BRITISH LIBRARY

IMAGING SERVICES NORTH
Boston Spa, Wetherby
West Yorkshire, LS23 7BQ
www.bl.uk

This PDF was created from the British Library's microfilm copy of the original thesis. As such the images are greyscale and no colour was captured.

Due to the scanning process, an area greater than the page area is recorded and extraneous details can be captured.

This is the best available copy

DX

187414

THE BRITISH LIBRARY
BRITISH THESIS SERVICE

TITLE FOREIGN ECONOMIC POLICY: A STUDY OF THE USE OF ECONOMIC MEANS TO PROMOTE FOREIGN-POLICY OBJECTIVES SINCE 1918, WITH SPECIAL REFERENCE TO AUSTRALIA

AUTHOR J W C CUMES

DEGREE Ph.D

AWARDING BODY London University

DATE 1951

THESIS NUMBER DX187414

THIS THESIS HAS BEEN MICROFILMED EXACTLY AS RECEIVED

The quality of this reproduction is dependent upon the quality of the original thesis submitted for microfilming. Every effort has been made to ensure the highest quality of reproduction. Some pages may have indistinct print, especially if the original papers were poorly produced or if awarding body sent an inferior copy. If pages are missing, please contact the awarding body which granted the degree.

Previously copyrighted materials (journals articles, published texts etc.) are not filmed.

This copy of the thesis has been supplied on condition that anyone who consults it is understood to recognise that it's copyright rests with its author and that no information derived from it may be published without the author's prior written consent.

Reproduction of this thesis, other than as permitted under the United Kingdom Copyright Designs and Patents Act 1988, or under specific agreement with the copyright holder, is prohibited.

FOREIGN ECONOMIC POLICY

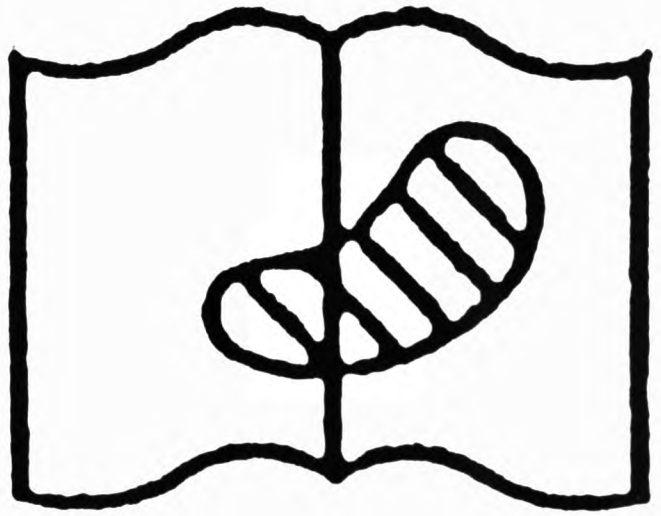
A Study of the Use of Economic Means to Promote Foreign-Policy Objectives since 1918, with Special Reference to Australia.

by

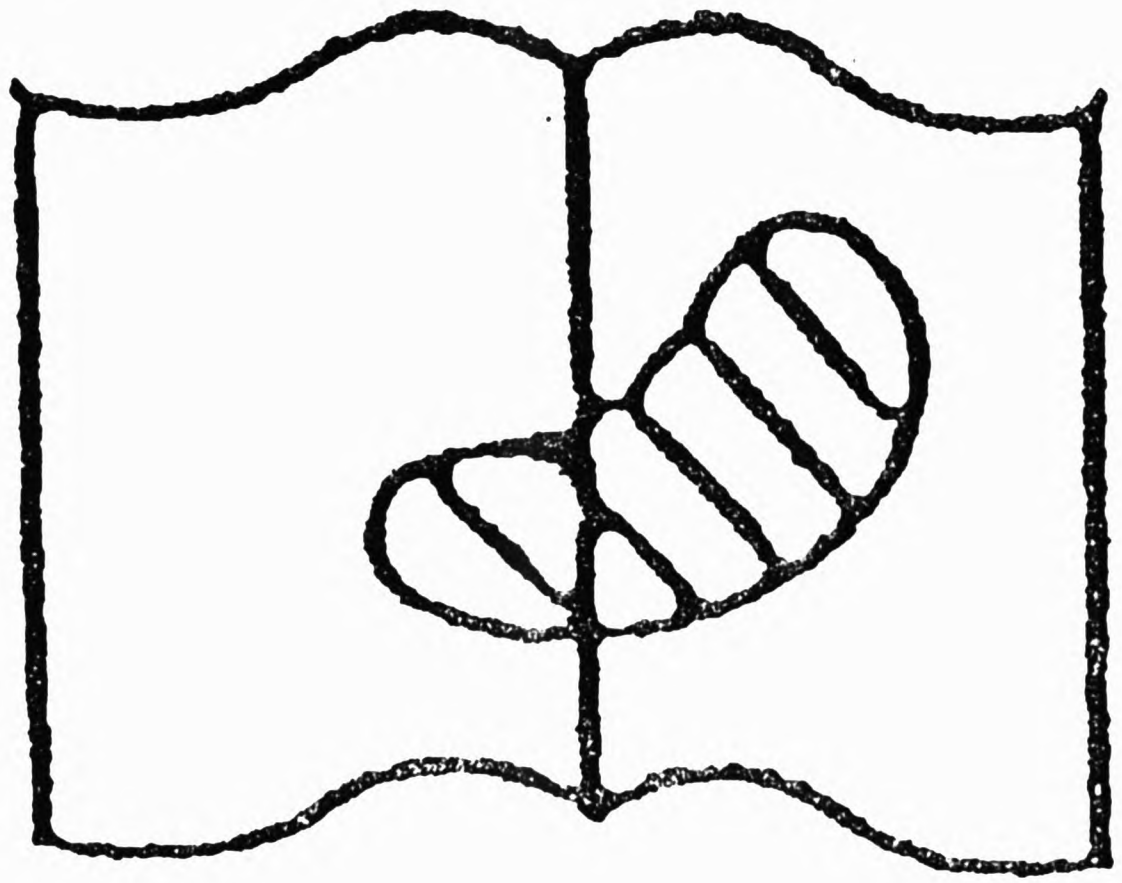
J.W.C. Oumes

(Submitted as a requirement for the Degree of Doctor of Philosophy in the University of London)

BEST COPY
AVAILABLE



VARIABLE PRINT QUALITY



Foreign Economic Policy: A Study of the Use of Economic Means to Promote Foreign-Policy Objectives Since 1918, with Special Reference to Australia

.....

ABSTRACT

Laissez-faire, having superseded mercantilism, has itself given way, under pressure of government economic intervention and political instability, to a new economic policy of power. The League of Nations failed either to deal with economic stresses likely to provoke war, or to use economic sanctions effectively. The United Nations attacked welfare problems much more capably, but failed to grapple with the rapidly developing problem of power economic policies. At the national level, the inter-war period was the critical period of change. The United Kingdom and United States substantially maintained laissez-faire policies of welfare, although the political and economic basis of laissez-faire was being undermined. France, ineffectively, Germany, intensively and aggressively, and Russia, in defensive isolation, all applied mercantilist policies of some kind. Since 1945, mercantilist policies have become virtually universal, involving both careful attention to national defence potential and the use of economic alliances and economic sanctions.

Australia had no consistent foreign economic policy between the wars and, immediately after 1945, adopted a foreign economic policy aimed at universal welfare. However, anxieties about South-east Asia and general political uncertainty changed the nature of her foreign economic policy to give more precise attention to her

individual power position. An Australian foreign economic policy is now well-established both in principle and practice, contains elements of both economic alliance and economic sanctions, is directed especially to South-east Asia, and is likely to have an impact on every part of Australian economic policy, both domestic and international.

PREFACE

The reasons for a study of foreign economic policy are sufficiently evident. What are the functions of, let us say, an Economic Relations Section established within a Foreign Office? What influence might its activities have on the policies of trade Departments, Treasuries, and other economic-policy Departments? What is the general effect of its activities on international economic relations and on political relations among states? If the Economic Relations Sections do their work thoroughly, the answer is that every significant act of external economic policy comes to be looked at, not only from the viewpoint of welfare, but from the viewpoint of foreign policy also; and special acts of external economic policy are undertaken which find their inspiration not in any economic gain but in the prospect of promoting national security or national power.

Within any Foreign Office, there will, in these days of World Organisation, tend to be a certain duality in policy. On the one hand will be the effort at universal co-operation, involving lip-service at least to the need for equal, impartial treatment of all countries, and for an objective and co-operative approach to the settlement of differences. On the other hand will be the older effort for national security, not through some organisation idealistically conceived, but through the expansion of national strength and the formation of balance-of-power alliances. Thus there tends, in appearance at least, to be a certain duality in national policies,

and this is reflected in the treatment attempted in this study.

Much of this study, I believe, breaks new ground. This seems to be true of the comparisons drawn between the League and the United Nations so far as concerns their economic role for peace, and there may also be some elements of novelty in the treatment of Great-Power policies, at least for the post-war years. In general, while a great mass of literature has been devoted to the economic origins of political conflict, less attention seems to have been paid to the economic instruments and methods of foreign policy. More particularly, so far as Australia is concerned, there is comparatively little published material on Australian foreign policy, and, so far as I am aware, there has been so far no attempt to examine the special subject of Australian foreign economic policy in any comprehensive way. However, if this study makes an attempt to fill a large and important gap, it also suffers from the deficiences which a first attempt involves. The treatment of multilateral and Great-Power policies necessarily touches only the major features; and the Australian section, though much more detailed, might have its main value in clearing the ground for a more adequate analysis in the future.

Having acknowledged the study's deficiencies, I should like to add that any merit it contains is largely due to Professor C.A.W. Manning, Mr. G.L. Goodwin, and Mr. D.J. Morgan, of the London School of Economics, Dr. E.R. Walker, formerly Economic

Counsellor at the Australian Embassy in Paris, Mr. J.F. Nimmo, of the Australian Treasury Department, and others who have from time to time offered valuable comment and furnished documents and other material. None of these persons is, of course, in any way responsible for the deficiences of the study, nor do they necessarily share any of the views expressed or the conclusions reached.

I should also like to acknowledge my debt to the Commonwealth Public Service Board. Without the freedom from Departmental duties made possible by a Postgraduate Scholarship granted by the Board, the study could not have been undertaken.

Finally, I should make it clear that, although I am an officer of the Australian Department of External Affairs, any views expressed in the study and any conclusions reached are attributable only to me personally, and do not necessarily coincide with the official views of any part of the Australian Administration.

London,
May, 1951.

CONTENTS

			Page
	Preface		i
	Index to Tables		vi
	PART 1. MULTILATERAL AND GREAT-POWER POLICIES		
Chapter			
I	Introduction		1
	1. The Setting	1	
	2. Definition and Arrangement	14	
II	The Economic Factor in League of Nations Policy		19
	1. The Covenant	19	
	2. League Economic Machinery	29	
	3. The Economic Work of the League	35	
	4. The Significance of Sanctions	51	
	5. Conclusion	60	
III	The Economic Factor in United Nations Policy		64
	1. Introduction	64	
	2. The Charter	67	
	3. Activities of the Economic and Social Council	73	
	4. The Role of the Specialised Agencies	100	
	5. Summary and Prospect	125	
IV	Broad Trends in National Policies		136
	1. Diversity in National Policies	136	
	2. Germany	142	
	3. France	157	
	4. The Soviet Union	180	
	5. The United Kingdom	204	
	6. The United States	237	
	PART 2. THE AUSTRALIAN EXPERIENCE		
V	Foreign Economic Policy between the Wars		265
	1. Introduction	265	
	2. Development of Inter-war Policy	268	
	3. Appraisal	324	

VI Foreign Economic Policy after the Wars 328

1. Perspective 328
2. World Political Stability: Universal Economic Progress 333
3. Great-Power Conflict: The Policy of Economic Mediation 356
4. Attachment to the United States 371
5. The United Kingdom and the British Commonwealth 385
6. Commonwealth Asia 398
7. South-east Asian Preoccupation 417
8. The Island Perimeter 453
9. The "No-Man's Land" of the External Territories 471

VII Some Projections of Australian Policy 481

PART 3. CONCLUSION

VIII Conclusion 511

INDEX TO TABLES

Table		Page
1	Germany: Direction of Trade	148
2	Soviet Foreign Trade, 1928 to 1938	182
3	Direction of Soviet Trade: Percentage Changes	187
4	Imports of Eastern European Countries (including the USSR) from Western European Countries and the United States	193
5	Trade of Czechoslovakia and Yugoslavia with Eastern and Western Europe, 1938 and 1947-49	202
6	United Kingdom Trade with Eastern Europe	233
7	Foreign Investment of the United States, 1919-1939	247
8	Capital Disbursements by the United States 1946-1950	254
9	Relation of Controlled to Total United States Exports, 1948 and 1949; United States Exports to Eastern Europe by Country 1947-1949	260
10	Australian Trade with the United States, 1934-35 to 1938-39	295
11	Australian Trade with Asian and Pacific Countries, excluding Japan	301
12	Australian Trade with Commonwealth Asia, by Value and as a Percentage of Total Australian Trade	402
13	Commonwealth Asia - Total External Trade in Merchandise with all Countries	402
14	Australian Trade with Non-Commonwealth South-east Asia	423
15	Australian Postwar External Aid, excluding Colombo Plan Assistance	438
16	Australian Assistance under the Colombo Plan	441
17	Papua: Economic Progress	475
18	Territory of New Guinea: Economic Progress	476

Part 1. Multilateral and Great-Power Policies

Chapter I. Introduction

1. The Setting
2. Definition and Arrangement

.....

1. The Setting

Among the more significant developments in international relations since 1918, and more especially since 1945, has been the trend towards the universal adoption of an intensive foreign economic policy, both by individual countries and by multilateral agencies. As this trend crystallises, the need to examine the nature, methods, and implications of the new foreign economic policy becomes increasingly urgent. The policy is of vital consequence both to human welfare and to world peace, or, taking the narrower objectives of national security and national power, it lies at the heart of the problem of safeguarding the nation from attack, or preparing the nation for aggressive adventures. What is the broad historical background to the growth of modern foreign economic policy?

From about the time of the Renaissance until about the middle of the eighteenth century, the characteristic economic policy of mercantilism aimed at making "all economic activity subservient to the state's interest in power".[1] It was, first of all, a policy for internal unification of the state, but, beyond that, it aimed at increasing the state's power relatively to that of other states. Import of goods necessary for war or war-supporting industries was encouraged and their export forbidden or dis-

---

1 E.F. Heckscher, "Mercantilism", London 1935, Vol. II, p. 15.

couraged by imposing dues; supplies of essential commodities were accumulated - a version of the modern "stockpiling"; self-sufficiency was promoted, both within the metropolitan country itself and with the aid of colonies; and a gold surplus was sought from international trade by pressing exports on other countries and reducing purchases from abroad. The economies of the period were already largely self-sufficient and international trade was, to a large extent, a luxury trade; but there were nevertheless a number of commodities whose supply had to be guaranteed in the interests of security. In mercantile England, "an effort had been made to regulate the maritime trade, so as to build up the power of the country by the Navigation Laws, to stimulate industry by protective tariffs, and to foster agriculture by means of the Corn Laws".[2] English Governments encouraged the production of saltpetre, as in an earlier period they had forced the importation of adequate quantities of bowstaves; and they took steps to preserve and expand the shipbuilding and fishing industries, in the interests of naval defence. It is unnecessary to enter into the complex details of mercantilism here. The essential thing is that "mercantilism as a system of power was...primarily a system for forcing economic policy into the service of power as an end in itself"[3] : "to the very end, the policy of power remained a principal factor in mercantilism, while this was never so in laissez-faire".[4]

The rapid development of industry and of the market economy from about the middle of the eighteenth century broke up the old political

---

2 William Cunningham, "The Growth of English Industry and Commerce", Cambridge 1882, p. 829.
3 Heckscher, op. cit., p. 17.
4 Ibid., p. 29.

regimes and the interventionist doctrines with which they had been associated. The newly-emergent industrial and merchant classes, with their abounding confidence, wanted no governmental benefit except freedom to pursue their economic objectives untrammelled; and, since they were the classes to whom political power was passing, they gradually achieved this freedom, in varying degrees, in one industrialised country after another. In England, the repeal of the Corn Laws, whose underlying purpose had been "to call forth sufficient sustenance for the English population"[5], marked their final victory.

> "In ceasing to rely for our food-supply on our own soil, and in deliberately looking to trade as the means whereby we might procure corn, we were throwing aside the last elements of the policy which had so long dominated in the counsels of the nation, and were exposing our very existence to a serious danger... We reverted from the pursuit of power in our economic policy to the pursuit of plenty".[6]

Under laissez-faire, economics and politics became divorced, the former being left to private interests and the latter alone being the proper domain of governments.

But laissez-faire never had a firm and complete acceptance by any nation. Although the doctrine probably received a greater measure of acceptance in Great Britain than elsewhere, even Adam Smith recognised the value of some divergence from the pure doctrine, for example, in the Navigation Acts; and, in the years that followed, some new social-economic regulation was almost constantly being introduced at the same time as old restrictions were being cast aside. By 1850, both trends were clear: "the abandonment of Mercantilism had become complete, and the reaction

---

5 Cunningham, op. cit., p. 842.
6 Ibid., p. 843.

against Laissez-Faire had begun to make itself clearly felt, so far as regulation of industry and of internal transport are concerned".[7] The germ of decay of laissez-faire was therefore present even during the years and in the country of its most notable success. Elsewhere than in Great Britain, laissez-faire seldom became more than a somewhat distant goal, and elements of the old mercantilism persisted. The divorce of politics from economics was therefore a temporary and, in any case, an incomplete phenomenon; and the trend was present even before 1900, which would establish a "new Leviathan" with both sectors firmly in its control.

Nevertheless, intervention could still be part of a policy of plenty rather than a policy of power: it could aim at the economic welfare of the whole people, rather than at the political and military power of the nation. Any new mercantilism would have to replace that objective of power which was such an essential feature of the old. So far as concerned Great Britain, it was said that:

> "...with the fall of the Mercantile System, the power of the English realm, in its narrower sense, which was for centuries the determining factor in shaping the economic growth of the country, has ceased to be treated as an adequate, far less as an exclusive object of consideration... /But/ we have discarded this doctrine /of laissez-faire/, deliberately and finally, in regard to the conditions of industrial life, and the management of traffic within Great Britain. Who shall say what the issue will be when the question of its continued applicability to English commerce is once fairly raised?".[8]

Under the impact of the First World War, the issue was fairly raised. While the war was still in progress, Great Britain took steps to modify the peacetime application of laissez-faire principles in her commercial

---

7 Ibid., p. 865
8 Ibid., pp. 866-867

policy, and the postwar Safeguarding of Industries Act gave expression to the change.

Despite some points of change however, the British and most other Governments, up to 1929 at least, declared themselves generally in favour of de-control. Only the disastrous breakdown of the liberal economic system between 1929 and 1932 forced acceptance of a large measure of government intervention in the domestic economy; and the development of economic analysis subsequently furnished intervention with its justification in economic theory. Inevitably, in the modern system of closely-related national economies, domestic economic control was reflected in international economic intervention. International political policy had an associate of international economic policy constantly expanding in significance. "The 'planning' of foreign trade came to be more and more widely accepted as a normal function of the State, and the weapons which had been forged as an emergency defence of prices, production or currency"[9] established themselves on a permanent basis. "The evolution was accomplished gradually, often involuntarily, often reluctantly. It was most rapid and complete in the totalitarian countries; but even countries where the tradition of open competition and free trade was strongest (e.g., the United Kingdom...) were not immune".[9]

This did not necessarily mean that economic policy would be blended with foreign policy. In theory at least, governments could have kept the two separate; but considerations like those behind the

---

9 League of Nations, "Commercial Policy in the Interwar Period", Geneva 1942, pp. 71-72.

British Safeguarding of Industries Act tended to force them together. Briefly, the principal reason for their fusion was the passing of the nineteenth-century "Pax Britannica", which had made a foreign economic policy in time of peace unnecessary or unprofitable. The existence of a number of more nearly equal powers after 1914, and more especially after 1933, made a careful mobilisation of available power imperative, so long as any security system established, for example, under the Treaty of Versailles, the League of Nations, or the United Nations, remained uncertain. Therefore, it seems possible to say that the breakdown of the liberal economic system provided the opportunity, and the end of the "Pax Britannica" provided the motive for a fusion of international political and economic policies which advanced some distance between 1933 and 1939, and which has been hastened since 1945.

It should be noted that, if the breakdown of the liberal economic system provided an opportunity for the development of a foreign economic policy, the success of that system had also provided an opportunity in another sense. During the Napoleonic Wars, Great Britain - although she seemed even then much more exposed to economic pressure than other countries - was able to withstand both the Berlin and Milan Decrees of France, and the Embargo Act of the United States. At the same time, the losses which the Embargo Act involved for the American farmer foreshadowed the difficulties that economic sanctions or blockade might involve in the future. But as interdependence between national economies increased, and as trade in essential food, raw materials, and manufactures and the international movement of capital grew to major proportions throughout the world, so did the opportunities expand for applying effective

economic sanctions and economic blockade. In this way, the interdependence which resulted from the striking success of the liberal economic system gave a much enlarged opportunity, as compared with earlier periods, to draw fruitful results from a well-conceived foreign economic policy. Not only was there the possibility of economic sanctions or blockade, but there was also the possibility of economic alliance. And both could be either defensive or aggressive.

If, however, the economic weapon is to be used effectively by governments, economic activity must be under effective governmental control. But, even after 1918, liberalism, though undergoing almost continuous modification, was still powerfully entrenched. In these circumstances, use of the economic weapon - either sanctions or alliance - implied that governments would use as an instrument of foreign policy a sector of national power whose control they had delegated to private interests. Since governments did not control and support the economy, and, as a deliberate plank of policy, accepted a minimum of responsibility for it, it was unreasonable that they should - except in the final emergency of war - take over this sector of national power for foreign-policy purposes. A reasonable objection of those interests affected by economic sanctions or economic alliances would have been that governments should use only those limited instruments of policy over which it was agreed they had full responsibility and control, or that they should offer full compensation for losses incurred, either by management or by labour. Taking this a step further, however, it could be claimed that, as governments extended their role in economic affairs after the Great

Depression, their right to apply economic sanctions or to enter economic alliances was extended pari passu. And, looked at from the other side, as governments conceived it to be necessary to apply a foreign economic policy, their need to extend their control of the economy also tended to increase. There tends, in this way, to be action and reaction between the trend towards adoption of a more and more effective foreign economic policy and the trend for increasing governmental economic intervention, and the former tends to round off the socialist evolution of our time.

There are two further observations to be made here. Firstly, in modern international institutions, the major struggles have developed wherever proposals for sacrifice of sovereignty, even in apparently insignificant fields, have been discussed; and yet for more than a century liberal governments were willing to yield an important part of their sovereignty to private interests, in the wide field of international economic relations, to satisfy the liberal ideology that market forces should be free. Dedication to non-interference - including non-interference for foreign-policy reasons - has shown a strong tendency to persist; and the principles on which such international agencies as the International Bank for Reconstruction and Development and the International Monetary Fund were explicitly based underline this persistence. However, the fundamental concern of domestic policy - law and order - has been increasingly supported by internal policies of economic welfare. The need for international economic policy to give the same close support to foreign policy was acknowledged, in the liberal, democratic countries, somewhat later; but the trend towards establishing the link firmly and

completely is now unmistakeable, both in the development of United Nations activities and in the more precise formulation of foreign economic policies by individual governments. Sacrifice of a nation's sovereign right to use economic means consistently and intensively to promote its foreign-policy objectives seems consequently to be at an end. Moreover, multilateral and national objectives do not always harmonise and, as national foreign economic policies veer towards discrimination and have their impact on multilateral policies, little practical recognition may be given to the liberal faith of which the Bretton Woods Agreements are the most explicit recent expression.

The second point is that, historically, non-discrimination in economic policy has tended to be realised in conditions of political security, and to collapse when insecurity supervenes. Acceptance of free-trade laissez-faire by nineteenth-century Great Britain reflected her political and economic dominance. After the defeat of Napoleonic France until the rise of a powerful, united Germany towards the end of the century, Great Britain's position was for the most part secure, and British foreign policy was consequently isolationist. Intervention in Continental affairs occurred at many points, but the general policy of avoiding any formal alliances was feasible in the circumstances as well as economical in commitments. Non-discriminatory free trade was in harmony with this political isolation. However, the growth of the industrial, military, and naval power of Germany drastically changed Britain's position. In the face of a power capable of challenging British supremacy, the basis of isolationism disappeared and a new policy exemplified by the Entente Cordiale took its place. This

change coincided with sustained attacks on the free-trade element in laissez-faire, which looked to a strong economic alliance among the various parts of the British Empire. A successful liberalism was able to withstand these attacks; but the economic-alliance element in the demand for Imperial preferences was entirely in harmony with the political anxieties about Germany and with the policy of the Entente Cordiale.

