24 P.R.O. T 236/3240, 'Convertibility', memorandum by R.W.B. Clarke, 25 January 1952.

25 P.R.O. T 236/2694. 'Sterling Balances Policy', memorandum of 22 December 1951.

26 P.R.O. T 236/3069, L.G. Melville quoted at a meeting of Commonwealth Finance Ministers working party on Convertibility and Related Problems, 28 January 1952.

27 P.R.O. T 236/3240, memorandum by R.W.B. Clarke, 'convertibility', 25 January 1952.

28 Bank of England, Adm. 14/30, 805/1, memoraudum by R.W.B. Clarke, 26 March 1952.

29 P.R.O. T 236/3240, memorandum by R.W.B. Clarke, 'convertibility', 25 January 1952.

30 Schonfield, 182-83.

31 CAB 129/52, C(52)111, memorandum by the Chancellor, 'The Balance of Payments Position', 9 April 1952.

32 See R.A. Butler, The Art of the Possible (London, 1971), ch. 7.

33 P.R.O. T 236/3240, draft memorandum by the Chancellor, 'External Action', February 1952.

34 Ibid.

35 P.R.O. T 236/3240, Governor of the Bank of England to the Chancellor, 14 February 1952.

36 Ibid.

37 P.R.O. T 236/3240, draft memorandum by the Chancellor, 'External Action', February 1952.

38 P.R.O. T 236/3242, C.C.(52), 23rd, 24th and 25th conclusions, 28-29 February 1952.

39 Butler, 158.

40 Ingham, 195.

41 P.R.O. T 236/3240, draft memorandum by the Chancellor, 'External Action', February 1952. It may well be that external constraints had reinforced Butler's liberal inclinations. The United States Treasury Secretary, John Snyder, had been unsympathetic to Butler's request for emergency assistance in November 1951 (see P.R.O. T 236/2989, record of a meeting between Butler and Snyder on 26 November 1951 at the American Embassy). This episode seems to have strengthened Butler's determination to salvage sterling by a bold stroke which apart from anything else would not involve continued dependence on the United States.

42 Milward, 474.

43 Milward, 424.

44 Schonfield, 180.

45 P.R.O. T 230/210, memorandum by E.R.Copleston, 19 November 1951.

46 Bank of England Adm. 14/31, 805/2, memorandum of 17 March 1952.

47 P.R.O. T 230/210, 'Future of the European Payments Union'; Milward, 458.

48 P.R.O. T 236/3240, 'Robot; External Trade Problem', January 1952.

49 P.R.O. T 236/3240, memorandum by R.W.B. Clarke, 19 February 1952.

50 See P.R.O.T 230/210, 'Future of the European Payments Union', passim.

51 P.R.O. T 236/3240, 'Robot: External Trade Problem', January 1952.

52 Bank of England, Adm. 14/31, 805/2, memorandum by Thompson-McCausland, 20 March 1952.

53 Ibid.

54 Bank of England, Adm. 14/31, 805/2, memorandum of 29 February 1952.

55 Bank of England, Adm. 14/31, 805/2, memorandum by Thompson-McCausland, 20 March 1952.

56 Ibid.

57 Bank of England, Adm. 14/30, 805/1, note by Thompson-McCausland on the 'Causes of Inconvertibility', February 1952.

58 See Milward, chapters XII and XIII.

59 Bank of England, Adm. 14/31, 805/2, memorandum of 29 February 1952.

60 P.R.O. T 230/213, memorandum by Ellis-Rees, 25 November 1952.

61 Bank of England, Adm. 14/31, 805/2, 'Probable Reaction of E.P.U. countries', 22 February 1952.

62 See for example Lord Birkenhead, The Prof in Two Worlds: Lord Cherwell (London, 1961).

63 P.R.O. T 236/3089, R.W.B. Clarke to Sir Lesie Rowan, 17 July 1952. The drain on the reserves was $71 millions in March 1952, compared with $266 millions in February (P.R.O. T 236/3243, note by Rowan, 4 April 1952).

64 Schonfield, 299.

65 Schonfield, 185-86.

66 P.R.O. T 236/3240, R.W.B. Clarke to Sir Robert Hall, 24 February 1952.

67 P.R.O. T 236/3240, memorandum to the Chancellor, 'Floating rates', 24 February 1952.

68 P.R.O. CAB 129/52, C(52)226, 'The Great Debate: Financial and Economic Policy', memorandum by the Minister for Housing and Local Government, 4 July 1952.

69 P.R.O. T 236/3242, Lord Cherwell to Prime Minister, 18 March 1952.

70 Ibid.

71 P.R.O. T 236/3242, memorandum by Sir Robert Hall, 'The Future of Sterling', 24-25 March, 1952.

72 P.R.O. T 236/3242, C.C.(52) 23rd,24th and 25th conclusions, 28-29 February 1952.

73 Ibid.

74 Kenneth O. Morgan, Labour in Power 1945-1951 (Oxford, 1984), 314-22.

75 P.R.O. T 236/3243, memorandum by Sir Robert Hall, 'The Future of Sterling', 24-25 March, 1952.

76 P.R.O. T 236/3242, Overseas Finance memorandum of 27 March 1952.

77 See Newton, loc.cit.

78 O.E.E.C., <u>The Internal Financial Stability in Member and Associated Countries</u> (Paris, 1952) 34.

79 P.R.O. T230/213, memorandum by Ellis-Rees, 25 November 1952.

80 P.R.O. T 230/213, draft brief by R.R. Nield for U.K. representatives on E.P.U. Managing Board talks on convertibility.

81 Ingham, 103-04.

82 See Schonfield, 248, 262.

83 Michael Nevin, <u>The Age of Illusions</u> (London, 1983) 182.

84 See Appendix for details of the postwar decline and rise of rentier incomes as a percentage of the GNP.

85 For the historical roots of this coalition see Peter Cain, 'J.A. Hobson, Finance Capitalism and Imperialism in Late Victorian and Early Edwardian England', <u>Journal of Imperial and Commonwealth History</u>, 13 (1985) 1-27.

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