After the First World War, the "status quo" powers, with the exception of France, regarded their position as secure. Germany was defeated, disarmed, and humiliated; Russia was in chaos and needed time to reconstruct and consolidate rather than embark on foreign adventures; and Japan and Italy had not yet shown dangerously aggressive potentialities. Therefore, a return seemed possible to the relatively easy political and economic relationships of an earlier period. Non-discrimination, based on acceptance of the most-favoured-nation clause in commercial agreements, would mean an international flow of goods, services and capital free from political distortions and directed only to economic gain. The illusion, which was reinforced by hopes centred on the League of Nations, was temporary. Germany was not permanently crushed, nor was she capable of remorseful acceptance of the new status quo; Italy and Japan awaited only opportunity; and Soviet Russia was building, laboriously but securely, the foundations of economic and military power with which she could, if she wished, ultimately challenge the established powers. The Great Depression hastened, although it did not initiate, the challenge to the status quo. The breakdown of the economic system forced the adoption of protective measures which were

initially a reflection of economic necessities; but, as the political challenge to the status quo emerged and developed, the nature of these measures changed. To an increasing extent, they became discriminatory on political grounds; and, instead of discrimination modifying as economic conditions improved, it intensified in many respects as political relations deteriorated.

The end of the Second World War differed importantly from the end of the First, in that the "status quo" powers were almost immediately challenged, or believed themselves to be challenged, by a proponent of change, and therefore regarded themselves as politically insecure. As a consequence, and with the background of controls developed through welfare problems and objectives, they rapidly came to regard a non-discriminatory flow of goods, services, and, especially, capital as outside the realm of sound, practical policy. Either tacitly or overtly, non-discrimination was recognised to be a realistic policy only in a context of political security and was therefore a policy to be suspended pending resolution of the East-West conflict. Against the historical background, and despite the peculiar influence of liberalism, this was less extraordinary than normal; and, as governmental control of the economy extends, economic policy is likely to be used even more intensively in the future than in the past as an instrument of foreign policy, in conditions of political instability. In general, where a country regards its political position as unassailable or static, economic power will tend either to be held as a neutral reserve to be called into play only at time of crisis, or to be enlarged through political pressure. Where, however, the political position is regarded as uncertain or dynamic, the role of the economic

factor will tend to be reversed. Economic power will tend to be used, through economic policy, to enhance a country's political position and to remove uncertainties from that position.

Professor Carr has suggested two types of state - the "welfare" state and the "power" state.[10] The former is the product of assurance or complacency about relative national power; but it might be transformed into a "power" state when assurance is disturbed by the relative growth in power of other states, including possibly one or more of the original "power" states. Under Professor Carr's terminology, the United States, a "welfare" state between the wars, may be said to have changed to a "power" state under the impact of the Soviet threat. But, more precisely than that, economic policy as an element in power became increasingly directed, not towards welfare as the ultimate objective, but towards an increase of power both of the United States itself and of its allies. This latter attention to allied countries suggests, among other things, a special development of modern policy beyond mercantilism or "economic nationalism". Both of these aimed principally at self-sufficiency, deriving from the need to protect the national supplies of food, raw materials, and other essentials of life and war. On the political plane, however, it is for the most part impossible for any one country to guarantee its national security alone. For most countries and at most periods, therefore, a scheme of alliances becomes essential. But in much the same way as the individual nation finds a reasonable measure of security only through membership of a group, so complete self-sufficiency is for most

---

10 E.H. Carr, "The Twenty Years' Crisis, 1919-1939".

countries an impossibility. Thus, conditions of political insecurity will tend to give rise to economic alliances, most normally as a reflection and completion of political alliances. From economic nationalism, the objective is transformed into economic regionalism; economic blocs tend to form which discriminate against one another not so much on economic as on political grounds, in keeping with opposed political affiliations and the possibilities of future armed conflict. Assuming that political alliances are acceptable in principle, it may seem unreasonable to deny the extension of the principle to allow the formation of more nearly self-contained economic blocs, whose members give each other mutual economic and political support. In any event, that type of extension has clearly been involved in the postwar arrangements for a Soviet Council for Mutual Economic Co-operation and a Western Organisation for European Economic Co-operation. On a smaller scale, the same extension underlies the proposals for the creation of the customs union of Benelux, or the largely informal political and economic alliance contemplated under the Australia-New Zealand Agreement. A likely concomitant of the economic alliance is the imposition of economic "sanctions", in some form or other, against the country or countries which called the alliance into being; and these two features of economic alliance and economic "sanctions" might in the future dominate the whole field of international economic relations.

2. Definition and Arrangement

We will be concerned here with economic policy as an instrument of foreign policy, and not with the manner in which foreign policy has been influenced by economic objectives and interests. Therefore, in the interaction between economic and foreign policy, the passive and active partners in, for example, the Leninist theory of imperialism, will be reversed, foreign policy being set in the active role and modifying an economic policy whose role is passive. This is not intended to imply that economic policy has always been passive in relation to foreign policy, or that economic interests have never had any important influence on foreign policy and might not have such an influence again. But we are concerned here, not with verifying or refuting some form or other of the theory of imperialism, but only with examining the use to which economic policy has been put as an instrument of foreign policy, given the objectives which foreign policy sets out to accomplish.

Our period extends from 1918. Within that period, the rapid growth of government intervention in economic affairs has made the use of a foreign economic policy more practicable, and the concurrent uncertainty in international political relations has made the use of such a policy more imperative. Within the selected period, the years of most significance have been from 1933 to 1939 and from 1945 to the present, or, in other words, those years of peace since 1933. These years witnessed the gradual adoption of intensive foreign economic policies by democratic as well as totalitarian countries, though this adoption came later in the democracies and has perhaps not even yet

been as complete. For the most part, however, the difference between totalitarian and democratic countries now tend to be not difference of principle but of means and procedure. We are not necessarily at the end of the evolutionary period of foreign economic policy, but, in terms of means and procedure, might rather be at the beginning. For many countries, foreign policy has until very recently still been something formulated mainly in terms of strategic necessities, political alliances, diplomatic negotiation on political issues, and, where economic considerations have entered, they have tended to do so haphazardly and negatively. It is in the deliberate, continuous, and positive use of foreign economic policy that the novelty of recent developments principally lies.

Almost any point of economic contact between nations can be used to gain some political advantage, though in many instances the potential advantage is likely to be small. Any activity in the broad field of international economics is therefore potentially within our field of study. Any movement of goods or provision of services, any provision or acceptance of international capital can be politically significant or can be made so. Most of these international economic activities will be governed by a country's commercial policy and investment policy. The former will determine - by tariffs, licensing and exchange controls, statutory restrictions and prohibitions, and so on, or by the absence of any of these things - the goods which the country will accept from abroad and the countries from which they will come. Through export prohibitions and restrictions, it might also determine the goods which may be sent abroad and the countries to which they may go. Similarly, investment policy will determine whether and

to what countries private capital can be sent, and to what extent and in what manner the government will itself invest or extend capital assistance abroad. From the borrowing side, it will determine whether the country concerned will depend wholly on domestic capital or will seek investment, perhaps on certain well-defined terms and from a limited number of countries, overseas. For the most part, therefore, we shall be concerned with commercial policy and policies of foreign investment, although these will be affected by certain domestic policies, for example, of economic stability and employment, which will be touched on at some points.

Commercial and investment policies are often used to achieve objectives which, though they are related to foreign policy and have an impact on it, are more directly concerned with independent, national defence. For example, policies of greater self-sufficiency might be adopted which do not attempt to promote any special link with any country or to impose any discrimination against any particular country, but which merely attempt to reduce dependence generally on foreign sources of raw materials, food, essential manufactures, or capital. Special support might be given to "key" industries such as steel and steel-goods manufacture, aircraft production, shipbuilding, and so on. This field of what may be called defence economic policy will in general be subsidiary to the main theme of this study, though it will enter at some points.

This raises the further point that we are not concerned with the use of economic policy and economic resources for direct military purposes. Economic resources must be drawn upon to maintain peacetime armed forces

and to expand and maintain these forces in time of war, or they might be used (as in an earlier period) to hire mercenaries or (as more recently) to keep allied forces in the field. In time of war, countries have always directed their economic resources and economic policy - and, in modern times, the whole of their economic resources and economic policy - to achieve victory. But it is a distinct question to consider the peacetime direction of economic policy and economic resources in the interests of foreign policy; and it is this question with which we shall be concerned here.

There are two expressions used already whose meaning should be made clear. Firstly, the term "foreign economic policy" is sometimes used to cover the whole of economic policy concerned with economic relations across the national frontiers. Under this definition, the whole of commercial and investment policies, whether motivated by foreign policy or not, would be part of "foreign economic policy". That is not the meaning intended here. Instead, the term "foreign economic policy" will mean that part of economic policy which has a foreign-policy motivation, or, alternatively, that part of foreign policy which adapts economic policy to its purposes. It is in this more precise sense that the term is now coming to be generally applied.

Secondly, the term "economic alliance" is not meant to cover, for example, a simple trade-treaty association if that association is concerned only with trade and not with forging a closer political link between the countries concerned. Throughout this study, an economic alliance will mean, not simply an association for the sake of welfare

benefits, but an association intended to lead to or to strengthen a political alliance.

So far as arrangement is concerned, it is proposed to deal first with the two major attempts since 1918 to create an effective international organisation. Both the League and the United Nations (with its Specialised Agencies) have attempted to regulate economic as well as political relations, both in the interests of welfare and in the interests of world peace. In other words, both have had something of a foreign economic policy of their own. After dealing with the two world organisations, it is proposed to pass to a broad examination of the foreign economic policies of some of the Great Powers, especially the three major postwar Powers, the United States, the United Kingdom, and the Soviet Union. Against the background of multilateral and Great-Power policies, a more detailed treatment of Australian foreign economic policy will then be attempted. The Australian experience is of interest not only in itself, but also because it illustrates the wider development of foreign economic policy and sheds light on the difficulties and dangers which confront any country in the exercise of an effective foreign economic policy in conditions of political insecurity.

Chapter II The Economic Factor in League of Nations Policy

1. The Covenant

2. League Economic Machinery

3. The Economic Work of the League

4. The Significance of Sanctions

5. Conclusion

.....

1. The Covenant

President Wilson's Fourteen Points expressed, not only the general concept of a League of Nations, but also, though broadly and imprecisely, the economic role which the Covenant was destined to assign to the League. The five of the Points dealing wholly or partly with economic questions called for:

> "Absolute freedom of navigation upon the seas, outside territorial waters, alike in peace and in war, except as the seas may be closed in whole or in part by international action for the enforcement of international covenants" (Point II).
>
> "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance" (Point III).
>
> "International guarantees of the political and economic independence and territorial integrity of the several Balkan states" (Point XI).
>
> "The Dardanelles should be permanently opened as a free passage to the ships and commerce of all nations under international guarantees" (Point XII).
>
> "An independent Polish state...whose political and economic independence and territorial integrity should be guaranteed by international covenant" (Point XIII).

One other Point - Point V, dealing with colonies - was largely concerned with establishing the principle that the interests of colonial populations should receive equal weight with the claims of colonial powers, but it had some economic content. It called for "a free, open-minded, and absolutely impartial adjustment of all colonial claims".

All the Allied Powers except the United States, fully reserved their position on Point II. Two other Points - XI on the Balkans and XIII on Poland - dealt with economic questions only to the limited extent that the economic independence of newly-emergent states was guaranteed.[1] The special case of the Dardanelles, while important in other contexts, furnished no general principles for the conduct of international economic relations, especially when Point II lapsed without even an Allied "seconder". Only Point III, dealing with the removal of economic barriers and equality of trade conditions, remained to establish the general lines along which the Allies agreed to direct their international economic policies. So far as machinery for economic consultation was concerned, the "general association of nations" referred to in Point XIV[2] would presumably arrange consultations for "the removal...of all economic barriers" and "the establishment of an equality of trade conditions", along with its wider political responsibilities.

---

1 It is of interest that these Points referred to economic as well as political independence. In so doing, the Points recognised that, by special trade or investment arrangements, or through "economic alliance" including customs or economic union, the political independence of the new states might be undermined. The same considerations underlay the refusal to permit Austria to enter into a customs union with Germany.

2 Point XIV read: "A general association of nations must be formed under specific covenants for the purpose of affording mutual guarantees of political independence and territorial integrity to great and small states alike".

In Point III, "the removal...of all economic barriers" presumably meant the removal of all barriers not attributable to the inaccessability or remoteness of the market or other "natural causes". All tariffs, all subsidies, all discriminatory internal tax levies, and so on, would be removed to create a single world market in which goods would move freely in accordance with market forces. The President's own country would become a free-trade state. But the words "so far as possible", inserted after "removal", changed the whole position. No authority nor any criteria were set down to determine what barriers it might be possible to remove or reduce, and the assessment of the possibilities therefore remained firmly and completely with individual governments. No government accepting Point III committed itself to any specific action, although the later phrase requiring "the establishment of an equality of trade conditions among the nations" implied a commitment by each government to extend most-favoured-nation treatment to all other members of the "general association of nations". President Wilson said that Point III intended "no restriction upon the free determination by any nation of its own economic policy, but only that, whatever tariff any nation might deem necessary for its own economic service, be that tariff high or low, it should apply equally to all foreign nations".[3]

Perhaps more than anything else, Point III expressed the postwar desire for decontrol. The leaders in most countries seem to have "believed that the old pattern of trading relationships would re-establish itself more or less automatically",[4] and were very content that that should be so.

---

3 Quoted from "Commercial Policy in the Interwar Period", op. cit., p. 15.
4 Martin Hill, "The Economic and Financial Organisation of the League of Nations, Washington 1946, p. 20.

Moreover, once the war was over, governments made it clear that "the willingness to accept in wartime the restrictions inherent in economic cooperation was due to a realisation of imminent danger and that the participating governments intended to resume their freedom of action as soon as the war had been won".[5] There was little real evidence[6] that any economic alliance would be continued by the Allies into the postwar period. At the same time, since Point III provided for "an equality of trade conditions" only "among...the nations consenting to the peace and associating themselves for its maintenance", it appeared to assume that the supporters of the status quo might discriminate against those seeking its violent revision. If it is correct that Point III assumed this, then there is some tendency towards contradiction between the first part of Point III requiring non-intervention and the second part implying discrimination. The apparent contradiction should not be pressed too far. So long as there is any government intervention in economic affairs, discrimination is possible. Moreover, even if government intervention were completely abandoned, it could be resumed for preventive or punitive measures against countries not "associating themselves for [the] maintenance" of peace. Nevertheless, a continuing tradition in favour of a minimum of government intervention in economic affairs reduces the scope of possible discriminations and makes the sudden imposition of discriminations more difficult in a crisis. Seventeen years later, the failure of economic sanctions against Italy furnished some evidence that the apparent

---

5 Ibid., p. 16.

6 The decisions of the Economic Conference of the Allies held in Paris in 1916 pointed to a continuing economic alliance, but they were never implemented.

Moreover, once the was was over, governments made it clear that "the willingness to accept in wartime the restrictions inherent in economic cooperation was due to a realisation of imminent danger and that the participating governments intended to resume their freedom of action as soon as the war had been won".[5] There was little real evidence[6] that any economic alliance would be continued by the Allies into the postwar period. At the same time, since Point III provided for "an equality of trade conditions" only "among...the nations consenting to the peace and associating themselves for its maintenance", it appeared to assume that the supporters of the status quo might discriminate against those seeking its violent revision. If it is correct that Point III assumed this, then there is some tendency towards contradiction between the first part of Point III requiring non-intervention and the second part implying discrimination. The apparent contradiction should not be pressed too far. So long as there is any government intervention in economic affairs, discrimination is possible. Moreover, even if government intervention were completely abandoned, it could be resumed for preventive or punitive measures against countries not "associating themselves for [the] maintenance" of peace. Nevertheless, a continuing tradition in favour of a minimum of government intervention in economic affairs reduces the scope of possible discriminations and makes the sudden imposition of discriminations more difficult in a crisis. Seventeen years later, the failure of economic sanctions against Italy furnished some evidence that the apparent

---

5 Ibid., p. 16.

6 The decisions of the Economic Conference of the Allies held in Paris in 1916 pointed to a continuing economic alliance, but they were never implemented.

contradiction in the two parts of Point III could become real and could have a policy significance.[7]

Except for the action possibly implied against the "violent revisionists", the economic approach of the Fourteen Points was to assign a passive role to governments.[8] It was assumed that government intervention in economic affairs, whether undertaken for welfare or power reasons, would tend to create economic stresses prejudicial to political stability. Economic policy was regarded as an instrument to be used actively and continuously for the maintenance of political stability only in the sense that it should leave market forces as free as possible to achieve their own beneficent equilibrium. Given the underlying theory of moderately diluted laissez-faire, Point III was in this respect logical.

Point III was logical in another respect. The "general association" of Point XIV was intended to establish the national security of all countries. In an atmosphere of guaranteed security, neither would-be aggressors nor their would-be victims could derive any value from unilateral use of the economic factor in foreign policy.[9] However, whether countries would try to derive value from use of the economic factor would depend on whether Point XIV proved to be fully effective and was universally recognised to be so, and whether, if one country

---

7 See Section 4 infra.

8 In using the word "passive", we mean that the emphasis was on what governments should not do. Put in another way, governments were expected to be "active" in halting and reversing the multiplication of trade barriers and in eliminating discriminations. We do not mean that governments were intended to ignore their responsibilities but rather that they were to recognise the best means of fulfilling them.

9 There might of course still be a need for welfare barriers and even for welfare discriminations.

stepped out of line on Point III, it could rapidly be brought back into line. If Point XIV proved to be ineffective, abandonment of the economic factor in foreign policy by one set of nations, while it continued to be used by another, was different only in degree of immediate danger from disarmament by one group while another remained armed to the teeth.

After their acceptance as Armistice terms by Germany and, except for Point II, by the Allies, the Fourteen Points became the ostensible basis for the Treaty of Versailles and the Covenant of the League of Nations. The close association of the Treaty with the Covenant was important for it tended to establish the League primarily as an instrument for the preservation of the status quo. The Covenant made little provision for peaceful change. At a number of points, it looked not to the future but back to the past. Preservation of the status quo was guaranteed in the wording of Article 10 that: "The Members of the League undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all Members of the League". As against this, Article 19 provided that "the Assembly may from time to time advise the reconsideration by Members of the League of treaties which have become inapplicable and the consideration of international conditions whose continuance might endanger the peace of the world". Here certainly was formal provision for peaceful change, and, taking the wide interpretation of "international conditions", for peaceful economic change; but its effect was vitiated by the terms of Article 5 which provided that "except where otherwise expressly provided in this Covenant or

by the terms of the present Treaty, decisions at any meeting of the Assembly or of the Council shall require the agreement of all the Members of the League represented at the meeting". The unanimity rule limited effective review to those very few cases in which all League Members would benefit or at least suffer no significant injury from the changes proposed. In 1919, it was alleged that the League was equipped "from the outset with an almost fatal bias towards the status quo"[10], and that Articles 5 and 10 "have reconciled to the League some of its original opponents, who now hope to make of it another Holy Alliance for the perpetuation of the economic ruin of their enemies and the Balance of Power in their own interests which they believed to have established by the Peace"[11].

Assuming that the Allies had successfully achieved "the economic ruin of their enemies", one way to help perpetuate that ruin was to outlaw special measures to retrieve it. In part, the Allies did this by, for example, requiring Germany and the other defeated countries to extend unilateral most-favoured-nation treatment to them, and by forbidding a customs union between Germany and Austria.[12] Nevertheless, the defeated countries retained for the most part their right to determine their own economic policies, both national and international. Their future welfare depended, however, less on their own freedom of action than on the freedom allowed them in Allied and neutral markets.

---

10 J.M. Keynes, "Economic Consequences of the Peace", London, 1919, p.243
11 Ibid., p. 243
12 This union was, of course, forbidden for political reasons, but could still entail welfare disadvantages for the defeated countries, especially Austria.

In a system of free trade, they would suffer no discrimination either in metropolitan markets or in the colonies, and colonies would approximate to common economic "property". In the degree to which Allied and neutral countries diverged from free-trade principles, however, the complaints of the defeated countries as "have-not" powers would be increased.

Much therefore depended on implementation of President Wilson's Point III which, however, needed a good deal more definition. To give it this greater definition, the President included in his second draft of the Covenant a "Declaration of Equality of Trade Conditions", which provided for the removal of existing discriminatory tariffs and prohibited their future adoption. In other words, there was to be universal acceptance and application of most-favoured-nation treatment. Unfair competition in the form of dumping was also to be proscribed. Furthermore, the President contemplated the establishment of international machinery to realise his objectives of non-discrimination and fair competition. A note attached to the Declaration included the statement that "Provisions for an International Trade Commission, regarded as a desirable, if not an essential part of a declaration of this character, are under preparation". At this stage, therefore, it seemed that two weaknesses in Point III - lack of precision and of specialist machinery for its implementation - might in large measure be overcome.

President Wilson's second draft was, however, the high point for elaboration of Point III. His third and fourth drafts contained only a general denunciation of discrimination. Proposals from other delegations were as non-committal as the President's, and the final

incorporation of Point III in the Covenant as Article 23(e) showed little improvement on the wording of the original Point III. The final wording was:

> "Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League: ...
>
> "(e) will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all members of the League. In this connection, the special necessities of the regions devastated during the war of 1914-18 shall be borne in mind".

"Equality of treatment" has become "equitable treatment"; and, since once again there are no criteria nor any declared authority to say whether any treatment is in all the circumstances "equitable", each government is its own judge. The phrase in Point III relating to the "removal ...of all economic barriers" has completely disappeared, leaving only provision for "freedom of communications and of transit". So many exceptions and qualifications would have been necessary to include the wider principle in a satisfactory form that the attempt at inclusion seems to have been readily abandoned.

Except for Article XVI dealing with Sanctions which will be considered separately, the economic provisions of the Covenant virtually ended with Article 23(e). The Covenant's preambulary declaration that the League was established "in order to promote international co-operation" referred primarily - almost solely - to co-operation in the narrow political sense. The general objective of "international co-operation" nevertheless inspired economic activity by the League perhaps more often and more directly than did the more precisely-worded Article 23(e). There was a similar general provision in Article 11, paragraph 2 of

which read:

> "It is also declared to be the friendly right of each Member of the League to bring to the attention of the League or of the Council <u>any circumstance whatever</u> affecting international relations which threatens to disturb international peace or the good understanding between nations upon which peace depends".

The words underlined implied that economic conditions, problems, or frictions could be submitted for discussion by the League, provided they met the very broad condition that they threatened international peace or good understanding. Via a dragnet clause, therefore, the League's power to consider any economic question was unlimited.

To sum up, the Covenant, to the extent that specific reference to economic matters was lacking, reflected the prevailing conception of the governmental role in economic affairs. "The area of inter-governmental co-operation in economic matters is naturally limited by prevailing ideas about the economic functions which the state ought to perform and by the functions actually performed by the state in different countries".[13] The manner in which the economic factor might be used, on any substantial scale, to assist political stability was not developed in any detail, largely because it was relatively undeveloped in that sense in national foreign policies. Article 23 and the other Articles referred to above, should, if implemented, have operated to reduce economic frictions. But they provided an uncertain framework for the economic work of the League which developed subsequently without much specific reference to them.

---

13 Martin Hill, op. cit., p. 13.

2. League Economic Machinery

The Covenant contained no specific provision for any economic organ or any economic staff.[14] "The Secretariat", according to Article 6, "shall comprise a Secretary-General and such secretaries and staff as may be required". Economic staff could be included and an "economic" Secretariat soon developed, beginning with a nucleus of economic experts appointed by the Secretary-General in the summer of 1919. By the end of 1938, "the Economic and Financial Organisation....had a staff of sixty-five at Geneva, while the headquarters staffs of the Health, Communications and Transit, Drug Control, and Social Questions Organisations numbered less than sixty all told".[15]

The development of economic organs was less rapid. Nevertheless, although there was no specific provision for them under the Covenant, an Economic and a Financial Committee were set up within a few years of establishment of the League. The International Financial Conference summoned by the League Council at Brussels from 24th September to 8th October 1920, recommended in its report the adoption of an International Credits Scheme and the formation of a technical committee to assist in the technical execution of the scheme. As a result, the League Council appointed a committee of bankers and businessmen, the members of which sat, not as national representatives, but as experts especially qualified in the field of the Committee's responsibilities. In their role as experts,

---

14 Mr. Martin Hill writes that "the suggestion made by several of the principal delegations [at the Peace Conference] that some form of economic committee be created within the League framework aroused opposition owing, it would seem, to fears of possible interference with matters held to be of domestic concern" (op. cit. p. 20).

15 Ibid., p. 4.

members were, at least in theory, free to present their views without governmental influence; but the Committee was an advisory as distinct from a policy organ, and, when it made recommendations to the policy organs, those recommendations did not necessarily go forward with the backing or commitment of any League government. Its advisory character seems to have derived from wartime experience. During the war, a number of inter-Allied technical, advisory committees operated, whose members were usually top-ranking officials. As a result of this high-level representation, "it was...possible for agreements to be made that should become effective although the decisions reached were nominally no more than recommendations".[16]

The single Committee of bankers and businessmen split into the Financial Committee, which was primarily responsible for the International Credits Scheme and later proposals, and the Economic Committee. The Committees continued to have an advisory role only and their members sat as experts, not as government representatives. Initially, their "mission was...to minister to the needs of States seeking help; the work undertaken by them and by the Secretariat created to serve them was, to start with, ancillary to this eminently practical end".[17] However, having once been created to carry through reconstruction projects, the Economic and Financial Committees soon became permanent institutions of the League and extended their interests to a wider and more long-term field than reconstruction. With minor modifications in their structure, they

---

16 H.R.G. Greaves, "The League Committees and World Order", London, 1931, p. 10.

17 League of Nations, "The League of Nations Reconstruction Schemes in the Inter-War Period", Geneva, 1945, p. 9.

continued to operate up to and after the outbreak of war in 1939 as the most important specialist authorities of the League on economic and financial matters of international concern.

At the same time, the potential value of the Committees was limited. The guidance they provided for the economic work of the Secretariat was valuable, and they continually submitted to the Council and Assembly of the League recommendations over a wide field of economic policy. In this, they provided an essential basis for action by the policy bodies. But there was then a need for governments to give fully effective consideration to the proposals which came forward, to define their position clearly and responsibly on policy issues, and to work in constant co-operation with one another towards agreed solutions. These things could be done only by representatives speaking directly for governments. To appoint experts and absolve them from responsibility might be simply to establish a facade of consultation and co-operation whose depth would be revealed when final governmental decisions were required. After 1918, it seems that most governments wanted no more or little more than this facade. From the expert committees, recommendations went to the Council or Assembly of the League which were preoccupied with more obvious and directly political issues, and gave relatively little attention to economic problems.[18] Ad hoc conferences helped to fill the gap, but they were held only periodically, were limited in scope, and were of relatively brief duration. They did not

---

18 "The Council, a political body of diplomats and foreign ministers, meeting primarily to consider political questions, felt itself more concerned with political than technical matters...the Assembly discussions were usually overshadowed by political issues, and the treatment of economic questions by the Second Committee was often somewhat perfunctory" (Martin Hill, op. cit., p. 111).

give the opportunity for continuous consultation over an unlimited field of economic relations that the magnitude of inter-war economic problems seemed to call for.

The need for a representative economic body was expressed on many occasions. As mentioned earlier, President Wilson had contemplated establishing an "International Trade Commission". This proposal was lost, perhaps deliberately, in the welter of political issues associated with the League's foundation, but the idea of an economic council, with policy authority, persisted. Proposals for such a council were ventilated, for example, at the World Economic Conference of 1927;[19] and, in 1935, a Committee reporting on the "Constitution, Procedure and Practice of Committees of the League of Nations", said that:

> "There is no reason why the League should not seek, when the matter is of sufficient importance, to solve economic and financial problems through the effective collaboration of Ministers of Finance and Economics, in the same way as Foreign Ministers collaborate in the Council to solve political problems...
>
> "It is essential that both the effective initiative and the control in regard to the undertaking and carrying out of different tasks should be in the hands of the Governments. The Council and the Assembly will constitutionally be in the supreme control but it is expedient that, within the general framework of action approved by them, specialised bodies of Government representatives should control different spheres of work".

No immediate action was taken along these lines. But later a Co-ordination Committee on economic and financial matters was established, and then, on 30th September 1938, the League Assembly passed a Resolution looking to greater collaboration between the League and non-Member States.

---

19 A United Kingdom suggestion at the Conference was that "an Economic Council, representative of states, producers (including employers and workers), and consumers should be established [which] ..should consider the Surveys and Reports made from time to time by the Economic Committee, ..formulate policy in International Economic Conventions or by means of Recommendations, ..[and] work in close co-operation with the I.L.O. and other activities of the League".

From the United States response to this Resolution sprang a council decision of May 1939 establishing a special Committee of seven members, under the Chairmanship of Mr. S.M. Bruce, to consider the need for "major structural changes with a view to widening the basis of international co-operation in the economic field",[20] as well as the means of making collaboration with non-Members more effective. This Committee reported to the 1939 Assembly, drawing attention to the fact that

> "State policies are determined in increasing measure by such social and economic aims as the prevention of unemployment, the prevention of wide fluctuations in economic activity, the provision of better housing, the suppression and cure of disease. These matters, which affect the daily lives of every man, woman and child, are among the principal preoccupations of statesmen and politicians in all countries, whatever their political structure".[21]

This pointed to the enlarged significance which economic policy had gained in international relations. Elsewhere, the Report suggested that "the League's resources enable it, in the most economical possible way...to provide the essential links between the experts and those responsible for policy";[21] and it recommended that a Central Committee on Economic and Social Questions be created, composed of twenty-four representatives of Member States and not more than eight co-opted unofficial members. The Committee's proposals were approved by the Assembly, and an Organising Committee was appointed to arrange the convening of the Central Committee. Although, because of the outbreak of war, these arrangements were never completed, the Economic and Social Council of the United Nations was "in its conception almost identical with the

---

20 Report of the Bruce Committee, that is, the Committee on the Structure and Functions of the Economic and Financial Organisation.

21 Ibid.

Central Committee which the League in 1939 had decided to constitute".[22]

However, provision for a specialist, representative, economic body had taken a very long time to accomplish. This was a reflection of the general failure to realise the magnitude of the changes which had taken place in the world economy, the nature of the problems which these changes entailed, and the need for close and continuous international co-operation to find adequate solutions to the problems involved. However, with the machinery at its disposal, what sort of tasks, in the economic field, did the League attempt to perform, and with what success?

---

22 Alexander Loveday, Preface to "The Economic and Financial Organisation of the League of Nations", op. cit., p. ix.

3. The Economic Work of the League

Despite the Covenant's relative silence on economic matters, the League gradually came to concern itself with a wide range of economic problems. Looking back in later years, it was possible to say that, through its activity in many fields of economic and financial policy, the League had insisted, energetically, "that a better economic order would promote international peace and that facility of exchange of goods is not without influence on the political and even spiritual rapprochement of men".[23] But this development was gradual, unplanned, and somewhat hapazard. Quite apart from the economic problems of the longer term, even the urgent short-term problem of reconstruction was left unattended immediately after 1918. The concept of a close interconnection between economic welfare and peace, though it may have been present in the minds of some of the statesmen at Versailles, seems to have been prominent, to the degree of effectively influencing their policies, in the mind of none.

Since the war had left almost every country in Europe with some major reconstruction problem, plans for international reconstruction would seem to have been an obvious need. In fact, however, European reconstruction was ignored as an international problem in the years immediately after the war. The Treaty of Versailles was silent on the problem; it tacitly assumed that reconstruction would find its own means, or that reconstruction was not a matter deserving special action by the Treaty-imposing Powers. In 1919, Mr. J.M. Keynes commented that:

---

23 Robert de Traz, "The Spirit of Geneva", London 1935, p. 94.

"The Treaty includes no provisions for the economic rehabilitation of Europe, - nothing to make the defeated Central Empires into good neighbours, nothing to stabilise the new states of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New.

"The Council of Four paid no attention to these issues, being preoccupied with others - Clemenceau to cruch the economic life of his enemy, Lloyd George to do a deal and bring home something which would pass muster for a week, the President to do nothing that was not just and right. It is an extraordinary fact that the fundamental economic problems of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of politics, of electoral chicane, from every point of view except that of the economic future of the States whose destiny they were handling." 24

In 1919, therefore, economic reconstruction - or economic deterioration - was left to take its own course; "action was taken only when inflation and the threat of social upheaval rendered it an unavoidable political necessity...When action was taken after the collapse of currencies, it inevitably assumed the form rather of curing one festering spot after another than of attempting to restore health and vitality to the whole economic body of the Continent".[25]

By Resolutions of 13th February and 5th August 1920, the League Council summoned on International Financial Conference to meet in Brussels "to study the financial crisis and to seek means to remedy it

---

24 J.M. Keynes, "Economic Consequences of the Peace", pages 211-2.
25 League of Nations, "Europe's Overseas Needs, 1919-1920, and how They were met", Geneva, 1943.

and attenuate its dangerous consequences". The Conference was not to discuss the Peace settlements or reparations, and delegates were to attend the Conference as experts, not as government representatives. The Report ultimately adopted by the Conference described briefly the international financial position, reviewed possible remedial measures for specific problems, and included four sets of resolutions from the Conference Commissions on Public Finance, Currency and Exchange, International Trade, and International Credits. In brief, the Report called for sound national finances, and urged that "governments...give up practices contrary to the laws of economy and capable only of producing artificial effects, which concealed the true position. The Conference subscribed to the Supreme Council's resolution of March 8th, 1920, calling for the untrammelled exchange of goods between the States created or enlarged as a result of the war, in order that the essential unity of European life should not be jeopardised by artificial economic barriers".[26] Detailed recommendations related to budget equilibrium, arrest of inflation, establishment of central banks of issue, external credits, export credits insurance, and revolving credits. But the Report also contained specific proposals for an International Credits Organisation to aid reconstruction. As adopted by the League Council on 14th December 1920, these proposals were intended to provide credit to governments needing reconstruction assistance, after application through the Financial Committee, and subject to somewhat elaborate guarantees and procedures for expenditure and repayment. Austria

---

26 "The League of Nations Reconstruction Schemes in the Inter-War Period", op. cit., p. 11.

applied for assistance under the scheme in March 1921. The United Kingdom, France, Italy and Japan immediately suspended reparation claims so as to free Austrian assets as security for reconstruction credits; but fifteen months passed before enough assets had been freed, as a result of similar suspensions by the smaller countries, to form security for a credit operation. Even then, delays continued, chiefly because of difficulties with the Reparations Commission. Finally, in May 1922, the Organiser whom the League had appointed for the scheme, resigned and, in effect, brought this attempt to furnish international aid to an end.

Subsequently, the League adopted a more flexible approach, under which credits were extended "bilaterally" to individual governments under individual agreements as the need arose. Austria was the first to benefit from this new approach. Her financial condition had remained grave since the end of the war; and both political and economic considerations combined to such an extent in demanding international assistance for her recovery that League responsibility and League prestige were clearly involved. This was the important feature of assistance to Austria: it constituted not a simple excursion into economic co-operation but contained as an important element the application of economic resources to safeguard and promote the political objectives of the League. Furthermore, although belated, the experiment of League assistance proved effective.

Under the Treaty of St. Germain, the Austrian Republic had undertaken not to "alienate her independence" without the consent of the League Council. Under pressure of economic distress, however, Austria

had, after the Armistice but before the St. Germain Treaty, tried to link first with Germany and later with Switzerland. The possibility of an Austrian union, especially with Germany, was an important element in the pressure against the Allies to furnish Austria with assistance.[27] Some assistance she had already had by 1922. She had received "relief credits", reparations claims against her had been abandoned, and the British, French, Italian and Czechoslovak Governments had made large bilateral advances. However, her economic condition remained acute and in August 1922 she appealed to the Supreme Economic Council for a loan of £Stg. 15 million to be guaranteed jointly by the Allied Governments. The Allies replied that, although they were "unable to hold out any hope of further financial assistance being given to Austria by their Governments", there might be some prospect of assistance if the League, after investigation and report, were able

---

27 "Of all the new countries that emerged after the last war, Austria was the one about whose survival the gravest doubts were held, from the very outset, both at home and abroad. With a population something over 6 millions, of whom about a third lived in Vienna, Austria as defined by the Treaties had for many centuries past not known what it was to fend for herself. The results of the experiment were not looked forward to with confidence. Indeed, in the period from the Armistice to the Treaty of St. Germain, Austria attempted to join Germany but was warned to desist by the Allied and Associated Powers. Germany herself, at the time, did not appear to welcome the idea. Even within the small territory, to which the name Austria now applied, there were separatist tendencies. One of her provinces asked in vain, in 1920, to be received into the Swiss Confederation. Such symptoms, together with the undisguised misgivings felt by the members of the Austrian Peace Delegation, moved the chief Allied and Associated Powers to assure the Austrians that their country would not be left without assistance" ("The League of Nations Reconstruction Schemes in the Inter-War Period", op. cit., 35).

Unofficial plebiscites showing the Austrians to be strongly in favour of union with Germany, kept up the pressure against the Allies to extend assistance to the new Republic.

to present a comprehensive programme of reconstruction "containing definite guarantees that further subscriptions would...not be thrown away like those made in the past". As a result, a special committee of the League Council, including representatives of the United Kingdom, France, Italy, Czechoslovakia and Austria, was set up to direct the Financial Committee in its formulation of a reconstruction programme; and, on 4th October 1922, three protocols were signed containing the fruits of the committee's work as modified subsequently by the League Council. The protocols set down the extent of assistance to be given, and provided for reform of Austrian economic policy under international supervision. In the first of them, the Allies undertook to respect Austria's independence, and Austria not only reiterated her pledge under the Treaty of St. Germain but undertook also not to enter into any economic agreement which might compromise her independence.

The loan to Austria amounted to £Stg.33,782,558. Through international supervision, the Allied Governments guaranteed themselves, as far as possible, against financial loss; and, although they guaranteed the loan, the actual funds were supplied by private lenders. Government risk and participation were kept to a minimum.

Eight other loans on the Austrian model were made under League auspices between 1924 and 1928. There were differences in detail in the terms of these loans, but all applied the important principle of using the economic resources of League Members to promote the basic League objective of political stability. None of these loans was set in a broad enough economic or even financial context. For example, foreign borrowing proceeded uncontrolled after the success of the League loans,

and "there was nothing in the central bank statutes, an important part of the League's reconstruction plans, enjoining on those central banks or any other authority the duty of controlling foreign borrowing. Automatism was supposed to do that".[28] The League saw the need for some special commercial arrangements among the Danubian states, and "the advantages of lowering trade barriers and concluding commercial agreements between the Danube States were rehearsed in report after report".[29] But no concrete results emerged. Nevertheless, the League loans taken by themselves made a real contribution to reconstruction, and were perhaps the League's most direct, practical and effective contact with the international economic problems of the interwar period, and gave the League the beginnings of a foreign economic policy of its own. By comparison, many of the League's other economic activities too often had the appearance of ineffectual, almost academic excursions into a field in which national governments jealously guarded their competence or the competence of private enterprise within their borders..

Beyond reconstruction lay the broad sweep of international economic problems involved in trade, investment, and exchange relationships. The provisions of the Covenant directly dealing with economic matters referred only to international "commerce"; and most of the countries which framed the Covenant wanted to get back to pre-war commercial relationships as soon as possible. This restoration became

---

28 Ibid., p. 159

29 Ibid., p. 56

the task of the two Committees initially established to aid reconstruction - the Economic and Financial Committees. Of these, the Financial Committee concerned itself mainly with problems of exchange relationships, the gold standard, international investment, budget policy, and so on. It rendered "advice to the Council in lending assistance to governments, and...on financial questions capable of international solution,...[and] took the initiative in preparing for Conferences which .....dealt with Suppression of Counterfeiting Currency (1925); Suppression of the Falsification of Documents of Value (1930); Convention on Financial Assistance (1930); and the problem of 'double taxation' which was forwarded to governments for their approval (1933)".[30] The Economic Committee concerned itself with such problems as most-favoured-nation treatment, reduction of tariffs, removal of quantitative restrictions, simplification of customs formalities, and, at a later stage, standards of living, economic stability, and employment. Economic and financial publications such as the Monthly Bulletin of Statistics, Money and Banking, Balances of Payments, the World Economic Survey and others gave Member Governments a factual background on which to base policy decisions. The Economic Committee prepared for a number of international conferences, including, for example, the Conference on the Simplification of Customs Formalities in 1923, the Conferences on the Abolition of Import and Export Prohibitions and Restrictions from 1927 to 1929, the World Economic Conference of 1927, and the International

---

30 John I. Knudson, "A History of the League of Nations", Atlanta 1938, p. 208.

Conference for the Unification of Economic Statistics in 1928. The two principal Committees were supported by other technical committees of experts such as the Fiscal Committee and the Committee of Statistical Experts.

To restore pre-war trading conditions, the Economic Committee saw one of its first major tasks to be the removal of those quantitative restrictions which a number of countries had used during the war and which, with a gradual and uneven tendency towards relaxation, had been continued into peacetime trade policy. After preparations had been made by the Economic Committee and the Economic Section of the Secretariat, the first Conference on the Abolition of Import and Export Prohibitions and Restrictions was called in Geneva in October 1927. There twenty-nine nations adopted a Convention, the Parties to which undertook, subject to certain exceptions, "to abolish within a period of six months all import and export prohibitions and restrictions and not thereafter to impose any such prohibitions or restrictions". A second Conference met in June 1928 to consider supplementary material and reservations, and the Convention was then to come into force on receipt of eighteen ratifications. The necessary number of ratifications was never received. A third Conference was held in December 1929 and the Convention was brought into force for a few countries which, in any event, applied few of the restrictions which the Convention outlawed. Although there were later efforts to revive the Convention, they were uniformly unsuccessful. If in 1919 it was true that "in the great majority of countries ..., there was no disposition...to limit national freedom of action in regard to

trade policy"[31], the Depression after 1929 made all countries anxious to cling to whatever instruments they had at hand or could newly devise to protect their national economies from the economic blizzard. Quantitative restrictions remained and were extended and the efforts of the League bore no fruit.

About the same time, the League made an attack on the tariff problem. In September 1925, the Assembly decided to call a World Economic Conference which met in May 1927, and which inter alia, emphasised the "harmful effects upon production and trade [which] result from the high and constantly changing tariffs which are applied in many countries". Elsewhere the Conference "urged the rapid re-establishment of treaty relationships based upon unconditional and unrestricted m.f.n. treatment, and asserted that 'the time has come to put an end to the increase in tariffs and to move in the opposite direction'".[32] The League Assembly subsequently adopted the recommendations of the Conference unanimously, and twenty-nine governments, including twenty European governments, separately declared that the recommendations had their support. Immediately after the Conference, the tariff position in many countries seemed much more hopeful. A number of tariffs were reduced either by unilateral action or through bilateral agreements. A number of agreements based on most-favoured-nation principles, were concluded and, for a short period, it seemed that the status of the most-favoured-nation clause might be restored. However, the trend was short-

---

31 "Commercial Policy in the Interwar Period", op. cit., p. 16.
32 League of Nations, "Commercial Policy in the Post-War World", Geneva 1945, p. 14.

lived. The Depression undermined what the League had already achieved and prevented any new advance. The Economic Committee, which had set to work to codify most-favoured-nation treatment and to prepare the way for a multilateral agreement, could do nothing of immediate, practical value in the deteriorating economic conditions of the time.

But the effort at co-operation did not die. In 1933, a World Economic and Monetary Conference met in London. The Preparatory Commission of Experts for the Conference, appointed by the League Council in October 1932, reported on the problems confronting the Conference as follows:

> "Three years of world-wide dislocation have generated a vast network of restraints upon the normal conduct of business. In the field of international trade, prohibitions, quotas, clearing agreements, exchange restrictions - to mention only some of the most widely employed forms of regulation - throttle business enterprise and individual initiative. Defensively intended, and in many instances forced by unavoidable monetary and financial emergencies, these measures have developed into a state of virtual economic warfare. It is not only in the field of trade that this tension exists. In the difficult sphere of international monetary and currency relations and in the world capital markets, free international co-operation has given place to complex and harassing regulations designed to safeguard national interests. If a full and durable recovery is to be effected, this prevailing conflict of national economies must be resolved".

Although the participating governments agreed on the nature and significance of the problems facing them, the 1933 Conference was completely unable to deal with them. "There was unanimity as to the objectives of economic policy - the same objectives that had been upheld in international gatherings since 1919; but there was no agreement between governments on how those objectives might best be achieved and fundamental difference on crucial issues of immediate policy".[33] The immediate cause of the

---

33 Ibid., p. 17.

breakdown of the Conference was the sudden and temporary rejection of the gold standard by the United States. "The United States discovered that 'gold was an obsolete fetish of so-called international bankers'"[34] and her "sudden anti-gold standard attitude...completely stymied the Conference".[34] After seven weeks' sitting and the passage of some ineffectual resolutions, the Conference adjourned - it was not closed - but it never met again.

This unhappy dispersal underlined the League's failure to establish a secure economic basis for world peace. It may have been that "the Conference ought not to have met when it did",[35] and that, in the circumstances of the time, it was bound to fail. But, even though the League might not have been expected to remedy the economic calamities of 1929 to 1933, it might perhaps have been expected to do something effective to avert the calamity in the years before 1929. That it had not done, although it had certainly tried. The League could claim to have removed or modified few of the maladjustments from which it had acknowledged the world economy to be suffering. No real or lasting solutions had been found to the specific problems the League had posed for itself - reduction of tariffs, removal of discriminations and quantitative restrictions, restoration of the gold standard, and so on. A number of factors may have contributed to this failure. In part, the League failed because it mistook the symptoms for the cause of economic ills, and concerned itself with tariffs more than with effective demand

---

34 J.W. Beyen, "Money in a Maelstrom", New York 1949, p. 93
35 Martin Hill, op. cit., p. 67.

(it was, of course, by no means alone in this error); in part, it may have failed because it lacked adequate machinery for continuous economic consultation at the representative, as distinct from the expert, level; and, in part, it failed because Member Governments were more anxious to promote their economic interests by unilateral action than through international co-operation. But whatever the exact causes, the League had by 1933 failed as completely to provide a satisfactory economic basis for world peace, as by 1939 it had failed to preserve world peace itself. One writer has said that:

> "There have even been voices that proclaimed the failure of the 1933 Conference to be the cause of the Second World War. It is more correct to say that those developments had already started and that the conference was unable to stop them". 36

The 1933 Conference was part of the general failure to deal with world economic problems. There was no direct connection between the failure of the Conference and the formation of a Nazi Government in Germany. But the economic breakdown helped extremist regimes into power, and the failure of the League to turn the economic factor to its fundamental purpose of world peace seems to be underlined by the near-coincidence between the collapse of the 1933 Conference and the Nazi accession to power.

After 1933, there was no single "world trend" in economic policy. For some countries, especially Germany, the emphasis was increasingly placed on a policy of economic nationalism or economic regionalism, even while world trade conditions were slowly, but nevertheless clearly, improving. For other countries, especially the United States, the

---

36 J.W. Beyen, op. cit., p. 91.

improvement in world trading conditions was accompanied by a policy of reducing trade barriers and applying them without discrimination. The latter countries followed, in effect, the principles which the League had consistently advocated; but the League itself seems to have had little direct influence on national policies after 1933. This does not mean that the League abandoned the effort. On the contrary, the field of League interest in economic affairs expanded, rather than contracted, in the later inter-war years, and there were constant League enquiries into ways of improving world economic conditions and economic co-operation. In 1935 the Economic Committee presented a report on the impact of restrictionism and looked to at least some temporary co-operation against restrictionist policies which "could, without difficulty, be transformed into permanent co-operation"; in the same year, a Joint Committee of the Economic and Financial Committees reported on "the causes, scope, methods and results of compensation and clearing agreements", and studies in the general field of exchange control and exchange agreements were continued in later years; in September 1935, the League Assembly initiated an enquiry into nutrition and, in the following year, it instructed a Joint Committee of the Economic and Financial Committees to enquire into the question of equal commercial access, by all nations, to sources of certain raw materials; the Economic Committee continued its work on equality of commercial treatment and in a Report of 1936 insisted that "the most-favoured-nation clause and the system of equality of treatment which it is designed to establish constitute an essential guarantee for the maintenance and development of world trade"; in 1937, the Assembly invited the Economic and Financial Committees to examine measures to prevent or mitigate economic depressions,

and also to examine methods, of a national or an international character, for raising standards of living. The list of enquiries, reports, studies, and so on could be greatly extended, but their immediate influence was small - none "could do more than diagnose ills and point out what ought to be done to remedy them".[37] However, they were suggestive of the broader League understanding of the use of economic co-operation for world peace. One approach was to remove restrictions and discriminations from international economic relations - to remove what might be called the direct economic provocations to war. But a more intricate problem had exercised many brilliant minds in the inter-war period - the problem of peaceful change, in which economic policy would have to play a central part. The League was beginning to tackle this problem also in its enquiries into standards of living, nutrition, economic stability, access to markets and raw materials, and so on. Though the League was unable to achieve any substantial results itself, much of its work after 1933 provided a valuable basis for the early work of the United Nations; and perhaps in that lay the chief value of the League's economic work generally. League experience demonstrated the significance and the complexity of establishing an economic basis for a durable peace. On the one hand was the endeavour for

> "...the total abandonment of restrictionist policies and the construction of an international political system under which such policies cannot arise, a system under which the political administration of countries no more than the political administration of counties or provinces is allowed to serve the purpose of local monopoly". 38

---

37 "The League of Nations Reconstruction Schemes in the Inter-War Period", op. cit. p. 25.

38 L.C. Robbins, in "Peaceful Change, An International Problem", Edited by C.A.W. Manning, London 1937, p. 60.

On the other hand, was the wider, more positive approach of informed action to promote economic development, to raise nutrition and living standards, and to maintain high levels of employment and business activity. One of the League's most important ad hoc bodies - the Delegation on Economic Depressions, appointed as a result of an Assembly decision of October 1937 - did not present the first part of its Report until 1943, and the second part until 1945, and it was then overshadowed by national plans, declarations, and programmes, and by arrangements for postwar international organisation. Nevertheless, the Report indicated the lines along which international thinking, under the League, had developed, and provided some guidance for the League's successor.

4. The Significance of Sanctions

It is one thing for Governments to ensure that economic conditions do not upset the existing political balance or for Governments actively to work for economic conditions which assist political stability. But it is a more precise and directly political approach to assert the collective will of a group of nations by using economic power against an actual or potential aggressor. This approach of economic resistance, temporarily replacing that of economic appeasement, was involved in the League policy of economic sanctions.

Article 16 of the Covenant declared that

> "should any Member of the League resort to war in disregard of its covenants under Articles 12, 13, or 15, it shall ipso facto be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking state, and the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking state and the national of any other state, whether a Member of the League or not".

In 1919, President Wilson underlined the potential force of this Article, when he said:

> "Suppose someone does not abide by these engagements, then what happens? An absolute isolation, a boycott! The boycott is automatic. There is no 'but' or 'if' about that in the Covenant...When you consider that the League is going to consist of every considerable nation in the world except Germany, you can see what the boycott would mean. No goods can be shipped in or out, no telegraphic messages can be exchanged, except through the elusive wireless perhaps; there would be no communication of any kind between the people of the other nations and the people of that nation...It is the most complete boycott ever conceived in a public document".

On a strict reading of the Covenant, the second paragraph[39] of Article 16, dealing with armed resistance to any aggressor, appears to supplement the first paragraph of Article 16 quoted above. When the League came to apply Article 16, however, paragraph 1 became in practice an alternative to paragraph 2, in large part no doubt because it was politically more palatable to apply economic pressure than to provide men to fight in wars in which the national security was not too closely or too seriously involved. When paragraph 1 became an alternative and not a supplement to paragraph 2, economic power became, in effect, the only material weapon available to the League, and "sanctions" meant in practice only "economic sanctions". This result could have been beneficial if it had derived from a sincere faith in, and a studied understanding of, the economic factor in League policy. If on the other hand it were simply a means of escape for governments from the more onerous obligations of the League, it would be symptomatic of League impotence.

Sanctions were imposed by the League only once, and then unsuccessfully against Italy during the Italo-Abyssinian conflict of 1935. Since Italy had been declared the aggressor, economic sanctions were, under Article 16, to be imposed against her immediately and, one might also have expected, automatically. The measures agreed upon, however,

---

39 The second paragraph read: "It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military, naval or air force the Members of the League shall severally contribute to the armed forces to be used to protect the covenants of the League".

amounted to much less than the "complete boycott" envisaged by President Wilson,[40] and, in fact, the practical, if not the legal force of Article 16 had already been weakened by interpretative decisions of the League Assembly, especially in Resolutions of 1921. It was now agreed that Member States were "entitled", rather than compelled to apply sanctions against a Covenant-breaking state; that each country should decide for itself whether another country had broken the Covenant; that certain countries could postpone sanctions wholly or partially in order to minimise loss and inconvenience; that the form of the sanctions should not be decided beforehand, but as each case came up for action; and so on.

---

40 "The measures evolved by the Co-ordination Committee fell far short of the 'severance of all trade and financial relations' contemplated by the Covenant. There was never any question of cutting off Italy from intercourse with states which were not Members of the League or, indeed, with states which were members; remittances continued to reach Italy from Italian emigrants resident in League countries; tourists from League states could still visit Italy, though their number was naturally reduced by the prevailing tension; the nationals of League states were free to travel on Italian vessels or to consign goods in Italian bottoms; the export of aluminium was prohibited, though aluminium was one of the very few minerals with which Italy was able to provide herself from domestic sources; iron ore and scrap iron were prohibited, but pig iron and bars were not; nor were coal, oil or copper. The prohibitions which were enforced, with the exception of the financial sanction and the arms embargo, had effect as from November 18th only, leaving a considerable period of which both the legitimate trader and the speculator took advantage. Article 16 had spoken of the 'immediate' severance of trade and financial relations. Thus, to take a hypothetical example, tanks, built of steel bought from League countries and paid for with money spent in Italy by the nationals of League countries, could be driven by petrol supplied by League countries and transported to Massawa by tankers flying the flags of States Members of the League" (R.I.I.A., "International Sanctions", London 1938, pp. 205-206).

In part, sanctions against Italy failed because the lack of universality of League membership served to "create a further element of doubt as to the possible efficacy of the sanctions laid down in the Covenant and increase the burden of such sanctions for States which may apply them".[41] There were a number of important "neutrals" with whom Italy could still trade and communicate freely even if all other countries had applied sanctions without reserve. Furthermore, although the United States applied her Neutrality Act against both Italy and Abyssinia, and although the Act probably operated to the net advantage of Abyssinia rather than Italy, the "boycott" imposed by the Act was far from complete. Among the reasons for this was the fact that "the American exporters could, with some justice, argue that so long as League countries, which were under an obligation to sever economic relations with the aggressor, continued to permit unrestricted trade in [such vital commodities as oil, coal, iron, and steel], it was unfair for Americans, who were under no such obligation, to be deprived of profitable markets".[42]

A further point was that Article 16 had enjoined nations applying sanctions to "mutually support one another in the financial and economic measures which are taken under this Article, in order to minimise loss and inconvenience". The "loss and inconvenience", which would have resulted from the complete closure of the Italian market, could not be ignored in the conditions of less than full employment

---

41 League of Nations, "Report of the Special Committee set up to Study the Application of the Principles of the Covenant", Geneva 1938, p. 116.
42 "International Sanctions", op. cit., p. 164.

still affecting most countries in 1935, and would have fallen unevenly on the sanctions-imposing powers. On 14th October 1935, the Co-ordination Committee adopted a declaration on mutual support and, on 19th October, accepted a proposal of the Committee of Eighteen, on Organisation of Mutual Support, which was subsequently accepted by forty-six Member Governments. But practical steps to extend mutual support still failed to materialise.

> "A considerable amount of discussion took place in the Co-ordination Committee and its sub-committees of the possibility of devising means for lightening the burdens of states particularly hard-hit by the application of sanctions...In practice, however, the fruits of the attempt to organise 'mutual support' were exceedingly meagre, though Great Britain did make certain concessions in respect of Yugoslav farm produce. Yugoslavia was the hardest-hit of all the applying countries, since something between a quarter and a fifth of her exports were taken by Italy. The fact that so little was done to give effect to paragraph 3 of Article 16 might prove to be of importance if the question of the application of this Article were to arise again". 43

Private interests likely to suffer from the loss of Italian markets quite understandably exerted pressure on their governments to exempt their products from the effect of sanctions. Governments were in a weak position to resist this pressure unless they were able and willing to offer adequate compensation for any losses suffered; and plans for compensation seem never to have been considered or at least developed into effective policy. "There appears to be no evidence to show that [individuals and firms] were in any way compensated for the burdens which they were called upon to shoulder in the name of collective security, and some feeling of resentment against the whole policy of

---

43 Ibid., p. 210.

sanctions is therefore very understandable".[44] This resentment must have had some influence on the continued export to Italy of supplies of oil, coal, pig iron, copper, and other raw materials and manufactured products useful for the prosecution of war. Sanctions which may, in any case, have been ineffective, became in these circumstances ludicrous. League governments with political backgrounds similar to that of the United Kingdom Government had not reached a stage of economic control where, for foreign-policy reasons, they could eliminate an important foreign market and still maintain the internal balance of their economies. The choice for these governments tended to be a clear-cut one between maintaining entire the relationships of peace and making an unequivocal declaration of war. The half-way course of economic sanctions proved to be impracticable. A threat to national security which would justify a declaration of war would justify also almost any economic sacrifice; and, in the event of actual war, government war expenditure would compensate private interests for any sacrifice which might otherwise be involved. In a situation short of actual war, however, the reasons for economic sacrifice were less obvious and compelling, and the prospects of automatic compensation less assured.

Sanctions therefore failed. But they failed largely because of an established economic system - an economy based on a large measure of freedom and economic responsibility for private enterprise - which was rapidly being undermined. If and when that system finally passed away,

---

44 Ibid., p. 210.

sanctions would become much more practicable; and something more, which Article 16 and the supporters of Article 16 had never wished for, would be practicable also. A generally acceptable definition of sanctions ran as follows:

> "Sanctions are measures taken in support of law. It is of the essence of law that its sanctions are applied with and by the general authority, not by any individual. With the substitution of the word 'state' for the word 'individual', this is true in principle, and ought to be true in fact, of the sanctions of international, as well as of national law. In so far as sanctions are punitive, they are applied only after due enquiry and judgement by a competent authority. Physical force enters into them but rarely and only in clearly defined circumstances; it must be remembered, however, that force is always present in the background.
>
> "Not all sanctions are punitive; some are preventive. Circumstances may arise in which forcible action is necessary in order to ensure that law-breaking shall be dealt with in due course of law. Such forcible action (for example arrest) is called police action, and it is governed by certain clearly defined principles. Its sole object must be to suppress disorder, and ensure that the peaceable and orderly process of law shall prevail. It must not be indiscriminate, so that it strikes those who are neither taking part in, nor abetting the disorder against which it is directed. It must not be punitive, arrogating to itself functions which may be exercised only with the authority of, and after due enquiry by, a competent court. And it must not be vindictive, so as to leave behind it feelings of resentment, or grievance against injustice. The measure of force necessary to suppress the disorder against which it is directed must be used, and no more. Police action of itself neither settles anything nor even professes to. It merely ensures that disputes shall be settled, or law-breaking dealt with, by the collective process of legal action, and not by private vengeance or the strife of individuals". 45

When the League Members applied sanctions against Italy, the imposing powers formed, in effect, an anti-Italian alliance, which used the economic power at its disposal against its opponent. This alliance was within the League, a recognised instrument of international law; the

---

45 Ibid., pp. 4-5.

action taken by the alliance was "in support of law"; it was applied "with and by the general authority", after that authority had made "due enquiry and judgement". The alliance was a failure but the structure of the liberal economic system was already undergoing such changes that success on some future occasion might be likely. When these changes had been completed, however, would any alliance imposing sanctions always do so within the framework of a "competent authority"? Would sanctions always be imposed even by an alliance, and not by individual nations? Even if sanctions were imposed by "a competent authority" similar to the League, what assurance would there be that that authority would be activated by an objective sense of justice and not by the sum of the assessments made by individual nations of their individual national interests? Would it therefore be at all possible to formulate the kind of economic and financial measures which should be imposed and to establish objectively and in advance the circumstances or the criteria under which those measures should be imposed?

The League made hardly any attempt to answer these complex questions. In any event, the failure of its one attempt at sanctions suggested that, in its lifetime, it might not be necessary to answer some of them. But it is doubtful that it is still unnecessary for the United Nations to answer them. There is evidence that governments now find sanctions to lie within the realm of practical policy; and that, having done so, they do not wait for the approval of an international authority to apply them. Thus it seems that the instrument of economic sanctions, which the League tried prematurely to adopt, is being applied in more congenial circumstances as part of

national policy. These more congenial circumstances derive largely from government economic controls which maintain the balance of the domestic economy and, in so doing, provide direct or indirect compensation to private interests which would otherwise be affected by sanctions. That still leaves the problems of universality and mutual support which helped to defeat the League, and these point to the need for a tight and extensive economic and political alliance to support sanctions. In postwar years, such alliances have tended to form. The significance of sanctions lay, therefore, not in what they achieved, but in what they foreshadowed. In themselves, sanctions under the League were a failure. But they were not an idle, isolated experiment which, having failed in itself, lost its relevance in international affairs. The League action was rather an exercise or an incident in a trend which was ultimately to establish economic sanctions at a strategic point in foreign policy.

5. Conclusion

The League achieved little that was immediately useful, But despite its overall failure, it gradually developed an understanding of the use of economic means to promote its political objectives; and it passed on a varied and valuable experience to its successor world organisation. What were the principal features of this experience?

Firstly, the League began its career with a totally inadequate recognition of the importance of the economic aspects of international co-operation. This was primarily the result of the continuing influence of the laissez-faire system. Political problems called for international co-operation; but economic relations were on a different plane, determined largely by private interests, and requiring a minimum of political intervention, either national or international, to achieve a beneficent equilibrium. As laissez-faire was increasingly undermined, however, government intervention was accompanied by increasing international attention to economic problems. The League then intensified its emphasis on the link between peace and welfare, and the United Nations was launched in an intellectual atmosphere which regarded peace and welfare as twin objectives, the preservation of peace being dependent to an important extent on the active, continuous promotion of welfare.

Secondly, even though the economic role of governments was relatively small in 1919 as compared with later years, governments seemed even more unwilling to yield their independent sovereignty in economic affairs than in the field of political relations. Complete

freedom to go their own way in formulating economic policy was the aim of most governments, and the increased government intervention caused by the Depression did not reduce but intensified this attitude. The lack of any representative economic organ of the League to correspond to the primarily political organs of the Council and the Assembly illustrated the limits of international co-operation. Nevertheless, the economic and political costs of the "beggar-my-neighbour" policies of the 'thirties had their impact on the thinking of most governments; the urgent need for co-operation came to be stressed more and more; action was taken to set up a Central Committee on Economic and Social Questions; and the way was cleared for a thorough, well-supported attempt at economic co-operation by the United Nations, with the surrender of some part of national economic sovereignty which that might involve.

Thirdly, the League policy of economic sanctions proved futile in the circumstances of its time. The failure of sanctions seemed to underline the severe limitations of collective resistance to aggression which stopped short of actual armed resistance.

Those are the principal features of League experience. But we might recapitulate further that the League was principally concerned with preventing those frictions in international relationships deriving from welfare distress or welfare conflicts. The latter might assist the formation of extremist political regimes willing to resort to war or might make the path to war shorter even for originally moderate governments. To obviate such a chain of events, the League tried originally to minimise government intervention. The Economic Section of the Secretariat, the Economic and Financial Committees, and apparently

most League Members themselves assumed that government intervention - restrictive intervention - led to economic maladjustments which caused or intensified economic distress; and, where there had to be government intervention, there was general agreement, in principle, that intervention should be non-discriminatory, so that economic frictions should be minimised. Applying this approach, the League tried to reduce tariffs, remove quantitative restrictions, uphold the gold standard, and obtain universal acceptance of unconditional most-favoured-nation principles. The League assumed a world economy based substantially on freedom for private enterprise; and it assumed that the free play of market forces would achieve its own harmony which government intervention would destroy. Governments generally intervened of course in response to pressure by private interests. The League's problem was to induce governments to resist these private pressures, which might damage not only the pattern of international economic relationships, but perhaps also the political fabric of international society.

Thus for most of its life, the League assumed that intervention itself was the enemy. But in its later years the League began actively to sponsor a programme of government intervention intended to raise standards of living, promote full employment and economic stability, improve nutrition, and so on. This change underlay the difference between the problem of the League in its earlier years and the problem which the United Nations was later to face. Government intervention had become not merely accepted but actively encouraged. If this intervention succeeded in banishing unemployment and economic instability, the main cause of acute and wide-spread economic distress would disappear.

For a world organisation the main political problem presented by economic policy would then seem to be to avoid any economic frictions arising from discrimination.

But here a further problem intervenes. On the one hand, high levels of business activity tend to reduce sectional pressures for discriminatory privileges. As League experience showed, it then becomes easier to reduce tariffs and other restrictions and to apply most-favoured-nation principles, provided only that balance-of-payments problems do not intrude. In other words, welfare discriminations tend to decline. But, when governments effectively control the level of business activity and gain or extend their control or ownership of economic resources, they are in an improved position to use economic power and policy to promote "national" interests, as distinct from the interests of sectional pressure groups, without apparent damage to those private groups. At that stage, the problem becomes, not to control private pressures on governments, but to regulate the manner in which governments seek to promote national interests - including the supreme interest of national power. In other words, the problem changes from one of control of welfare discriminations to one of control of power discriminations; and the new problem becomes especially acute when the balance of estimated power is uncertain and unstable. This problem, although it was crystallising in relation especially to Germany during the lifetime of the League, is in intensity and universality quite a distinctive problem for the United Nations, and will be taken up again in the following chapter.

Chapter III. The Economic Factor in United Nations Policy

1. Introduction
2. The Charter
3. Activities of the Economic and Social Council
4. The Role of the Specialised Agencies
5. Summary and Prospect

.....

1. Introduction

The United Nations owed much to the experience of the League, especially in terms of the economic functions assigned to the new organisation, and the machinery established to perform them. National delegations went to San Francisco with a vivid recollection of League frustration and of inter-war economic chaos. On behalf of the Australian Delegation, Dr. Evatt said that "the real enemy is not even war but the economic and social injustices which lead to war". Other Delegates often expressed much the same kind of attitude. The new world organisation was therefore intended, inter alia, to remove the economic causes of war.[1] Was it possible to raise welfare standards throughout the world, and eliminate welfare frictions, so that peace would be established on sound and durable foundations? This was the nature of the problem - the same which had faced and defeated the League. But, at San Francisco, the nations had a wealth of experience,

---

1 Welfare was, of course, foreseen as an end in itself as well as a means to the end of peace.

an understanding of techniques, and an intellectual background much more favourable to a solution of the League's problem, and they tried to draft a Charter which would give this enlarged capacity full play.

Planning for postwar international economic co-operation had begun long before 1945. The Atlantic Charter had linked peace with economic progress, and had laid down some general principles to guide those who would later frame a charter for a world organisation. The Mutual Aid Agreements had given the principles of economic co-operation some further expression, and, before the San Francisco Conference met, multilateral agreements had already been drawn up for UNRRA, for FAO, for the International Bank and for the International Monetary Fund. By 1945, these agreements had already been ratified or submitted to governments for ratification. UNRRA had been endowed with huge resources, and was carrying its operations into the war-devastated countries immediately the military situation allowed. There was no repetition of the delays and the piecemeal approach which had characterised reconstruction after the First World War. UNRRA was concerned not merely with "soup-kitchen" relief, but with the larger problem of giving sufficient reconstruction aid to enable the war-devastated countries to stand on their own feet within a minimum of time. Industrial and agricultural equipment was provided along with food, clothing, and medical supplies in order to meet the long-term economic problem as well perform the short-term humanitarian mission. All war-devastated countries received UNRRA assistance whether in Asia or Europe, whether communist or democratic. With this tremendous multilateral operation of UNRRA already under way, and against the background of the economic agreements already drafted,

the breadth and detail of the economic provisions of the United Nations Charter could be expected to contrast sharply with the meagre equivalent provisions of the League Covenant. And so it proved to be.

2. The Charter

Under the Charter, the United Nations was established in order to promote, among other things, "social progress and better standards of life in larger freedom, and for these ends,...to employ international machinery for the promotion of the economic and social advancement of all peoples". It is doubtful how far preambulary provisions have any binding force, and, in any case, this wording is clearly too broad to have much practical effect. Much the same may be said of Article 1, which declared that one of "the Purposes of the United Nations" was "to achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language or religion".

The significant economic provisions are in Chapter IX on International Economic and Social Co-operation and Chapter X on the Economic and Social Council. Within these Chapters, those Articles of principal importance are Articles 55 and 56, reading as follows:

> "Article 55 With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:
>
> "(a) higher standards of living, full employment, and conditions of economic and social progress and development;
>
> (b) solutions of international economic, social, health, and related problems; and international cultural and educational co-operation; and
>
> (c) universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion."

"Article 56 All Members pledge themselves to take joint and separate action in co-operation with the Organisation for the achievement of the purposes set forth in Article 55."

Under Chapter X, the Economic and Social Council is established as an organ of "eighteen Members of the United Nations elected by the General Assembly", and rotation is ensured by the provision for retirement of six members each year. Unlike the Security Council, there is no provision for permanent seats, although in practice the United States, United Kingdom, the U.S.S.R., France and China have been members of the Council since its inception and are likely to retain continuous membership. Elections have tended to conform to the "bloc" pattern of Security Council elections, with an accepted number of members from Latin America, Scandinavia, Eastern Europe, Asia, the British Commonwealth, and so on. This should result in the Council of 18 being reasonably representative of all areas and at the same time retaining the efficiency of a relatively small, compact organ.

Articles 62 to 66 set out the functions and powers of the Council: initiation of studies and reports; making recommendations to the General Assembly or the Specialised Agencies or Members of the United Nations; preparation of draft conventions; convening of international conferences; co-ordination of Specialised Agency activities; and assistance to the Specialised Agencies and United Nations Members, and to the General Assembly in carrying out the latter's recommendations.

Article 65 is of particular interest in the link it establishes between the political and economic activities of the United Nations. It provides that: "The Economic and Social Council may furnish

information to the Security Council and shall assist the Security Council upon its request". In other words, if the Security Council were faced with a situation threatening peace in which the problem and/or the proposed solution involved economic and/or social issues, the Economic and Social Council might be called upon to play a direct part in solving international political problems; it might be asked, from time to time, to deal with specific day-to-day issues of direct and immediate political consequence, as well as with problems which might be of wider scope and perhaps affect a larger number of countries, but which would be concerned essentially with welfare and would have only an indirect political importance. This would tend to enlarge the immediately practical tasks of the Council, and would reduce or remove any tendency for economic policy to become isolated from political facts. However, except in the case of Korea, Article 65 has never been used. One difficulty of reference to the Council might be that Security Council problems require urgent attention and cannot await a regular session of the Council which might be some months away. However, provision exists for emergency sessions of the Council, and the difficulty of speedy reference could readily be overcome if regular implementation of Article 65 were considered desirable.[2]

The last six Articles of Chapter X deal with voting and procedure. Each member of the Council has one vote and, unlike the Security Council,

---

2 Note that, in order to consider relief and reconstruction in Korea, the Eleventh Session of the Council was adjourned, not concluded, in August and met again during the Fifth Session of the General Assembly.

decisions are by simple majority, without the complication of the veto. Article 68 provides for the establishment of subsidiary organs; Article 70 for non-voting participation of the specialised agencies in the discussions of the Council and its subsidiary organs, and, reciprocally, for Council representation at the deliberations of the specialised agencies; Article 71 for consultation with relevant non-governmental organisations; and Article 72 for the Council's adoption of its own rules of procedure, "which shall include provision for the convening of meetings on the request of a majority of its members". Under its present rules of procedure, the Council meets in regular session twice a year - normally in February and July.

If we are to seek for shortcomings in the economic provisions of the Charter, it might be noted that there is no explicit provision for dealing with economic disputes between individual Members of the United Nations.[3] In 1948, Yugoslavia submitted to the Sixth Council Session a complaint that the United States was illegally withholding Yugoslav gold reserves sent to the United States for safekeeping during the war, and that Yugoslav reconstruction was thereby being retarded. On this occasion, because of the juridical issues involved, the Council decided that it was not competent to deal with the matter. The vote of fifteen to three followed East-West lines, the Soviet, Poland, and Byelorussia voting in support of the Council's competence. The general

---

3 Article 65 could cover economic disputes in part, if these were referred to the Council by the Security Council; but, if it were intended that the Council should deal with economic disputes, this coverage would obviously be incomplete and unsatisfactory.

competence of the Council to deal with economic disputes was not established; but there was some feeling that the Council could not in fact deal with economic disputes.[4] (A definition of what was intended by the term "dispute" might, incidentally, not be easy). It was agreed that Article 62(1) of the Charter allowed the Council to make recommendations to "Members of the United Nations", but there was a division of opinion on whether this should be interpreted to allow recommendations to a single Member of the United Nations. Some countries maintained that the obligation laid on the United Nations in Article 55 to promote certain economic and social objectives "with a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations", extended the Council's right and duty to consider economic disputes and to make recommendations to individual countries; but other countries rejected this argument. Most Council Members refused to take any action which would limit the Council's general competence, and the final resolution denied the Council's competence in the Yugoslav dispute only because of the juridical issues involved. The Council's competence to deal with economic disputes is therefore uncertain, but not definitely denied.

To sum up, the Charter intended the Council to help create and preserve world economic conditions which would reduce economic distress

---

4 See Report of the Economic and Social Council to the General Assembly Covering the period from 18 August 1947 to 29 August 1948, pp. 24-25.

everywhere, and minimise economic frictions between Member States. It did not explicitly ask the Council to try to solve specific economic conflicts between any two countries or groups of countries, but rather to produce conditions in which such conflicts would be less likely to occur. This was much the same broad objective as the drafters of the Covenant had in mind in 1919. But the vital point is that the means for achieving this objective under the Charter were, in one fundamental respect, exactly the opposite from those contemplated by the drafters of the Covenant. The background of thinking about the Covenant - although it did not appear explicitly in Article 23(e) or elsewhere - was to reduce as well as to regulate intervention by governments in economic affairs. In Articles 55 and 56 of the Charter on the other hand, there is no suggestion whatever of any retreat from widespread government intervention; and the balance of responsible thinking in 1945 was against any such retreat. Under the Charter, the economic activity of governments was to be regulated (for example, to achieve the objectives of Article 55); but it might at the same time be expanded (for example, in carrying out the obligation for "joint and separate action" in Article 56). Governments were committed to an active role in promoting economic stability and economic development, and the Council's role was to stimulate, assist, and co-ordinate fruitful activity by individual Governments. There is the further point that, whereas Article 23(e) contemplated prevention of frictions through "equitable treatment", the Charter seeks not only to prevent economic frictions, but also to apply the more positive concept of peaceful change through economic development. This more dynamic approach was a striking advance on the Covenant.

3. The Activity of the Economic and Social Council

It is not intended to describe in detail all the work of the Economic and Social Council and its subsidiary organs. The Council's work has covered an extremely wide field - from esoteric research to broad policy recommendations on problems of popular concern. At one end of the scale, the Council has tackled the general problem of economic stability. At the other end, it has studied such things as the uniform compilation of index numbers of industrial production, and "a uniform system of accountancy for main-line railways".[5] In most of this work, it is possible to discern a concentration of interest on a relatively small number of major topics. Several research projects, at first sight appearing to be unrelated one to another and of small consequence in themselves, will all be found on closer examination to be directed towards developing for example, a more adequate international full-employment policy. It is with one or two of these major topics, rather than with component activities within them, that we shall be concerned here.

The Council does not itself perform all the tasks within its field of responsibility. Apart from the very considerable assistance it receives from the Secretariat, it has appointed a number of Functional and Regional Commissions which, in theory, are subject to

---

5 The "Catalogue of Economic and Social Projects 1950", published by the United Nations in Lake Success in 1950, furnishes a comprehensive record of the manifold activities currently being undertaken by the Economic and Social Council and Commissions, and the Specialised Agencies.

Council control but which, in practice, have developed a good deal of autonomy. The Regional Commissions especially enjoy a large degree of practical autonomy, but many of the technical decisions of such Functional Commissions as the Statistical and Population Commissions are also subject to little effective review by the Council. Nevertheless, the activities of all the Commissions are, formally, supervised by the Council and can be traced in general outline through the Council's decisions.

The Council's early Sessions were largely taken up with establishing its subordinate organs. In this task, the Council's first approach was functional. Commissions and Sub-commissions were assigned certain limited responsibilities in such fields as statistics or demography or economic stability, but their geographical interests were unlimited, except, of course, by the limits of United Nations membership. This approach was later superseded by the appointment of Commissions with regional responsibilities - Commission interests were confined to a fairly well-defined region but, within that region, a wide variety of problems might engage the Commission's attention.

The work of the Council may be regarded as falling into two major parts. The first part has been concerned with unemployment and economic instability, and has been the principal responsibility of the Functional Commissions - especially the Economic and Employment Commission and its Sub-Commission on Employment and Economic Stability. The second covers the more active, operational task of economic development. This was also intended to be the concern of the Functional Commissions (for example, a special Sub-Commission on

Economic Development was established under the Economic and Employment Commission); but any effective Commission responsibility for economic development passed largely to the Regional Commissions. We shall examine the work of the Council in these two major sections, dealing first with employment and economic stability, and then with economic development.

The period of the drafting of the Charter coincided with a period of national activity on plans to solve the most distressing of the inter-war problems - chronic unemployment. The United Kingdom, the United States and a number of other countries drafted formal government declarations or "White Papers" outlining the methods to be used to maintain full employment and high levels of business activity. In Australia, the Curtin Labour Government presented a "White Paper" to the Commonwealth Parliament in May, 1945. As in other countries, this had followed and was followed by the most intensive discussion of the problems of a full employment economy. The result was that, at San Francisco and immediately afterwards, there was a good deal of preparedness to go ahead with the development of international policies on full employment and economic stability.

Nevertheless, the drive for international action was uneven. Some countries, such as Australia, whose economies were dangerously exposed to overseas recessions, pressed most strongly for international action, including general agreement on domestic measures to be adopted to prevent recessions. Some other countries, such as the United States, which were less exposed to recession overseas, which in some instances, themselves generated recessions of world-wide importance,

and whose political philosophy was opposed to government intervention in economic affairs, wanted to proceed more cautiously.

The "Australian" group won the first round by writing a full-employment clause into the United Nations Charter and by having expert subordinate organs of the Economic and Social Council appointed to deal with problems of economic stability on a continuing basis. With the help of the Economic and Employment Commission, and the Sub-Commission on Employment and Economic Stability, the Economic and Social Council seemed well-equipped, with facilities for consultation, to avoid the disastrous cycle from economic depression to political extremism to war which had characterised the 'thirties.

But the first few years after San Francisco called for no immediate action to combat an incipient depression. A shortage of labour, not a shortage of jobs, was the almost invariable rule throughout the world. Experts who had been intended to serve on such bodies as the Economic and Employment Commission were often too deeply engaged in immediate problems of inflation to confer at length on depression policy; and the prevailing atmosphere seemed to make it matter little whether or not they went beyond the re-expression of a few harmless platitudes or generalities in their resolutions and reports. The reports of the Economic and Employment Commission and its Sub-Commission were almost valueless: they inspired no concrete action by the Council or any other organ of the United Nations, and they contributed little to an improved understanding of employment problems or their solution.

In these circumstances, if it is true to say that the "Australian" group won the first round, it is equally true to say that

events conspired to enable the "United States" group to win the second. Very little effective planning was done between 1945 and 1948 to combat any future recession. There were, for example, the economic surveys initiated under Council Resolutions 26(IV) and 61(V), and General Assembly Resolution 118(II); and the Secretariat reports editing Governments' replies to the full employment questionnaires issued under Council Resolutions 104(VI) and 221E(IX). These provided an improved factual background, and perhaps moved some Governments or administrations to look again at the full-employment plans they had so far devised. But ultimately of much more consequence to the development of effective full-employment policies was the fact that there grew, in virtually all countries during these years, a habit of government control of the economy principally because of the urgent need to check inflationary tendencies, promote reconstruction, and restore equilibrium in the balance of payments. This habit of government control although it was for the most part aimed at exactly the opposite problem, was likely to assist the adoption of an effective full-employment policy when the time came.

But between 1945 and 1949, an additional factor entered. The political division intensified between the United States and Soviet Russia, and the United States increasingly used in this conflict such economic means as discriminatory relief, the European Recovery Programme, capital and technical assistance, export restrictions, and so on.[6]

---

6 See Chapter IV infra.

This anti-communist economic policy demanded conditions of stable economic progress: the greatest threat to the cause of anti-communism would be a severe depression in the Western world. If therefore there was any unwillingness on the part of the United States or other Western countries in the early postwar years to enter into international commitments on full-employment policy, this was gradually replaced by a more evident readiness especially after 1948 to support full-employment commitments that were effective, reasonable, and acceptable to a significant number of other Western countries.

A long-sustained habit of government economic control in peacetime and a strong foreign-policy incentive for economic stability were therefore present to influence the policy of Western countries when the United States experienced a sharp recession in the latter part of 1948 which intensified, with damaging repercussions on other countries, in the first half of 1949. When the Economic and Social Council met for its Ninth Session in July 1949, a number of Delegations insisted that the Council take action to meet the threat of a serious downturn in business activity which might affect the whole world economy; and, as a result, a panel of independent experts was appointed to report on "national and international measures to achieve full employment".

When the Report was completed late in 1949, it was said that "the writers...have commendably striven to produce positive analyses and recommendations, and to avoid a report consisting largely of pointing to unsolved problems, and recommending that further study be given to them".[7] The Report's principal recommendations were that:

---

7 "National and International Measures for Full Employment", New York, 1950 Concurring Statement by J.M. Clark, p. 100.

(i) Each government "adopt and announce a full employment target,..announce a comprehensive programme for...the continuous achievement of its full employment objective,... [and] adopt and announce an appropriate system of compensatory measures...for automatic application in case its general programme for maintaining full employment, indicated above, fails to prevent unemployment from exceeding the limit prescribed by the full-employment target by a pre-determined amount for three successive months".8

(ii) "The Economic and Social Council convene a meeting of the governments of interested countries in order to develop a joint programme designed to establish, at a reasonably early date, a new structural equilibrium in world trading relationships".9

(iii) "Lending countries...fix annual targets for long-term international investment for five-year periods, and...make the necessary legislative and institutional arrangements to enable them to stabilise the total flow of lending at the planned level".10 .

(iv) "Each government...accept the responsibility, within a permanent and systematic international scheme, of replenishing the monetary reserves of other countries concurrently with, and to the extent of, the depletion of those reserves which results from an increase in its own reserves induced by a fall in its demand for imported goods and services, in so far as this fall is caused by a general decline in effective demand within its own country".11

Although the Economic and Employment Commission considered the Report, it seems to have had no influence on subsequent Council action. The Council's Eleventh Session discussed the Report in somewhat ponderous detail, modified its recommendations considerably, and set something of their intention in a Resolution adopted on 15th August 1950, of which the following three recommendations are of particular interest:

---

8 Ibid., p. 73
9 Ibid., p. 88
10 Ibid., p. 91
11 Ibid., pp.95-96

(i) that each government "publish as soon and as precisely as is practicable the standard by which it defines the meaning of full employment as a continuing objective of policy, such standard being expressed, wherever possible, in terms either of employment percentages or of absolute numbers of unemployed, or in ranges of such percentages or numbers; and thereafter publish such revised standard as may become necessary from time to time;"

(ii) that governments "achieve and maintain, to the extent feasible, a high level and regular rate of flow of international investment capital for development purposes"; and

(iii) that governments, "in the event of a domestic recession adopt, to the extent feasible, measures to offset the adverse effects of such recession on the balance of payments or employment levels of other countries". 12

The last, though a well-diluted version of the experts' recommendation, was important as an expression of principle, even though it placed no precise obligation on any Member Government. Elsewhere, the Resolution, inter alia, called on governments to formulate and announce their full employment programmes and to submit trade figures to enable studies to be made of the future world trade equilibrium, and appointed three further sets of experts to deal with special aspects of the employment problem, including the problem of underemployment in the underdeveloped countries.

Council action on full employment, culminating in the Resolution of August 1950, has been useful, though, it seems, not of front-rank significance. Its main value has probably been in keeping the problem of full employment and economic stability near the forefront of government thinking, and in establishing a habit of international consideration of

---

12 Council Document E/1840 of 17th August 1950, which contains the full text of the final Resolution.

issues often deemed in the past to be of domestic concern. The Council's direct influence on government policies to date has probably been slight. An exact assessment of the Council's capacity in the field of economic stability must nevertheless await the time when a widespread recession, requiring swift and concerted international action, threatens once more. And, amid the many economic problems of the moment, at least the threat of a widespread fall in effective demand seems to be some distance away.

In its second main field of economic development, the Council has for the most part left operational activities to the Specialised Agencies and to individual governments. In its early years, the Council seemed entirely occupied with formulating some general principles to assist the flow of international capital. This task was entrusted mainly to the Economic and Employment Commission, and especially to that Commission's Sub-Commission on Economic Development; but, although the experts who composed the Sub-Commission produced a number of reports, no substantial action followed. At its Eleventh Session, the Council abolished the Sub-Commission. The Economic and Employment Commission, having been re-named the Economic, Employment and Development Commission, was intended to continue to carry out the responsibilities formerly delegated to the Sub-Commission. Despite this failure of the Functional Commission system, the Council has passed a number of resolutions on economic development, of which the most important is probably that of the Eleventh Session on the "Financing of the Economic Development of Underdeveloped Countries". These resolutions may have had some influence on the policies of Member Governments, but it is difficult to

see their practical effect on the rate or direction of flow of international capital.

Much of the Council's responsibility for economic development has passed to the Regional Economic Commissions, established by the Council in 1947 and 1948.[13] Their terms of reference which are substantially the same for all three Commissions, require them to:

> (a) Initiate and participate in measures for facilitating concerted action for the economic reconstruction of Europe,[14] for raising the level of European economic activity, and for maintaining and strengthening the economic relations of the European countries both among themselves and with other countries of the world;
>
> (b) Make or sponsor such investigations and studies of economic and technological problems of, and developments within, member countries of the Commission, and within Europe generally, as the Commission deems appropriate;
>
> (c) Undertake or sponsor the collection, evaluation and dissemination of such economic, technological and statistical information as the Commission deems appropriate.

These Commissions seem to have been more dynamic bodies than the Functional Commissions. Regional bodies seem able to gain the loyalities of member countries more readily than the Functional Commissions: they become regional "pressure groups", publicising the needs, problems and aspirations of their particular area. Since the Regional "Commissions' terms of reference emphasised their interest in economic advancement within a well-defined region, the Commissions gave a greater impression of having a practical, precise, progressive and readily-understood job to do than most other United Nations bodies.

---

13 See Resolutions 36(IV), 37(IV), and 106(VI), of the Council, establishing Economic Commissions for Europe, Asia and the Far East, and Latin America respectively.
14 Or Asia and the Far East or Latin America, as the case may be.

The Regional Commissions have done some useful work in the cause of economic development. As one example, the regional economic surveys have met a need for improved factual data on which to base national and international plans for economic development. This is especially true of Asia and the Far East, the 1949 Survey for which was "in two parts; part I dealing with the year's developments in food and agriculture, mining and industry, transport and communications, labour, currency, banking, public finance, inflation and price movements, international trade and balance of payments; part II dealing with factors and problems underlying post-war economic development, including economic planning, mobilisation of domestic capital, flow of external aid and investment, technical assistance and training, social factors, population changes and economic development, conservation and utilisation of mineral resources, flood control and water resource development, intra-regional co-operation and the region's position in the world economy".[15] In the past, reliable data of this type has been meagre. Therefore, even though the Surveys for Asia and the Far East are short of their full development, they are already valuable as factual documents. The European Surveys have probably been of a higher technical standard, have been useful and have been well-received. In other more limited fields of research, the Regional Commissions have also been active and competent.

Beyond this, however, the accomplishments of the Commissions are less easy to discover. The role of the Economic Commission for Europe has been very humble compared with that of the Organisation for European

---

15 United Nations "Catalogue of Economic and Social Projects 1950", Lake Success, 1950, pp. 76-77.

Economic Co-operation. The Commission's terms of reference gave it, in theory, a prominent place in European reconstruction and development. It took over the functions of existing European recovery organs, and recruited an impressive secretariat. But its work was then frustrated by the East-West conflict, and by the independent formulation of reconstruction and development plans by each of the two opposed political groups. For some years, a number of people felt that the correct policy

> "...should be to press for using the European Economic Commission of the United Nations as the co-ordinating body through which East-West trade and all-European planning could be promoted. As a beginning the U.N. European Economic Commission might be asked to get in touch with both the O.E.E.C. in Western Europe and the East European Economic Mutual Aid Council, get all the information possible on their organisation, functions and plans; survey the network of East-West trade treaties; and then prepare the ground, technically and, with the aid of the governments concerned, diplomatically, for an East-West Conference on trade and the international co-ordination of national planning in both halves of Europe, the extension to Eastern Europe of the Intra-European Payments Agreement, etc.". 16

This view, it became increasingly clear, was unrealistic, so long as the fundamental political conflict which had caused E.C.E.'s displacement remained unresolved. O.E.E.C. and Comecon deprived E.C.E. of its intended role in each of the two divisions of Europe, and by their very nature made it unlikely that E.C.E. could succeed in the role of mediation between the two economic blocs. E.C.E. has never really dealt with the main European problems of finding overseas capital for European reconstruction, liberalising trade within Europe, rationalising production,[17]

---

16 K. Zilliacus, "I Choose Peace", London, 1949, pp. 450-451.
17. There was some hope for expanded trade and E.C.E. attempted this expansion. This particular problem is discussed on pp. 95-97 infra.

raising productivity and so on. These problems have been dealt with elsewhere. E.C.E. has helped to distribute materials in short supply, it has given some useful consideration to manpower problems, and it has sponsored some trade exchanges; but in the main, its activities have been of minor account and have lain outside the main stream of events.

Broadly, the same is true of the Economic Commission for Asia and the Far East, though its humble role has had a different causation. In brief, it has been adequately equipped for research but little more: any large operational contribution[18] to economic development has so far been impossible. Its budget for 1949 was less than $300,000, and for 1950 fell below $250,000. The Commission has directed the attention of the Specialised Agencies and of governments of highly-developed countries to the urgent needs of the region; it has helped to co-ordinate the operational and other work of the Specialised Agencies in the region; it has undertaken joint studies of problems and projects within the region;[19] and it has established technical sections to deal with such special problems as flood control and trade promotion. But the overshadowing problem of the region is its need for capital. Even to maintain the present low living standards, millions of dollars will be needed for investment in the next few years - "it would...take all the presently available resources of the countries of the region in the next five years to ensure at least maintenance of per capita

---

18 E.C.A.F.E.'s operational role will, of course, be extended as the Expanded Programme of Technical Assistance gathers momentum.
19 A typical example of such a study is that undertaken with the International Bank on "International Bank loan requirements in respect of a few categories of projects of an important character common to most of the countries of the region".

production and consumption levels../and/.. even this limited goal cannot be attained without the continuous and systematic efforts of the peoples and Governments of the region, supported and encouraged by the active assistance of countries outside the region which are in a position to grant loans and other forms of aid, and not least the United Nations, the specialised agencies and other international bodies".[20] So far, the Commission has certainly not itself provided and it is doubtful that it has directly induced any other source to provide any substantial part of the capital required within the region. At the Eleventh Session of the Economic and Social Council, the Representative of Pakistan said that

> "...although some progress had been made in parts of the region with which the Commission was concerned, on the whole the economy of the region had remained stagnant... he must ask whether the Council intended to do more than pay lip-service to the need for assistance to the countries of Asia and the Far East, where standards of living were sub-human and people who could attain as much as 1100 calories a day, whatever the quality, were considered lucky". [21]

No one at the Eleventh Session attempted to deny the general validity of the criticism against E.C.A.F.E. which this statement contained. The most that could be said in defence was that E.C.A.F.E. just was not intended to perform operational tasks since "the Commission was not an executive body".[22]

That brings us to consider action undertaken directly by the Council itself. In the main, the Council has been a consultative body: it has not, for the most part, been concerned with executing

---

20 United Nations, "Economic Survey of Asia and the Far East 1949", Lake Success, 1950, p. xviii.
21 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.402.
22 Statement by the Australian Representative, Ibid.

practical, "field" tasks. The Council has, for example, made recommendations to the International Bank on lending policy, but it has lent no funds itself. Nevertheless, the Council did, at an early stage of its career, go somewhat beyond either research or the issue of recommendations to Member Governments and the Specialised Agencies. Post-UNRRA Relief and the programmes of the International Children's Emergency Fund were examples of this extension, although the role of the Council was still largely indirect. A really direct participation in "field" projects began on a noteworthy scale in 1948 with Resolution 200 (III) of the General Assembly, which authorised "the Secretary-General to provide technical assistance for economic development upon request by Member Governments, and to provide such assistance, where appropriate, in co-operation with the specialised agencies".[23] Up to the first quarter of 1950, "the types of assistance..rendered to Member Governments under resolution 200(III) [fell] into three main categories:

(a) Expert advice on economic development problems, provided by individual experts or by teams of experts;

(b) The training abroad of experts from the less-developed countries through the provision of fellowships;

(c) The dissemination of information concerning technical problems of economic development".[24]

Operations under Resolution 200(III) were comparatively small,[25] but horizons were greatly extended under the Expanded Programme of Technical

---

23 "Catalogue of Economic and Social Projects", op. cit., p. 21.
24 Ibid., p. 21.
25 The total cost of projects under the programme in 1949 was $259,520, and in 1950 $508,420.

Assistance for Underdeveloped Countries inspired by Point Four of President Truman's Inaugural Address of January 1949. This Programme "got off to a good start with the pledging of over $20 million by Governments at the Technical Assistance Conference".[26] At that Conference, the United Nations Secretary-General said that the Expanded Programme was "founded on the principle of universality - universality of participation, of contributions, and of benefits";[27] that it was "open on a basis of equality to all peoples, regardless of their political opinions, their social organisation, or any other differences among them".[27] However, the Soviet bloc did not participate in the Conference because the Nationalist and not the Communist Government of China was represented. It was therefore essentially a Western Conference, although the Soviet bloc could still participate in the benefits of the Programme at a later stage. But here another problem enters. Only 23 per cent of the Technical Assistance contributions goes to the United Nations. Twenty-nine per cent goes to F.A.O. 22 per cent to W.H.O. 14 per cent to U.N.E.S.C.O. 11 per cent to I.L.O. and 1 per cent to I.C.A.O; and, as will be shown later, Soviet-bloc membership of these agencies has become almost negligible. The President of the Conference said, very naively, that the Programme was a "more powerful and decisive contribution to peace than an agreement for the limitation of armaments".[28] Even leaving aside the fact that the largest technical assistance plans are likely to be conducted by groups outside the United Nations, a Programme of which 77 per cent is to be

---

26 First Report of the Technical Assistance Committee, Economic and Social Council Document E/1833 of 15th August 1950, para. 7.
27 United Nations Bulletin, 1st July 1950, p. 3.
28 Ibid., p. 3.

devoted almost exclusively to one political bloc, and of which the remainder is likely to be allocated to favour the same group, does not impress as an exercise in universality and is unlikely to promote understanding between the two major political blocs on whose relationships one with the other the peace of the world principally depends.

Leaving this issue aside for the moment, however, the Expanded Programme, as an attempt to raise standards of welfare in a large part, if not the whole, of the world, is impressive. Although it will, in large part, be carried through by the Specialised Agencies, the Programme as a whole will be co-ordinated by the Economic and Social Council, and, in its general policy aspects, supervised by the Council.[29] Whatever success attends the Programme may therefore be expected to enhance the Council's standing, especially as an organ capable of undertaking some major operational activity.

Even so, the Programme cannot be expected to expand the authority of the Council considerably overnight, for the welfare significance of the Programme itself is subject to very real limitations. At the Eleventh Session of the Council, the Representative of Pakistan said that "unless a scheme on the scale of the Marshall Plan were devised to bring prosperity to the [Asian and Far Eastern] region, world peace would continue to be threatened by conditions there. Minor measures, however desirable, such as the provision of fellowships for study in other regions and the sending of advisory and technical missions, would not be sufficient to solve the region's vast economic problems or to preserve world peace".[30]

---

29 Through the Technical Assistance Committee, a Committee of the Whole of the Council.

30 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.402.

The Director-General of F.A.O. expressed much the same view when he said, in speaking of the Expanded Programme:

> "...we can furnish only the small corps of experts who galvanise and supervise activities. Money and manpower on a large scale will be required to carry through what these task forces plan and start. ...I hope that F.A.O. can be of some use in stimulating greater international investments in economic expansion of the kind that is so badly needed today".31

It must also be recognised that, even in the field of technical assistance, a large proportion of international action will be undertaken under bilateral or group agreements. Both the United States and the British Commonwealth are implementing technical assistance programmes outside the United Nations, and, since United Nations programmes might assist, even in minor degree, the Soviet enemy or might prevent the fullest possible attention to countries or areas of principal security interest, it is probable that these "outside" schemes will receive the principal emphasis. In the case of Australia, for example, this "outside" emphasis is already clear.

Even with these qualifications in mind, however, the Expanded Programme probably has a long-term welfare value beyond anything the Council has previously undertaken. In the past, the Council has, in large measure, been set apart from the major economic events, pre-occupied with procedural and organisational problems, preparation of often inconclusive studies and reports, and frequently inconclusive debate on fundamental issues, punctuated by strident exchanges between the ideological opponents. The really significant decisions have been taken outside the Council, in bilateral agreements between, for example, the United States and the United Kingdom, or in group organisations such as the O.E.E.C. Though the Council is still far from being a major

---

31 Report of the Director-General on "Work of F.A.O 1949/50", Washington, October 1950, p.5.

authority in international economic affairs, the Expanded Programme has taken it somewhat nearer to the centre of international activity.

There are two further aspects of the Council's work which deserve special attention. The first concerns implementation of Article 65. The whole of the Council's work should, in theory, assist the Security Council - "the main cause of unrest in the world derived from the fact that the Council's objectives had not yet been attained".[32] But Article 65 implied some more direct Council participation in security problems. It implied that, when the Security Council was confronted with an issue which contained a substantial economic element, it might ask the Council for assistance and the Council was bound to furnish that assistance to the best of its ability. If this Article were carried fully into effect, there would tend to be a continual mingling of economic and political problems on the Council's agenda. In many cases, it would be theoretically possible to ask the Council to give purely technical advice, but in practice it seems that the Council would quickly develop into a quasi-political body - a specialised committee of the Security Council.

In fact, however, a request for assistance was never received from the Security Council until the Council's Eleventh Session. Where a political problem involved some economic complication - and it is relatively seldom that a "political" problem is not part economic - the Security Council either itself attempted a solution to the economic as well as the political aspects, or passed both aspects to some committee, commission or other body especially established to deal with the problem.

---

32 Statement by Sir Ramaswami Mudaliar, Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.375.

There has moreover been a tendency for the spirit of the Council itself to be opposed to reference of "political" questions to it. There have been frequent assertions within the Council that the Council is a technical body which should not allow political issues to intrude. This reflects a persistent tendency to assume that it is possible to maintain a high degree of technical "purity" or objectivity in economic thinking, free from the distractions of political conflict and prejudice. For example, one representative at the Eleventh Council Session said of the E.C.A.F.E. Report that:

> "...he noted that there appeared to be within the Commission a recurring tendency towards political controversy. That shortcoming could not be excused by putting the blame on the peoples in Asia. If there had been political controversies they had been of 'outside making'....".[33]

These objections seem however to be disappearing. As political relationships throughout the world have become more uncertain during the past two or three years, the link between peace and welfare had been stressed more and more. But this link has received a great part of its emphasis because the basic conflict has been between the Soviet group of communist countries and the anti-communist countries of the Western World. The latter group of countries have tried to improve standards of welfare in the Western World because "those who had designs on [the territory of some Western country] .. exploited.. the confusion which miserable conditions of living always produced".[34] Furthermore, since the Council

---

33 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.402, p. 19.
34 Statement by the President of the Council, Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.375.

has habitually been composed of fifteen Western countries and three countries from the Soviet group, the policy of promoting welfare as an anti-communist measure has rapidly become Council policy also. This has tended to change the Council from an instrument for genuine and universal co-operation to an instrument for maintaining the balance of power in favour of the West.

More recently, the political character of Council activity has extended even beyond this. Shortly after the outbreak of hostilities in Korea, the Security Council requested the Economic and Social Council "to provide such assistance as the Unified Command may request through relief and support of the civil population of Korea, and as appropriate in connection with the responsibilities being carried out by the Unified Command on behalf of the Security Council".[35] The Council quickly passed a resolution which "categorically and unconditionally affirmed [its] will to co-operate",[36] and resumed its Eleventh Session during the Fifth Session of the General Assembly in order to take more concrete action to assist the Security Council. At the first part of the Council's Eleventh Session in Geneva in August 1950, the President of the Council summed up the Council's attitude to assistance to the Security Council in dealing with the situation in Korea as follows:

> "The Economic and Social Council was conscious of its obligation under Article 65 of the Charter to assist the Security Council which had the primary responsibility for the maintenance and restoration of peace. The Council was also aware that the criminal aggression perpetrated

---

35 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.411.
36 Ibid.

> by North Korea was an attack on the United Nations and that the defence against that attack has been entrusted by the organ competent under the Charter to its Unified Command. That meant that in answering the Unified Command's request for assistance the Economic and Social Council would collaborate with an organ of the United Nations itself, namely, the first international army called upon to oppose aggression in the name of the principles laid down in the Charter".[37]

The most important points about this decision were (i) that it explicitly implemented Article 65 for the first time, therefore perhaps setting an important precedent for similar future action, and (ii) that the Council explicitly took or at least affirmed a political decision taken by the Security Council and based further economic action on that decision. In principle, that seems to mean that the Council can, in the light of political conditions which it declares to exist or accepts from the Security Council as existing, recommend certain specific economic action which has not only a direct welfare aspect but a direct political aspect as well.

How far these precedents will be applied remains to be seen. But since they provide the closest conjunction so far between international political and economic policies, it is of especial interest to consider their possible application in a very different instance - that of unilateral or group economic sanctions.[38] That suggests the second aspect of the Council's work which deserves attention - whether it has attempted to achieve economic disarmament, where "disarmament"

---

37 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.411.

38 The Korean decision is essentially an anti-Soviet decision, and a number of other Council decisions are in practice, though not in declared intention, of this type. Whether implementation of Article 65 in order to resist the Soviet can set a precedent for more general implementation - including implementation to bridge the economic gap between East and West - is a very different matter. It would involve a reversal of the present trend towards making the Council an organ to support the Western power balance, and restore it as an agency for a co-operative peace.

is used in the more accurate sense to mean reduction of the means actively to assert national power. In its formal declarations, the Council has insisted that its own work is intended to promote the advantage of no single country or political bloc but all United Nations Members. For example, in a Resolution of 28th March 1947, the Council expressed the view that its Economic and Employment Commission,

> "...in carrying out its functions in regard to technical and other assistance to any country, should be guided by the principle that such assistance should not be used for the purpose of exploitation or of obtaining political and other advantages exclusively for countries rendering such assistance".39

This implied some judgement on the way in which national, as well as Council, policies should be directed. But it did not pursue the issue of political discrimination, sanctions, and economic alliance very far.

Especially since early 1948, there has, in the case of some Western countries, been a decline in trade with the countries of Eastern Europe, and, in the case of other countries of the West, trade with Eastern Europe has not revived in harmony with progress in economic reconstruction. The Economic Commission for Europe tried unsuccessfully to find a remedy. The Commission's failure was due in part to economic factors, such as the incomplete recovery of Eastern agriculture, but at base the cause was political.

> "While the possibilities are undoubtedly present for a large expansion in the production and exchange of products between eastern and western European countries to their mutual advantage, it is idle to attempt a more precise measurement of these potentialities as long as the limits to its development are so largely political rather than economic".40

---

39 Resolution 27(IV) of the Fourth Session of the Council.
40 "Economic Survey of Europe in 1949", op. cit., p. 93.

Despite this essentially political cause of trade stagnation, the Commission has had to attempt expansion of trade by appeal solely to the inadequate motives of welfare. It has attempted to collect data on needs and availabilities, established a special Committee on which the two sides might discuss exchanges, and emphasised the welfare advantages of increased trade. The Committee on the Development of Trade seemed at first, to some observers, to be likely to "succeed in getting to grips with the problem, but at its last session in May 1949 a deadlock had been reached"[41] and there will be "no further meetings of that committee unless there was an agreement among the interested governments as to the need for such action and on a procedure by which it could be undertaken".[41] In the meantime, trade between East and West is continued on the basis of such agreements, contracts, and understandings as may be concluded bilaterally. In 1950, the Commission attempted "an expansion of trade in grains"[42] as a means of stimulating economic contact between East and West, and no doubt other specific projects of this kind will be attempted from time to time. But the real problem facing E.C.E. is that of unrestrained economic sanctions, sometimes clear and deliberate, sometimes passive and concealed. E.C.E. cannot have any noteworthy success in expanding trade, nor can any other agency succeed in substantially enlarging economic contact generally between East and West, until the political conflict is resolved, or

---

41 Statement by Executive Secretary of E.C.E, Official Records of the Economic and Social Council, Eleventh Session, Document E/SR.398.
42 Ibid.

until some successful effort is made to regulate the extent to which one country or group of countries can impose preventive or punitive economic discriminations against another because of political differences. The latter effort seems to involve answers to the following questions:

> (i) How far is it permissible, in principle, for economic sanctions to be imposed unilaterally or on a group basis?
>
> (ii) If sanctions are permissible in principle, is it nevertheless possible to regulate them?
>
> (iii) If regulation is possible, what is the most practical approach to regulation? For example, it might be impossible to define satisfactorily the circumstances in which a country could justifiably impose unilateral sanctions against a presumed enemy, but it might be possible to define, in some degree, the categories of goods and services to which sanctions might justifiably be applied.

No approach along these lines has so far been attempted by E.C.E. by the Economic and Social Council, or any other international body,[43] although the issue of political discrimination has been raised in the Council and in the General Assembly on a number of occasions. For example, at the Seventh Session of the Council in July-August 1948, Poland introduced a Resolution recalling the objectives of the International Bank as expressed in its Articles of Agreement, stressing the need for reconstruction and development loans, and insisting that international investment should be guided in the direction of maximum economic productivity. The Soviet and Byelorussia refused to support this resolution on the grounds that it did not attack the discriminatory

---

43 It has to be admitted that the effort might, in any case, be almost hopeless. One point to bear in mind is that, supposing there were a general agreement rejecting sanctions, the good faith of the still largely free-enterprise United States might be comparatively easy to establish, whereas that of completely State-controlled economies like the Soviet might be almost impossibly difficult.

policies allegedly being pursued by the Bank; but the Council as a whole skirted the issue of discrimination and passed a Resolution, replacing the Polish draft, which did no more than note with approval the change in the emphasis of Bank lending from reconstruction to development and express the "hope that the Bank will take immediate steps to expedite the examination of these problems [of development] and to adopt all reasonable measures to facilitate the early realization of development loans, particularly in areas economically under-developed".

In the same year, at the Third Session of the General Assembly, Poland introduced a further Resolution whose principal recommendation was that "all Members eschew the use of economic discrimination designed to apply sanctions to other countries or to influence their domestic or foreign policy". In commenting on this Resolution, the United States Representative claimed that "governments had the right to prohibit or restrict the export of goods for the direct or indirect use of foreign military establishments"[44], and that the United States had been forced "to adopt appropriate measures"[44] in order to counter the "aggressive actions and words"[44] of the Soviet bloc. The United States attitude was entirely reasonable; but the United Nations, as an organisation for world peace, was faced with a situation in which individual nations claimed unlimited freedom to apply unilateral economic sanctions against any other country or countries, as and when they wished, and in which this complete freedom was currently being exercised. However, the General Assembly refused to

---

44 Official Records of the Third Session of the General Assembly, Part I, Second Committee, Summary Records of Meetings 21 September-26 November 1948, pp. 190-191.

face the issue, and, after a long, unsatisfactory debate, resolved "to take no action".

But the problem of political discrimination in economic policy, involving direct or indirect economic sanctions, remains and has for some time been reflected in the policies of some at least of the Specialised Agencies. This will appear more clearly in the discussion of the role of the Specialised Agencies which follows.

4. The Role of the Specialised Agencies.

The United Nations is the central body in postwar international organisation; but there are a number of other international organisations, each dealing with some aspect of economic and social relations under its own multilateral charter. These other organisations enjoy such a high degree of independence that the United Nations often tends, in its relationships with them, to be little more, at least in theory, than primus inter pares; but in practice it seems to be developing something of a real, overall authority, even though this remains somewhat nebulous and informal.

As already noted, the Articles of the United Nations Charter dealing with economic and social questions were expressed in very general terms. The responsibilities of the Economic and Social Council were correspondingly broad; but Article 57 recognised that "various specialised agencies" would be established to deal, under separate multilateral charters, with more limited subjects of special international concern. The principal of these Agencies established in the economic field are the International Labour Organisation, the Food and Agriculture Organisation, the International Bank for Reconstruction and Development, the International Monetary Fund, and the International Trade Organisation.[45] For the same

---

45 I.T.O. has not yet been fully established, and, it seems, might now never be established, although an Interim Commission has been operating for some time. It is a little difficult to draw an exact line between the "economic" and the "social" Agencies. For example, the I.L.O. has a clear "social" function and the World Health Organisation is by no means without "economic" importance. It should also be noted that the status of each Agency in relation to the United Nations is not exactly the same. The Bank and Fund, for example, tend to guard their independence more jealously than the other organisations.

reason that it was unnecessary to examine the work of the Economic and Social Council in detail, we shall not embark upon a detailed description of the work of the Specialised Agencies, but shall attempt to assess their significance in relation to the political-stability objective of the United Nations.

First, it must be recognised that, although the Specialised Agencies form an essential part of the United Nations structure, they operate under quite separate charters which are accepted or rejected by governments independently of the attitude of each of those governments to the United Nations itself. A member of the United Nations might often be prejudiced in favour of joining the Specialised Agencies as well; but this is only one general consideration, and membership will ultimately be decided after a detailed assessment of the purposes and obligations of membership of each organisation considered by itself. As an example, Australia accepted the United Nations Charter without hesitation and has since accepted the charters of each of the Specialised Agencies; but, for a long time, the Chifley Government was doubtful whether it should accept the Articles of Agreement of the Fund and Bank and it is not difficult to conceive that the ultimate decision might have been to decline membership of these two organisations. New Zealand did reject the Articles of Agreement of the Fund and Bank, although she was an active member of the United Nations and the other Specialised Agencies. More importantly from the viewpoint of world political harmony, the Soviet Union acceded to none (with one temporary exception) of the Specialised Agency Agreements[46], and her Eastern European allies[47] to a

46 The Soviet did join and then withdrew from W.H.O.
47 Poland, Rumania, Czechoslovakia, Hungary, Bulgaria, Albania, and (although her affiliation are now extremely doubtful) Yugoslavia.

large extent reflected Soviet opposition. By 1950, Eastern European membership of the Specialised Agencies was almost negligible. Albania, Bulgaria, Czechoslovakia, Hungary, and Poland were still members of I.L.O.; but only Hungary retained membership of F.A.O., Czechoslovakia having notified its intention to withdraw in December, 1949, and Poland in April, 1950. Poland also withdrew from the Fund and Bank, whose Eastern European membership then became confined to Czechoslovakia. Significantly, Yugoslavia remained a member of F.A.O., the Fund and the Bank.

This differing, limited membership of the Specialised Agencies is vitally important. It is of little consequence that an organisation is called, for example, the United Nations Food and Agriculture Organisation, if its membership coincides, not with the United Nations, but with the Organisation for European Economic Co-operation and countries whose political affiliations are with O.E.E.C. members. Complete universality of membership is not essential, but where membership and non-membership follows the line of principal political division in the international community, lack of universality distorts the whole purpose and meaning of the organisation.

This leads to a second and more fundamental point. If the countries of the anti-Soviet bloc are, by and large, also members of the Specialised Agencies while the Soviet bloc countries reject membership, there is a prima facie presumption that the Specialised Agencies are, in their essential character, opposed to the interests of the Soviet

countries. This is not obvious from their charters,[48] however, nor necessarily from their work programmes nor from the statements of their leading figures. The latter seem always to assume that the Specialised Agencies still have a role for peace consisting solely in the reduction of economic distress, the improvement of living standards and so on. For example, in his Report to the Thirty-Third Session of the International Labour Conference, the Director-General of I.L.O. (Mr. David A. Morse) said:

> "No longer can the poverty, disease, ignorance and miserable conditions of life of the vast majority of the people of the world be hidden from view or from the spotlight of world public opinion...It is discernible even to the most unenlightened that these are the ugly facts of life and that the rapid improvement of these conditions is essential to the elimination of internal national strain, to the easing of international tension, and to the promotion of world peace. I cannot see how the leaders of nations and public opinion can be at peace with their conscience or their deepest convictions if they do not wholeheartedly accept and vigorously pursue this policy. It is on this front and this front alone that the major attack must be launched. This is the enemy! This is the impediment to peace - and I would insist again, as always, that here we have a common objective which must be the rallying point for our joint and concerted efforts regardless of race, creed, colour, caste, religion or political opinion. It is for this reason, too, that the I.L.O. must continue strong in its resolve to keep its ranks closed, its forums free of political opportunism and disgression, and its eyes on its main constitutional and humaniterian mission".[49]

---

48 For example, the Declaration of Philadelphia states that the "central aim" of the International Labour Organisation is to establish conditions in which "all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity". The Declaration affirms that "lasting peace can be established only if it is based on social justice". The Charters and Agreements of the other Agencies were developed, explicitly or implicitly, with this background of (i) non-discriminatory and equal interest in all peoples and countries, and (ii) association of the Agency's more immediate welfare objectives with the ultimate objective of a co-operative world peace.

49 Report of the Director-General to the Thirty-third Session of the International Labour Conference, Geneva, 1950, p. 3.

When the Secretary-General of the United Nations formulated and presented to the major powers a "20-Year United Nations Peace Program", he assigned to the Specialised Agencies a similar significance and responsibility. At the same time, Mr. Trygve Lie recognised a basic weakness of the Specialised Agencies which Mr. Morse has passed over. Point 7 of the "Peace Program" called for:

> "More vigorous use by all the member governments of the Specialised Agencies of the United Nations to promote, in the words of the Charter, 'higher standards of living, full employment and conditions of economic and social progress'".50

Mr. Lie went on to comment that:

> "The great potentialities of the Specialised Agencies to participate in a long-range program aimed at drastically reducing the economic and social causes of war, can be realised by a more active support from all governments, including the membership of the Soviet Union in some or all of the agencies to which it does not now belong. The expansion of world trade which is vital to any long-range effort for world betterment requires early ratification of the Charter of the International Trade Organisation". 50

Mr. Lie therefore implied that the Specialised Agencies, to be effective instruments for a co-operative world peace, must include the Soviet (and that would almost certainly mean the Soviet allies also) among their membership. He did not go further than that however to consider why the Agencies have attracted only a non-Soviet membership, in what manner the nature of their work tends to make such a restricted membership inevitable, and in what way the Agencies' approach would have to be changed if they were effectively to assist the attainment of a secure, co-operative peace.

---

50 Press Release No. PM/11 of 6th June, 1950, issued by the Information Centre at the European Office of the United Nations, Geneva.

Ostensibly, the work of all the Agencies is directed towards universal welfare. The International Labour Organisation must, according to Mr. Morse, develop its efforts "regardless of...political opinion". Traditionally, I.L.O. has formulated Conventions and Recommendations on labour problems to be applied, after ratification, by each Member State. The number of "international labour Conventions in force, i.e., legally binding on two or more countries"[51] had, by 1950, reached "the impressive figure of 65"[51], although the Director-General called for still "further substantial advances"[51] in ratification. More recently, the Organisation has considerably diversified its activities. From developing legislation which will improve the conditions of work, it has concentrated its attention increasingly on improving the productivity of work - through, for example, vocational guidance and vocational training. The Director-General highlighted the theme of productivity in discussions at the Thirty-Third Session of the Conference.[52] There was, however, nothing in this nor in any other of the actual or proposed activities of I.L.O. which was overtly directed towards the power benefit of any single nation or group of nations or which had any power motivation whatever except in the sense that improvement of welfare would reduce the provocation to the aggressive exercise of military strength.

The same has been formally true of the International Bank for Reconstruction and Development, and the International Monetary Fund. In

---

51 Report to the Thirty-third Conference, op. cit. p. 119.
52 See Chapter III of the Report to the Thirty-third Conference, op. cit., "The Productivity of Labour", pp. 77-114.

the first three years of its effective operation, the Bank made loans totalling $798.8 million.[53] All of these loans were made allegedly for the single purpose of non-discriminatory economic development. Under its Articles of Agreement, the Bank must not permit itself to be influenced by political considerations. Its decisions to extend or withhold loan funds are intended to be made principally on the basis of a technical assessment of the soundness of the intended investment. This strict attitude is modified, in some measure, to assist underdeveloped countries which offer a dubious investment risk. At the Eleventh Session of the Economic and Social Council, for example, the Bank representative denied "that the Bank was a commercial institution run on commercial lines". "It was certainly true", he said, "that it made loans which had to be repaid in the same way as loans made by ordinary commercial institutions. But its lending criteria were not commercial, nor were the financial terms on which it extended loans".[54] Most importantly, the Bank considered not merely the individual project for which a loan was sought, but also the general economic position and economic development programme of the applicant country. The Bank's view was much broader and was subject to criteria more flexible than any commercial institution. At the same time, the resources of the Bank were solely "dedicated to the welfare of its members":[55] there was no overt suggestion that the resources of the Bank should or would be used for any power purpose

---

53 Up to 30th June, 1950.
54 United Nations Economic and Social Council, Official Records, Eleventh Session, 394th Meeting, Document E/SR.394, p. 164.
55 Ibid., p. 164.

except that mentioned in connection with I.L.O. Furthermore, although the resources of the Bank are by no means unlimited, they have been sufficient to make the Bank an important welfare institution, and it still has uncommitted resources sufficient to make a useful contribution to the economic development - and thus perhaps to the political stability and moderation - of underdeveloped countries.[56] The Bank is the outstanding operational institution concerned with establishing an international climate of steady economic progress in which peaceful international relationships may flourish.

Although the Bank may be the outstanding operational institution, the resources and responsibilities of its sister organisation, the International Monetary Fund, are also considerable. In its control of exchange rates and exchange restrictions, and in its provision of short-term aid to meet temporary balance-of-payments difficulties, the whole purpose of the Fund was to avoid discriminations and to regulate those arbitrary governmental intrusions into the international financial market which might cause economic chaos and welfare conflict. Although they were not explicitly proscribed, power discriminations were presumably to go along with any other discriminations, and proscription of exchange control would make concealed discriminations, of whatever type, more difficult.

Much the same may be said of the Food and Agriculture Organisation

---

56 It is worth noting that, at the Eleventh Session of the Economic and Social Council, there was some feeling that the Bank's lending activities were at the moment limited not so much by the resources available to the Bank as by the opportunities which underdeveloped countries were able to offer for investment even under the relaxed criteria adopted by the Bank as compared with commercial institutions.

and the proposed International Trade Organisation. Although the former has an extremely small budget and cannot make the same operational contribution to welfare that is possible for the Bank and Fund, its potential for raising productivity by research and expert technical advice is considerable. So also is its potential for increasing the prospects of stability in international trade and payments by fostering multilateral arrangements on primary commodities. In theory, there is no reason why a communist Poland should be less interested than a democratic Great Britain in F.A.O. work of this kind or should stand to benefit less from it. Certainly, F.A.O. was established with the intention that both should benefit and the same intention lay behind the drafting of the I.T.O. Charter. In the latter, special steps were taken, for example, to cover state trading as the accepted trade organisation of the Soviet group of countries. Similarly, I.T.O.'s responsibility to assist industrial development was intended to apply to Eastern Europe as well as the countries of the West. Finally, the Charter became long, detailed and highly complex in the attempt to maximise non-discrimination in international trade. The whole of the Charter was essentially an exercise in eliminating or reducing those frictions in trade relationships arising from discrimination (i) in favour of the domestic producer as against the foreigner, and (ii) in favour of one foreign producer against another.

Looking more closely at the origins and purposes of the Specialised Agencies, however, it seems that there were two fundamental ideas on which all were based:

(i) Each aimed at steady economic development, and, remembering the experience of the 'thirties, the emphasis fell heavily on the need for stability. It was not desirable that the

world economy should be static; but it was above all essential that there should be no disastrous dips in prices or in employment or in business activity generally.

(ii) Each was aimed at establishing conditions in the world economy which would allow a capitalist - free-enterprise system to survive. Lord Keynes said in 1936 that "the authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated - and, in my opinion, inevitably associated - with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom". 57 The Specialised Agencies were part of the answer, on the international plane, to finding the "right analysis" and applying it in terms of effective, practical policy.

Was there anything in these two ideas which changed the nature of the Specialised Agencies as instruments for the preservation of a co-operative peace? Actually there was not - so long as no political division occurred along the lines of the ideological cleavage between communism and anti-communism. When this division did occur and as it steadily intensified, especially after 1947, the initial purpose - the widely-understood purpose - of the Specialised Agencies was gradually and, for the most part, unrecognisedly undermined.

The reason for this is not far to seek. The Specialised Agencies were concerned with two broad objectives - economic stability and economic development. The Eastern European countries were vitally concerned only with economic development. Loans and capital equipment from whatever source - which means in effect principally from Western

---

57 J.M. Keynes, "The General Theory of Employment, Interest and Money", London, 1936, p. 381.

Europe and the United States - gave the Eastern European countries a special interest in such organisations as the International Bank for Reconstruction and Development. But they had much less interest in economic stability. They were already able, at the sacrifice of certain freedoms, to ensure stability - or at least to avoid the most distressing features of instability such as unemployment. There was no danger of a slump generated internally and, although a slump occurring overseas could reduce welfare standards, its influence could be largely offset. Moreover, the extent of its potential impact was steadily reduced as the area of communist control was extended and as this area increased its self-sufficiency. If the consideration were immediate welfare, even communist countries could be expected to prefer a healthy economic atmosphere in non-communist countries, for that would mean stable markets for their exports and a stable income of foreign currency to purchase their imports. But economic stability had not the same vital importance for the communist countries as it had for the non-communist countries; and it could easily be overridden by communist political interest in economic distress in non-communist countries.

That provides the simple framework of the story since 1945. The main political division since the end of the war has been into a communist and an anti-communist bloc. For the accession of new ideological and political allies, the communist bloc depends in large part on economic distress for which people may seek a remedy in the extreme expedient of authoritarian communism. To maintain its position in turn, the anti-communist bloc relies on the promotion of stable economic development

throughout the world and especially in those areas where living standards are low or static or particularly exposed to possible fluctuations. And this last objective - the objective of the anti-communist bloc - completely accords with the objective of the Specialised Agencies. There is no cause for surprise, therefore, that, in the face of a deepening political conflict between communist and anti-communist countries, Eastern European membership of the Specialised Agencies has rapidly declined and Western activity within the Specialised Agencies has noticeably intensified. Where the communist countries remain members, their membership becomes increasingly futile and their policies increasingly obstructionist; and, in turn, the anti-communist countries ignore the possibilities of compromise and override opposition by weight of numbers in pressing forward with proposals of special political significance to them. In these circumstances, the presence or absence of representatives of communist countries becomes relatively unimportant: debates are shorter and less bitter when the communist countries are unrepresented but the decisions are much the same. This was the experience of the Eleventh Session of the Economic and Social Council, and it was also true of the Thirty-third Session of the International Labour Conference when the Soviet bloc representative withdrew because of the presence of a representative from Nationalist China. At the time of this withdrawal, the United States representative commented that:

> "The United States supports the fullest maintenance of the activities of the I.L.O. and of the Conference. In the absence of the representatives of these Governments (of Czechoslovakia, Hungary and Poland) the work will not be impeded and this body

> will, I am sure, proceed in its normal fashion to carry on the important work which is entrusted to the Conference under the Constitution of the I.L.O." 58

This statement was completely correct: the absence of the Eastern European representatives made no difference to the subsequent work of the Conference. Nothing could have underlined so strikingly that I.L.O., along with the Economic and Social Council and the other Specialised Agencies, had become an instrument of the Western Community: it had completely changed its pre-war character. From being an instrument of a co-operative peace, it had become an instrument of an uneasy balance-of-power peace.

It has already been pointed out that, although the Eastern European countries might have only a limited interest in economic stability (because they had already achieved it) and perhaps a "vested interest" in economic instability in non-communist countries, they took a very close concern in economic development. For both welfare and power reasons, the Eastern European countries have been anxious to improve the capital basis of their economies. In part, this has been a question of status - "the view appears to be current that the exportation of primary goods is, in some way, an evidence of inferior economic status" 59 - and, in part, it has derived from quite justifiable and universally acceptable welfare objectives. But there is no question that "in the case of eastern European countries, political considerations

---

58 Provisional Record No. 5, Thirty-third Session of the International Labour Conference, Geneva, 7th June 1950.
59 Economic Commission for Europe, "Economic Survey of Europe in 1949", Geneva, 1950, p. 94.

reinforced these economic fears", and their pre-war relationship with Germany contributed to their determination that, if at all possible there would be a quick transition to a stage of industrial equality with the countries of the West. These "political considerations" have intensified as the possibility of conflict with the West has become more immediate.

But in the struggle for industrial equality with, or superiority over the West, the Eastern European countries would benefit considerably, in the initial stages of their development, from Western capital-goods. "For eastern European countries - particularly the smaller eastern countries which are historically dependent on manufactures from western Europe - the failure to obtain capital goods and other manufactures from the outside, even in the limited volume imported before the war, can only mean increased difficulties and delays in the attainment of their industrialisation. ...however impressive the relative increase in intra-eastern European trade has been, the supply of capital equipment that can be obtained from within the area is probably extremely small in relation to their industrialisation objectives".[60] As a result, the Eastern Europeans supported UNRRA and pressed for its extension; those countries which joined the International Bank tried to obtain developmental loans from the Bank; and the single country - Czechoslovakia - which became a Contracting Party to the General Agreement on Tariffs and Trade tried to use that agreement to stop the United States "boycott" on export of capital goods to Eastern Europe. Here was a means, therefore, by which

---

60 Ibid., p. 94.

Eastern European membership of the Specialised Agencies might have been stimulated.

However, as shown in more detail subsequently,[61] the postwar policy of Western countries became progressively less favourable to export of capital or capital equipment to Eastern countries: the main line of Western foreign economic policy as it emerged with increasing clarity was to concentrate mutual economic support within the Western bloc and to exclude the East. It was unlikely that countries applying this policy bilaterally would allow it to be undermined multilaterally. Thus, just as almost all United States bilateral loans and grants went to Western countries, so also did all dollar loans, except only one, through the International Bank (which the United States effectively controls) go to Western countries. Between May 1947 and June 1950, loan disbursements by the Bank amounted to $798.8 million,[62] of which $781 million was repayable in United States dollars. The only Eastern European country to benefit from these loans was Yugoslavia, who received a loan of $2.7 million, under an agreement dated October 1949 - that is, after the breach with the Cominform. In the same way as the Bank excluded the East from its loans, the Contracting Parties to GATT also recognised the right of individual nations to discriminate freely on security grounds in export of capital and other goods, by setting aside the Czechoslovak complaint against United States restrictions on exports to Eastern Europe. The Czechoslovak Representative asked "whether U.S. regulations relating to

---

61 See Chapter IV infra.

62 International Monetary Fund, "International Financial Statistics", Vol. III, No. 7, July 1950, p. 17.

export licenses conformed to the provisions of Article I [on most-favoured-nation treatment][63] of the GATT", and whether "every country [was] entitled to invoke the same security reasons in its international trade relations".[63] By seventeen votes to one with three abstentions, the Contracting Parties denied that "the government of the United States had failed to carry out its obligations under GATT through its administration of the issue of export licenses",[64] and took no further action. As it thus became clear that the Specialised Agencies would not actively promote or assist economic development in Eastern European countries, the last reason for Eastern European membership disappeared, and Eastern European countries have gradually withdrawn from one after another of the Agencies until now they retain effective membership only of the United Nations itself, and to a lesser extent, of I.L.O.

The Eastern European failure to obtain assistance for economic development suggests that the Specialised Agencies themselves have applied discriminatory policies. This is not illogical if individual countries discriminate in their bilateral relations. If the sum of such countries is sufficient, they will formulate discriminatory policies for the Agencies of which they are members. This raises a wider issue. Do the Specialised Agencies, in any way explicitly or implicitly, condemn or condone power discrimination in economic policies? Do they, irrespective of the idealogical conflict, regard discrimination in their own policies as acceptable in principle and do they allow

---

63 Third Session of the Contracting Parties to GATT, Press Release No. 42, 8th June 1949, p. 1.
64 Ibid., p. 2.

unilateral and bloc foreign economic policies to go uncontrolled? More specifically, what do their Charters say on the subject of discrimination? Do their Charters allow or forbid power discrimination by individual member nations? Do they allow power discrimination by the Agency itself?

The short answer is, of course, that the Specialised Agencies were originally established very largely to eliminate or at least to regulate all forms of discrimination in international economic policy. The Atlantic Charter had called for "the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and raw materials of the world which are needed for their economic prosperity". Article VII of the Mutual Aid Agreement between the United States and the United Kingdom had obliged the two countries to "agreed action...directed...to the elimination of all forms of discriminatory treatment in international commerce", and had reaffirmed the two countries' acceptance of the economic objectives of the Atlantic Charter. Moreover, it was directly from Article VII that the United States proposals which led to the I.T.O. Charter and the General Agreement on Tariffs and Trade drew their inspiration.

Declarations of this type were at the back of the charters of all the Specialised Agencies, even though specific reference to non-discrimination was not always included. However, some of the charters did outlaw discrimination. Article VII of the Articles of Agreement of the International Monetary Fund laid down that "no member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or

multiple currency practices except as authorised under this agreement or approved by the Fund". Similarly, the United States "Proposals on Trade and Employment", which were published in Washington on 6th December 1945, and on which the I.T.O. Charter was based, provided among the "Purposes" outlined in its opening Chapter:

> "3. To facilitate access by all members, on equal terms, to the trade and to the raw materials of the world which are needed for their economic development.
>
> "4. In general, to promote national and international action for the expansion of the production, exchange and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of all forms of discriminatory commerce; thus contributing to an expanding world economy, to the establishment and maintenance in all countries of high levels of employment and real income, and to the creation of economic conditions conducive to world peace".

These declarations against discrimination may, however, have been directed only against welfare discriminations - discriminations aimed at some economic advantage. Although the words "all forms of discriminatory treatment in international commerce", "all forms of discriminatory commerce", and "any discriminatory currency arrangements" are used, there may have been in all of them a tacit understanding that they did not refer to discriminations applied for "security" or "power" reasons. At least this was partly true of the "Proposals on Trade and Employment".[65] But it was not true of the largest operational Agency, the International Bank for Reconstruction and Development. The Articles

---

65 Section G of Chapter III of these proposals provided that:
"The undertakings in this Chapter (i.e., on General Commercial Policy) should not be construed to prevent members from adopting or enforcing measures:...
"3. relating to the traffic in arms, ammunition, and implements of war, and, in exceptional circumstances, all other military supplies;...
"8. undertaken in pursuance of obligations for the maintenance of peace and security;...".

of Agreement of the Bank explicitly forbade any political discrimination in making loans or in any other matters of policy. Article IV, entitled "Political activity prohibited", read:[66]

> "The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article 1".

Therefore, although most of the multilateral declarations and agreements made during the war and post-war years might forbid only welfare discrimination, at least one of those agreements explicitly outlawed power discrimination as well. But it should be noted that only the Bank, acting as a corporate body, is forbidden any power discrimination. There is nothing in the Articles of Agreement of the Bank to prevent a Member government, lending outside the Bank, from discriminating between potential recipients on political grounds. Nevertheless, Member governments cannot be expected to make available large amounts of capital through the Bank and then, irrespective of their attitude to discrimination in bilateral or other negotiations outside the Bank, to bring a politically impartial spirit to Bank discussions. It is clear that either Article IV will be faithfully adhered to and there will also be no discrimination in loan transactions outside the Bank, or there will be discrimination both by the Bank and by its members acting outside it. If, in some way, important members of the

---

66 The "officers" of the Bank, it must be noted, are the Governors, the Executive Directors, and such office-bearers as the President. They are not the secretariat of the Bank, who are referred to in the Articles of Agreement as the "staff".

Bank were determined on a policy of discriminatory investment but the Bank were able to undermine this by a resolute policy of non-discrimination, the Bank would soon be abandoned by the discriminating governments and its power and effectiveness would be undermined pari passu. If a government as important to international investment as the United States were determined to adopt a discriminatory investment policy, the Bank must either adopt a similar policy or go into liquidation.

But even let us suppose that the Bank, as an institution, is able to follow a policy of strict non-discrimination. There is still no explicit stricture in any Agency charter against individual countries applying a policy of power discrimination against other Agency members. This is vitally important. Let us take a hypothetical, but nevertheless quite feasible example.

Suppose that the Bank agreed to lend United States dollars to a country in Eastern Europe, let us say Czechoslovakia. Through the agency of the Bank, the United States would then be making a loan to assist the economic development - and probably enlarge the indirect military potential - of a country which it regarded as politically hostile. To this extent and up to this point, the United States would be disregarding one of the most important possibilities of foreign economic policy - the possibility of applying capital sanctions against a presumed enemy. But Czechoslovakia would want dollars not for their own sake but for the purchase of capital equipment, and the International Bank has no authority to determine whether or how she shall obtain this equipment. In so far as national policies governing the export and import of capital equipment are regulated by international instruments,

they are so regulated by the spirit of the International Trade Organisation Charter, which has not yet entered into force, and the General Agreement on Tariffs and Trade, which has been provisionally applied by both the United States and Czechoslovakia. Article 22 of the I.T.O. Charter (and the equivalent Article of GATT) require capital equipment or any other goods entering the export market to be made available equally to all Members without discrimination. Article 22 reads:

> "No prohibition or restriction shall be applied by any Member on the importation of any product of any other Member country or on the exportation[67] of any product destined for any other Member country unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted".

But Article 22 dealt only with welfare discriminations. Although the Bank was, in theory, not allowed to engage in political discrimination, the I.T.O. Charter gave explicit release to individual nations to discriminate on political grounds whenever and to the extent that it appeared to them desirable. Article 99 provided:

> "Nothing in this Charter shall be construed .... (b) to prevent a Member from taking, either singly or with other States, any action which it considers necessary for the protection of its essential security interests where such action
>
> (i) relates to fissionable materials or to the materials from which they are derived or
>
> (ii) relates to the traffic in arms, ammunition or implements of war, or to traffic in other goods

---

67 In pre-war years, restriction of imports appeared as the main problem to be dealt with, and this was the problem uppermost in the minds of the framers of the I.T.O. Charter. It is obviously still important, but its importance is declining as governments succeed in maintaining a high level of employment and in regulating the flow of international funds. On the other hand, the relative importance of restrictions on exports is rapidly increasing.

and materials carried on directly or indirectly for the purpose of supplying a military establishment of the Member of any other country, or

(iii) is taken in time of war or other emergency in international relations".

Therefore, although Czechoslovakia is entitled to equal treatment under Article 22, the United States may refuse to allow export of capital goods to Czechoslovakia if the United States considers that the goods may be used "directly or indirectly" to build up the Czechoslovak or the Soviet or any other war establishment. The United States may also refuse permission to export if she considers that there is any "emergency in international relations". These phrases cover innumerable contingencies.

It is not suggested that the guiding clause in international agreements should be Article IV of the Bank charter, applied to both institutions and governments, rather than Article 99 of the I.T.O. Charter. We are not concerned, at the moment at least, with what is desirable or possible, but simply with what is the existing position. I.T.O. Article 99 shows that the Specialised Agencies do not attempt to establish the necessary economic foundations for a durable peace except in a very limited way. They regulate welfare economic policies and in so doing tend to establish conditions of stability and progress which are, up to a point, conducive to world peace. But they make no real attempt to regulate power discriminations, while, for the most part, the Security Council and other bodies concerned with "political" matters including disarmament, assume that economic policy, including economic warfare will be dealt with by the economic bodies. There results a "no-man's-land" where national or group policies are carried out without any

international control or even effective international discussion. In these circumstances, the Specialised Agencies lose their place as instruments for a universal co-operative peace.

Even though there is no doubt of a country's right to determine whether or not its security interests justify the imposition of discriminations, the "spirit" of the I.T.O. Charter might, of course, be expected to have a sobering effect on the tendency to impose foreign-policy discriminations. This possibility cannot be entirely discounted but, so far, there is no evidence that the I.T.O. "spirit" will prevail. For example, almost immediately after the communist coup in Czechoslovakia, the United States imposed restrictions on exports to Eastern European countries. As a Contracting Party to GATT, Czechoslovakia appealed against these restrictions to the Third Session of the Contracting Parties held in Geneva in the summer of 1949. The appeal was set aside and the United States action upheld. There was no attempt by the United States or by GATT to qualify or limit the freedom granted by Article 99.

Although the major political division at the moment is between communist and anti-communist countries and attention tends to be concentrated on economic warfare between those two groups, there is no reason why less powerful opponents should not indulge in economic warfare on a more humble scale. Economic warfare - for foreign-policy reasons - between India and Pakistan or the Soviet and Yugoslavia or between any states in South America or the Middle East or elsewhere is forbidden or regulated by no international instrument at present in force and there is some justification for concluding that that omission is deliberate. For example, Australia can discriminate against Japan on political

grounds in the future to any extent she may wish. And, if the major trading countries maintain a high level of economic activity, Australia would find it much easier in the future than in the past to deny essential raw materials to Japan. In that event, Japan could much more justly complain that she is a "have-not" country, denied access to raw materials essential to her economic prosperity and to her defence. On their performance so far, however, the Specialised Agencies would have little authority or inclination to deal with this type of complaint,[68] and, for want of effective attention, it could rapidly intensify any political dispute arising from either economic or non-economic causes.

The Specialised Agencies, it can be said in summary, are making a substantial contribution to economic welfare, especially through programmes for economic development. They have substantial resources at their disposal both for research and for field work, and in addition, they provide permanent fora for the discussion of economic problems and the implementation of agreed solutions. But, by their very nature, they have become, in the present world division into communist and anti-communist blocs, not instruments for the maintenance of a co-operative peace but instruments for the maintenance of the balance of power in favour of the Western majority. Beyond this, however, they are not merely powerless to stop the exacerbation of political conflict by discriminatory foreign economic policies, but turn their backs on the

---

68 The Security Council might of course deal with a complaint of this kind; but whether or not it is seen to fall to the responsibility of the economic or the political organs, the main thing is that the very broad and important problem which a possible complaint of this type illustrates is not clearly foreseen to be dealt with by any particular organ and no advance preparation to meet the problem has been undertaken.

problem and help to create conditions of controlled economic stability which directly encourage power discriminations. Not only between East and West but even within the Western majority, they ignore any economic conflict deriving from power considerations. This may be right and proper, and it may be inevitable, but the exact nature of the Specialised Agencies as instruments for peace should be clearly recognised.

5. Summary and Prospect.

The United Nations has been a much more impressive instrument of international economic co-operation than the League. Not only has United Nations organisation been better, but it has also had a more mature understanding of the problems with which it has been faced. What have been the outstanding features of this United Nations achievement?

In the first place, an array of international organisations has been created within the United Nations framework to cover all the major fields of international economic relationships.[69] Between them, the Economic and Social Council and the Specialised Agencies probably have all the essential resources for consultation and research on welfare problems of international scope.[70]

Secondly, the Charters and the subsequent resolutions, recommendations, and decisions of the various economic organisations have placed very substantial obligations on their Member States. Obligations with far-reaching implications have, in a large number of instances, been accepted readily and unanimously. Even allowing for the still-numerous "escape clauses" and the consequently reduced value of many commitments, the scope of the international obligations accepted by governments since 1945 is remarkable by comparison with pre-war years.

Thirdly, the economic organisations have impressive resources at their disposal. This is especially true of the Fund and Bank; but

---

69 United States rejection of the I.T.O. Charter threatens to leave a large gap in international economic organisation, which may or may not be completely filled by GATT.
70 Resources for operational work may not, of course, be so adequate.

the annual budgets of the other Specialised Agencies have been between $5 and $8 million in the recent past and, although the budgets are now tending to be stabilised, the scale of operations is already imposing. The Expanded Technical Assistance Programme places further large resources at the disposal of the organisations.

Fourthly, the work of the Economic and Social Council and the Specialised Agencies has given practical expression to the concept of peaceful change. Each organ directs a major part of its time and resources to the needs of the underdeveloped countries. If the United Nations can be said to have a genuinely dynamic approach to world peace rather than the static approach often implied in safeguarding the status quo, it is largely because the economic agencies have begun to formulate effective programmes for the economic development of underdeveloped countries, for raising living standards in these countries, and for narrowing the tremendous differences which at present exist in the living standards of the nationals of different countries. If these programmes succeed, the tendency should be for welfare frictions and hostility between "have" and "have-not" countries to decline. The economic agencies of the United Nations cannot provide a quick or easy solution to the problem of equalising high living standards throughout the world; but they should be able to make a not-inconsiderable contribution to the ultimate solution.[71] That should be a contribution

---

71 In his report on the "Work of FAO 1949/50", the Director-General of FAO suggested that: "Vigorous international action can relieve [violent stresses and strains within and among nations] by removing their fundamental causes. I do not mean that it is possible to do away overnight with poverty, hunger, ignorance and preventable disease. It takes time for science and education to bring about their miracles. But we can quickly prove that these evils, as well as some of the worst economic difficulties associated today with agricultural production and distribution, can be eliminated and that nations and peoples can work together to eliminate them. If we prove this clearly and convincingly, faith and hope will take the place of bitterness and despair among vast numbers of human beings" (op. cit., p.1).

to world political stability and world peace also.

All this does not mean that the welfare planning of the United Nations agencies is already adequate. International policies of economic stability are far from proven: full-employment and commodity policies, for example, still need a great deal of attention. Neither are the present plans and programmes for economic development adequate to the needs of the underdeveloped countries. Finally, there are shortcomings in international machinery which will have to be rectified. I.T.O., for example, seems likely to be discarded, and the Economic and Social Council has recently shown dissatisfaction with its commission structure.

Even, however, apart from the need for further effort to establish a secure welfare basis for a durable peace, there may be a still more important, untouched problem for the economic organs to tackle, in the closest collaboration with the political organs of the United Nations.

This problem springs largely from the changed economic role of governments. Postwar international co-operation assumes a high degree of positive intervention by governments in economic affairs; and, especially as compared with pre-war years, all governments have intervened considerably since 1945 to maintain economic stability and to promote economic development. As economic techniques are improved, as the sector of the economy under close government control is extended, and as international co-operation is improved, the possibilities of involuntary welfare frictions should be diminished. In other words, a soundly-conceived interventionist policy should enlarge the possibilities of peace in a way suggested by Lord Keynes in 1936 as follows:

"Whilst economists were accustomed to applaud the prevailing international system as furnishing the fruits of the international division of labour and harmonising at the same time the interests of different nations, there lay concealed a less benign influence; and those statesmen were moved by common sense and a correct apprehension of the true course of events, who believed that if a rich, old country were to neglect the struggle for markets its prosperity would droop and fail. But if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need be no important economic forces calculated to set the interest of one country against that of its neighbours. There would still be room for the international division of labour and for international lending in appropriate conditions. But there would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbour, not because this was necessary to enable it to pay for what it wished to purchase, but with the express object of upsetting the equilibrium of payments so as to develop a balance of trade in its own favour. International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage". 72

This is true as far as it goes. But a Keynesian system abolishes one set of conditions prejudicial to peace, only to substitute another set equally or perhaps even more prejudicial to friendly international relations. This springs from the new harmony which can be developed between foreign policy and external economic relations. Instead of being set apart on a different plane and beyond any close government control, external economic relations lie, under a Keynesian system, within the direct and constant responsibility of government and can be integrated with the older foreign-policy responsibilities of government.

This power of integration was always theoretically available to

---

72 J.M. Keynes, "General Theory of Employment, Interest and Money", pp. 382-383.

any sovereign government, whether devoted to laissez-faire principles or not. The important thing is, however, that, for an economy whose stability is guaranteed by government intervention and control, integration becomes not merely theoretically possible, but also politically practicable. The two broad objectives of the planned economy have been:

> (a) To maintain high and stable levels of employment and business activity - to ensure, in effect, a seller's market for goods and services, including labour; and
>
> (b) To protect the economy, not only against business fluctuations originating internally, but also against the effects of fluctuations in activity occurring overseas.[73]

If a seller's market is maintained in the domestic economy, the value of export markets tends automatically to decline, and interference with those markets - even for arbitrary and unpredictable foreign-policy reasons - becomes politically less reprehensible.[74]

Moreover, any losses in terms of foreign exchange or employment which might otherwise have been experienced can be dealt with through the techniques already developed to protect the economy against overseas fluctuations. It is clear that export industries cannot be restricted or prohibited in their export markets with equal ease in all cases or with complete impunity; but it is equally clear that the planned economy has much greater opportunities than the relatively free economy to prohibit or restrict export of goods or services or capital to declared markets, without any clearly observable loss to any particular groups or individuals within the economy.

---

73 These were the two principal economic objectives originally sought by the Nazi Government in Germany. In pursuing them, it became apparent to the Nazis that the instruments and the conditions which they created were admirably suited to a well-disciplined foreign economic policy. See Chapter IV infra.

74 Note the pressure in the United Kingdom during 1950 from private interests themselves for restriction of capital-goods exports to Eastern Europe. See also Chapter IV infra.

Much the same is also true of supplies coming from overseas. Provided an alternative source and/or an alternative commodity is available, a planned economy has much less difficulty than its laissez-faire predecessor in transferring its imports from one country to another.[75] Any difference in cost may be of little importance to the planning government in the light of other considerations, and can probably be absorbed in such a way that its adverse impact on the economy is almost totally concealed. There may be commodities for which there is no alternative source and this will influence policy,[76] but, in the main, it is likely that there will be few commodities which are not available in adequate quantity from more than one country or more than one political bloc.

The problem facing the United Nations is therefore more complex than that which confronted the League. The League assumed that it had to deal, not with economic disarmament in the power sense, but with economic disarmament in the welfare sense. Competition for welfare gains - which might involve a consequent, but incidental, power gain also - might lead to political conflict; and the problem was to regulate economic relationships in such a way that governments would not be induced to take extremist welfare measures which, by creating political frictions, might threaten peace. After the Second World War, although

---

75 This has been broadly the case with Western European Governments in the past three years. These Governments have been willing, despite the welfare losses involved, to continue dependence on Western Hemisphere supplies rather than make a determined effort to rebuild trade with Eastern Europe.

76 Note that the United States was reported to have imported from Russia, as late as August 1960, supplies of manganese and chrome ore valued at £464,000. Stockpiling imports of essential commodities for which there is no easy alternative source might be continued right up to the outbreak of actual hostilities, provided the exporter places no restriction on them; but a dangerous dependence for essential supplies is likely to be avoided wherever possible.

circumstances had in the meantime changed, the approach to economic organisation as an instrument of peace made the same assumptions as the League. This was in defiance of the fact that governments, far from being or intended to be passive spectators of economic events, now had the role of "protector, stabiliser and organiser of the nation's economy".[77] This governmental duty carried with it an enlarged right and power to use economic policy directly for political ends; and the right was increasingly exercised. Therefore, the emphasis had shifted: the problem was not so much to regulate the means of enhancing welfare, as to regulate the use of economic policy as a direct instrument of power.

This problem was sharpened by the emergence, almost immediately after 1945, of political uncertainty - the second of the factors suggested in the opening chapter as leading to the rapid development of a nature foreign economic policy. The conflict between the United States and the Soviet threw the longest shadow over international relations but other, smaller conflicts, especially in the Far East, added to the general impression of instability. The spread of the planned economy had provided enlarged opportunities, and now conditions of political instability provided an urgent incentive, for the adoption of intensive foreign economic policies throughout the world.

Assuming that the United Nations remained an agency for world peace, its responsibilities would seem to include some attempt to re-

---

77 "The Economist", 1st April 1950, p. 692.

strain or regulate the use of unilateral or group economic sanctions and the formation of hostile economic alliances. But, although the nature of the problem had become clear enough, the United Nations did not deal with it. The I.T.O. Charter specifically washed its hands of the problem; and the other organs and agencies either:

(a) Implicitly refused to allow "political" issues to intrude in their discussions and decisions; or

(b) Tacitly or explicitly approved uncontrolled sanctions and on some occasions even allowed their own policies to reflect these sanctions.

In the meantime, the Security Council did not take the sanctions problem within its purview, and it was therefore dealt with nowhere.

At present, therefore, the evidence suggests that the economic organs of the United Nations are as ineffectual in meeting the crucial sanctions problem of their era as the equivalent organs of the League were in facing the crucial welfare problem of the inter-war period: the United Nations has reached a stage at which it is equipped to deal with the League's problem, but in the process of achieving that advance, a new problem has intervened. It has been said of the 'twenties that "the intent of that decade was deeply conservative and expressed the almost universal conviction that only the re-establishment of the pre-1914 system, 'this time on solid foundations', could restore peace and prosperity".[78] No equivalent conservatism has characterised the post-1945 period in its approach to international welfare problems. There has, however, been a marked conservatism about recognising

---

78 Karl Polanyi, "Origins of our Time", London 1945, p. 32.

explicitly the new problem presented by the altered relationship between foreign policy and external economic relations; and there has been an even more marked conservatism about allowing this problem to be treated along with the welfare problem inherited from the League.

Any suggestion that it would be easy to modify or regulate the extent to which governments may use the new opportunities available to them of applying economic means to gain their foreign-policy objectives would be unrealistic. However, in theory, Article 65 established between the economic and political activities of the United Nations a link which might be forged in terms of actual policy. To a limited extent, Article 65 was implemented in the case of Korea; but, assuming that the United Nations still aims at a co-operative peace, implementation of Article 65 must be carried a great deal further, to deal, for example, with current restrictions on economic contact between East and West, and to extend beyond this to define generally the freedom to be allowed governments in framing their foreign economic policy. Under Article 99 of the I.T.O. Charter, for example, this freedom was left complete; and the aim would now be to regulate all those prohibitions and restrictions on economic intercourse which originate in foreign policy and which in turn deepen political hostility. Those prohibitions and restrictions are an indirect but real "threat to the peace", on which the Security Council might reasonably ask the assistance of the Economic and Social Council under Article 65. A complete reversal of the movement towards economic sanctions and economic alliance would presumably require a complete solution to the prevailing political uncertainty; but there might still be possible a middle course of regulation which avoids the

more extreme features of economic policies of power.[79] In 1938, the comment was made on the policy of sanctions against Italy that "a measure which paralyses the military machine of an aggressor without penalising the civil population is to be preferred to one which cuts off the food supplies of civilians". It was suggested, inter alia, that sanctions "should be defined in advance, not left for public discussion when aggression has started, and when threats of reprisals are being bandied about"; and that they "should avoid, if possible, interference with ordinary trade and with essential supplies for the civil populations".[80] This indicates an approach which the United Nations might take. Even now, it is too late, in some respects, to attempt advance definition of sanctions; but it is still at least conceivable that the attempt might be made to define those measures which are permissible in bilateral or group relations among nations, and to separate "ordinary" economic relations from those assisting military or neo-military preparations. In the light of the needs and totality of modern war, the latter separation would be extremely difficult to make, but it seems to be a task which the United Nations, as an agency for world peace, is morally obliged to attempt.

---

79 The difficulties of finding such a middle course are not underestimated. Agreement to curtail economic policies of power seems, at the moment, to fall in the same category of unlikelihood as agreement to restrict military armaments. The ideal might be to keep economic contact completely free from the buffetings of foreign policy; but, assuming that this ideal is unattainable, the question is how to maximise external economic contact without endangering national security. Action to regulate economic policies of power might be extremely slow, but it might at least be carried forward pari passu with attempts at military disarmament.

80 "International Sanctions", op. cit., pp. 38-39.

Clearly, the problems of the League and the United Nations have reflected the changing powers and attitudes of their Member Governments. From the foregoing account of the League and the United Nations, some general features of national policies have therefore already appeared; but it is necessary to sketch some detail into this general picture by examining the foreign economic policies of a number of individual countries. These national policies will show more precisely the atmosphere in which, for example, Australian policy must be formulated and the methods on which it might draw. It will also indicate the magnitude of the problem which would confront the United Nations and the Specialised Agencies if in fact they attempted to promote economic policies conducive to a co-operative, rather than a balance-of-power peace.

Chapter IV. Broad Trends in National Policies.

1. Diversity in National Policies
2. Germany
3. France
4. The Soviet Union
5. The United Kingdom
6. The United States

.....

1. Diversity in National Policies

It would often be misleading to speak of any world trend in the exercise of foreign economic policy. There have always been, and no doubt will continue to be, national variations around any "average" trend. Sometimes these will be small, subtle and insignificant; at others they will be so important that they will effectively hamper or prevent realisation of the goal towards which the majority of national policies seem to be moving.

This was true of the liberal era. Commercial and industrial development, especially in the United Kingdom, established a world trend away from mercantilism and towards a relatively free pursuit of economic welfare, independent of the push and pull of diplomatic advantage. In greater or less degree, a number of countries followed the British lead, although British policy itself was never entirely purged of mercantilism, either in theory or in practice. Professor Lionel Robbins, after claiming that there has been an "absence of

evidence of an active role on the part of high finance" in foreign policy, suggests that on the contrary in fact

> "...there is abundant evidence of passive instrumentality, we do not find evidence that finance was often a prime mover. But there is plenty of evidence that finance was continually used as a pawn. This is perhaps not very conspicuous in the English scene where finance was usually more or less left to its own devices; although even here we have had occasion to observe the veto imposed by the government in regard to the Bagdad railways. But, in Germany and France, government control of investment for diplomatic purposes was the usual thing. In the thrust and parry of balance-of-power diplomacy, the use of the financial weapon was taken as a matter of course". 1

There are, therefore, for the liberal era and the years in which liberalism has been passing into history, two questions which it is relevant to ask of each of the various national policies. The first is whether the country concerned has, in principle, recognised and included an economic component within its foreign policy, that is, whether it has actively implemented a foreign economic policy. Does the country's policy bear a closer affinity to the traditions of English liberalism or to the traditions of German mercantilism? The second, and more detailed question, is how, assuming a foreign economic policy is accepted in principle, it has been applied to fit the special position which each country occupies in international relations. It is clear that, even if two countries accept a foreign economic policy equally in principle, there will be important differences between their policies in practice because of their distinctive security positions, and the separate diplomatic objectives which each

---

1 Lionel Robbins, "The Economic Causes of War", London 1939, pp. 54-55.

seeks to accomplish. Moreover, each country's practice will vary with change of time and circumstance.

It has already been suggested[2] that the relationship between external economic and foreign policies will depend, in part at least, on the strength and stability of the international political position of the country concerned. Where the international political position is unassailable and static, economic power will tend either to be held in reserve for use only in time of crisis, or to be enlarged through political pressure. Where, on the other hand, the political position is insecure or dynamic, external economic policy will tend to be directed to protect and/or enhance the political position and to remove or reduce uncertainties.

In the first fifteen years of the inter-war period, the position of the Allies was unassailable; and the position of the defeated powers, including most importantly Germany, was one of inferiority without prospect of immediate remedy. For the Allies, therefore, exercise of economic power for political ends was unnecessary - except, in the earlier years for France, who continued be be nervous, especially about her longer-term security. For Germany, exercise of economic power would have been probably ineffectual, and almost certainly prejudicial to her gradual progress back to power. Nevertheless, the war left some immediate mark on foreign economic policy as shown by the history of the most-favoured-nation clause during this period.

---

2 See Chapter I supra.

"After the destruction of the pre-1914 economy by four years of war the most-favoured-nation clause never regained its former position as the foundation of commercial treaty policy. Opposition to the clause had gained ground during the hostilities, and there was pronounced opposition to the incorporation of a most-favoured-nation clause in the fundamental law of the League. Commercial treaties were slow in reappearing. France, which had denounced her most-favoured-nation agreements in 1918, successfully undermined any attempts to re-establish the pre-war status of the clause. In general, the existence of war-time trade restrictions, widespread reciprocity in trade policies, and pre-occupation with economic reconstruction all combined to prevent the resumption of most-favoured-nation treatment in the immediate post-war period. With substantial recovery after 1925, however, the negotiation of most-favoured-nation treaties was resumed, although the scope of the clause was by no means as broad as it had been before 1914, and commercial treaties were usually concluded for short periods of time.

"It seemed temporarily as if the clause might recover its former position in 1927...The year 1927 was 'the year of commercial treaties', largely because of the impetus provided by the League conference. France broke with reciprocity and concluded an all-important most-favoured-nation agreement with Germany". 3

The apparent return to liberal practices was, as already indicated, short-lived. Economic breakdown in 1929 led to extensive protection of national economies for welfare reasons, and also caused or hastened the emergence of extremist political regimes anxious to engage in foreign adventures.

This was especially true of Germany. The depression struck her with particular severity, and she already had a violently nationalist element pledged to remedy the injustice of Versailles. Further, she had a mercantilist tradition which Weimar had not buried, and the strongest industrial economy in Europe with which to work. As a

---

3 R.C. Snyder, "The Most-favoured-nation Clause", New York 1948, pp. 239-240.

consequence, it was Germany who applied economic policy most persistently and intensively to political objectives, and who devised instruments for this purpose which have been used by the "total diplomatist" in a number of other countries since.

For these reasons, we shall take the foreign economic policy of Germany first, and pass then to France as the other traditional mercantilist. Finally we shall consider the developing foreign economic policies of the three great post-war powers, the Soviet Union, the United Kingdom and the United States. For most of the period since 1918, the policy of the two great Western democracies will contrast sharply with that of Hitler's Germany, but acceptance of the principle of German policy has gradually become universal - "for democracy has taken on the dimensions of Leviathan, though without his terror".[4]

Even when a foreign economic policy has been accepted in principle, the policy of each of the five countries selected has taken on a distinctive character as a consequence of its particular international objectives, and, especially, its assessment of the strength of its security position. Thus, German policy between 1933 and 1939 may be called a policy of aggressive totalitarianism. French policy throughout the period since 1918 developed defensively under the feeling of chronic insecurity, and never achieved the thoroughness of German policy. Soviet policy between the wars was a policy of defensive, withdrawn totalitarianism. In the United Kingdom between

---

4 R.M. MacIver, "Leviathan and the People", London 1940, p. 5.

the wars, policy developed unevenly under the influence of fluctuating assessments of national security and, finally, the United States, in the inter-war period, assumed that secure isolation was both desirable and feasible.

After the Second World War there were many changes. Germany could no longer formulate her own policy, and France continued her pre-war mercantilist policies without much change. But Soviet policy, from being defensive and withdrawn, now looked outwards, perhaps aggressively. The United Kingdom, uncertainly at first but then more readily, began to practise a foreign economic policy more energetic than ever before. Finally, the United States, the former stronghold of isolation, neutrality, free enterprise, the most-favoured-nation clause and so on, experienced the greatest change in policy, and embarked on a foreign economic policy at least equal in consistency and intensity to that of any other country.

These are some general features which will appear more clearly and convincingly in the detailed treatment which follows. At the same time, this treatment does not pretend to make any complete coverage of national foreign economic policies since 1918, but rather to select some of the more striking and characteristic features. For example, German policy is exemplified by her economic penetration of South-east Europe, and French policy by its characteristic tendency to form comprehensive economic alliances, but these are by no means the whole of German or French policies since 1918, each of which would need a separate study in itself. With that in mind, we may pass to a selective consideration of German foreign economic policy in South-east Europe.

2. Germany.

For a proper understanding of the relationship between German foreign and economic policy, Professor Robbins has suggested that it must always be borne in mind that:

> "English liberalism, with all its deficiencies, envisaged a world in which it was conceivable that all nations might live peacefully together. The world of German neo-mercantilism was a world in which such relations were necessarily excluded. Only the domination of the world by one power could bring peace under such a system". 5

This may be taken as an essential background to German policy; but, immediately after 1918, the Weimar Republic had to accept, superficially at least, liberal external economic policies of the type to which Great Britain and the United States were attached. The Treaty of Versailles itself made some attempt to impose such policies. Germany was required to extend to the Allies, for a period of five years, unilateral most-favoured-nation tariff treatment. Until 1929, the German economy was supported largely by private United States capital, and was consequently able to maintain liberal economic practices. During that earlier period also, there were no foreign-policy inducements to discard liberal policies. After 1929, however, when Germany experienced the full impact of the world depression and American lending ceased, the rapidly deteriorating condition of the German economy soon made a liberal approach to economic problems intolerable.

By 1931, Germany faced a grave balance-of-payments crisis,

---

5 "The Economic Causes of War", op. cit., footnote p. 73.

complicated by heavy foreign-debt service, and the cessation of the extravagant overseas borrowing of the earlier inter-war years. At the London Conference on the German financial crisis, in July 1931, Dr. Bruning drew attention to "the very special position of Germany, both as an exporting and a debtor state, [which] has concentrated upon it to a supreme degree all the problems which the other States have had to face in a less critical manner".[6] Loss of confidence in the Reichsmark led to large-scale capital flight, which, by the end of 1931, had depleted German reserves by some three billion Reichsmarks.

Germany's initial response to the crisis was to adopt a deflationary policy: the Fourth Emergency Decree of 8th December 1931 cut interest rates, commodity prices, civil service salaries, and wages generally. But social unrest, unemployment, and political uncertainty created, especially, by the National Socialist movement, placed limits on the lengths to which a deflationary policy could be carried. In any case, neither this policy nor a policy of depreciation would have solved the immediate problem of capital flight. As a result, Germany, like a number of other countries at the time, imposed exchange control, for reasons that were purely financial, or, at least, had nothing directly to do with foreign policy.

Especially as it became developed in detail, however, exchange control offered itself as a major foreign-policy instrument. From being applied to capital movements, it was extended to current-account

---

6 "Documents on British Foreign Policy 1919-1939", Second Series, Volume II, p. 436.

commodity trade, and to foreign payments generally; regulations governing the allocation of foreign exchange to firms and individuals were progressively tightened; and qualitative, as well as quantitative import control was instituted. Moreover, the reflationary policy which had been begun under the von Papen and the von Schleicher Governments and which was greatly intensified by Hitler, made continuing exchange control unavoidable so long as a return to prosperity and full employment lagged behind in the rest, or a major part, of the external trading world.

The opportunities for discrimination under exchange control are sufficiently apparent. The object of the German control was (i) to secure the delivery of all foreign exchange accruing to nationals to the central authority, and (ii) to allocate this foreign exchange among importers and others in the most useful way, where "useful" may be defined according to a variety of possibly changing criteria. In achieving the second objective decisions were needed on (i) what proportions to allot to commodity trade, debt service, tourist traffic, and so on; (ii) how to distribute the determined amount of commodity exchange among different commodity imports; (iii) how to allocate exchange among different firms; and (iv) how to distribute total expenditure among different countries. It is the fourth type of decision which provides the opportunities for concealed or overt discrimination in external trade.

Originally, German importers were simply allowed a percentage of their imports (from whatever source) in the base year; and, although the particular pattern of exchange distribution existing in the base

year thus became frozen, there was no real discrimination or political manipulation of trade. This discrimination and political manipulation developed, on a systematic basis, after the advent of the Nationalist Socialist Party to power and with the assistance of a complex series of bilateral exchange agreements. Under Dr. Schacht's "New Plan introduced in Germany in the autumn of 1934, ... every foreign trade transaction was brought under centralised control and exchange control became the instrument of an intensely nationalistic economic policy".[7]

German technique for the conclusion of exchange agreements experienced a rapid refinement of practice and clarification of objectives. The early compensation agreements - branded by Dr. Schacht as "barbaric" - gave way to clearing agreements which did not require the same exact coincidence of exports and imports. These clearing agreements became the chief instrument for German economic domination of South-east Europe.

The economies of the countries of South-eastern Europe had for many years been a natural complement to the German economy, supplying a number of essential food products and raw materials in return for German manufactures. German businessmen had built up an enviable reputation in the area, and it was natural that German trade, under the Nazi Government, should continue to be substantial. But, more than this, political expansion in South-east Europe had been a feature of German thinking and German policy under the Kaiser, and it was to be expected that the imperialist ambitions of the Nazi leaders

---

7 League of Nations, "Commercial Policy in the Interwar Period", Geneva 1942, p. 72.

would direct their policy along similar lines. There was also the point that Germany's major potential enemies were in the west and controlled the world's sea routes. Security of supplies therefore advised Germany to look to the east for her essential needs, where even if the Governments concerned proved hostile in time of war, they would be easier to subdue or intimidate. Foreign policy, trade and defence all pointed to concentration on South-eastern Europe, and from there it was a short step to using trade to promote the objectives of the other two.

With the breakdown of the international trade system of the 'twenties, Germany concluded, and from time to time renewed, clearing agreements with each of the South-east European countries, with Hungary, Bulgaria, Greece, Yugoslavia, Roumania and Turkey. These agreements were intended to result in an approximate, though not necessarily an exact, correspondence in the value of trade in each direction. From 1933 onwards, however, the Nazi Government deliberately bought the "largest possible quantities of goods from these countries"[8], and thus built up a large indebtedness with each of them which could be liquidated only by an expansion of purchases from Germany. This was the first, and remained the major method by which the two-way flow of trade between Germany and the South-east was expanded to an unnatural extent, but, especially as resentment grew in the South-east European countries at the unhealthy

---

8 Paul Einzig, "Bloodless Invasion", London 1939, p. 18. Dr. Einzig's book, it should be noted, tends to present an extreme view of German methods in South-east Europe and must therefore be used with caution.

dependence on German trade and at the distortions it created, Germany supplemented this more obvious method with others which consolidated her position. For example, German importers (with the aid of subsidies from the Nazi Government) sometimes overpurchased in South-east European countries, and re-exported at prices which undercut the original producer and damaged his non-German markets; armaments, often obsolete and secondhand, were supplied by Germany at low prices to reduce the mark balances accumulated by the South-east European countries; German exports were sold on liberal credit terms which rebuilt the mark balances in a devious, and for a time concealed manner; the mark was overvalued to make Germany an attractive market, to raise the price level in South-east Europe and thus to reduce South-east European capacity to cultivate markets elsewhere; and so on. These practices are sufficiently well-known, and have been described often and in much detail elsewhere.[9] It must be stressed however that, as far as possible, Germany seems to have kept her less laudable practices within moderate bounds, in order not to alienate the sympathies of South-east European countries, and to maintain her political as well as her commercial position in the area.

The trade diversion which resulted from these practices is shown in outline in Table 1. To take the experience of one country briefly as an example, Germany expanded to a maximum her imports, especially of tobacco, from Greece, paying much higher prices than importers in other countries.

---

9 See, for example, the references given in the course of this section. These references could be multiplied many times.

Table 1. Germany: Direction of Trade.

Group	Share in Imports		Share in Exports	
	1928	1938	1928	1938
	%	%	%	%
Industrial Europe, excluding Sweden	31	24	48	36
Scandinavian and Baltic States	7	13	12	14
Danube and Balkan	4	12	5	13
British Dominions, India, and European oversea territories	18	17	6	9
United States	15	7	7	3
Rest of World	25	27	22	25
Total	100	100	100	100

Source: Extracted from Table 20 of "Europe's Trade", op. cit., p. 42.

As a result, Greece built up large mark balances which amounted in 1934 to 10.6 million marks, in 1935 to 21.9 million, and in 1936 to 18.7 million. In order to use these balances, Greece expanded her imports from Germany, especially by Government purchases of "railway and public works material and, above all, armaments for its rearmament programme".[10] With modifications for each country, much the same general story could be told for each of the countries of South-east Europe during the final half-dozen inter-war years. As a result, Bulgaria, Greece, Hungary, Roumania, Turkey and Yugoslavia, who sent 16 per cent of their combined exports to Germany in 1928, sent 34 per cent there ten years later. Similarly, these countries procured only 17 per cent of their imports from Germany in 1928, but by 1938 the figure was 35 per cent.[11]

The dependence of south-east Europe on the German market offered German diplomacy a choice of two possible courses. Firstly, she could use her economic position to apply direct, unconcealed, and unambiguous political pressure: unless these countries played a political role in international relations, acceptable to German diplomacy, the German Government would precipitate economic chaos by changing her import policy.[12] The second course would be to use

---

10 R.I.I.A., "South-Eastern Europe: A Political and Economic Survey", London 1939, p. 165.

11 These figures are from "Europe's Trade", League of Nations, Geneva 1941, Table 26, p. 51.

12 Mr. Hugh Seton-Watson writes that: "Gradually Germany acquired the whip hand. At any moment she could threaten to divert her trade elsewhere. The loss to Germany would be comparatively unimportant, for her trade with Eastern Europe made up a fairly small percentage of her total foreign trade. But for the small States it would mean ruin, a relapse into the swamp from which they had just begun to emerge, with concomitant political dangers which the Governments could not face. The economic stranglehold once established, Germany could use it for other than economic ends". (Eastern Europe between the Wars 1918-1941", Cambridge 1945, p. 384).

economic dependence to foster political goodwill and build a close political alliance: economic dependence was a proof that German and South-east European interests were closely linked together, and justified the creation of bonds on a wider basis. That there would be uncertainty under either approach is indicated by the following summary of the South-east European dilemma in 1939:

> "On the economic side (of relations between Germany and South-eastern Europe), there was a factor of paramount importance...This was the predominant share of Germany in the foreign trade of the countries of Central and South-eastern Europe, which had been steadily increasing and amounted in 1936 to anything between 16 and 60 per cent. To grave political pre-occupations had, therefore, to be added economic considerations of a vital character, more particularly pressing in the case of those countries, such as Bulgaria, Greece and Turkey, whose prosperity was virtually bound up with the disposal of a single crop (tobacco) of which Germany was the principal purchaser. In the case of the others, Austria, Czecho-Slovakia, Hungary, Roumania and Yugoslavia, if economic dependence was slightly less, geographical proximity and the difficulty of avoiding entanglement in the power politics of Central Europe brought anxieties of a different kind. They were uncomfortably placed on the horns of a dilemma; if they drew a distinction in their minds between a peace-time policy in which economic interests tended to predominate and a war-time policy when fundamental interests became the governing factor, they had at least to live and to find the means of disposing of their produce. They had been only too thankful in recent years when Germany had bought up their surpluses of tobacco, grain and foodstuffs, and that at prices above those obtaining on the world markets, and had given little thought as to how their blocked mark balances in Germany would be liquidated. Now, thanks to Dr. Schacht's economic diplomacy, they were bound to Germany by a double bond - as the principal market for their produce and as a debtor who was unwilling or unable to liquidate his debt except by exports. Thus Germany was no longer isolated in Europe, was rearming rapidly, had successfully defied the Western Powers twice, and had attracted Italy and Japan (if not also Poland) into association with her". 13

---

13 "South-eastern Europe: A Political and Economic Survey", op. cit., p.36.

As this indicates, unconcealed political pressure was a doubtful risk, even for a country with Germany's economic power. At some point, most countries would risk economic chaos rather than yield on fundamental national issues. Moreover, these countries of South-east Europe were already making trade overtures to the Western Powers. Although, for the most part, "it was quite impossible [for the Eastern European Governments] to interest British, French or American business men, exclusively concerned with profits and in any case largely committed to trade with their Empires",[14] it was conceivable that the Western Powers might formulate an active and effective foreign economic policy in South-east Europe, if German policy in the region became too urgent and too transparent.

There was, however, the second approach of goodwill and co-operation. What has already been said indicates that the mutually advantageous economic link between Germany and South-east Europe had not automatically created any very clear feeling for political alliance or union with Germany. On the contrary, it may have created, for political as well as economic reasons, a deep fear and mistrust of German motives.

> "...the Danubian and Balkan States have every reason to resent - and indeed they do resent it very strongly - the effort to incorporate them into the large German economic unit". 15

Any political alliance, created through economic dependence alone, would

---

14 "Eastern Europe between the Wars 1918-1941", op. cit., p. 384.

15 "Bloodless Invasion", op. cit., p. 55. See also "South-Eastern Europe: A Political and Economic Survey", op. cit., p. 54.

tend to be an enforced attachment. At best, the result might be, if not a set of unwilling allies in South-eastern Europe, at least a set of allies from whom any freedom of choice had largely been taken; for the tendency of economic dependence on Germany was "to associate the economic systems of these countries so closely with [Germany's] own as to make it difficult for them to sever their connections in time of war".[16]

As already noted, this anxiety caused the South-eastern European countries to give special attention to non-German trade. For example, "the sums paid, in one way or another, by Roumania to divert exports towards free-exchange countries are sufficient evidence that she does not wish to become tied commercially to Germany";[17] and, although a new and more comprehensive commercial agreement was signed with Germany in March 1939, agreements were also negotiated with France and Great Britain about the same time. Turkey, as part of her determined policy to maintain her independence, refused "a low tender from Krupps for the Dardanelles fortifications...,the contract going to a British firm".[18] By raising the exchange value of sterling and other free currencies, or, alternatively, by reducing the exchange value of the German mark, by restricting exports to Germany, and by other means, the countries of South-eastern Europe tried to modify their economic dependence on Germany. In part, of course, the motives for this

---

16 "South-Eastern Europe: A Political and Economic Survey". op. cit., p. 199.
17 Ibid., p. 136
18 Ibid., p. 183.

were economic: they naturally feared placing themselves in such a bargaining position vis a vis Germany that Germany could, if she wished, turn the terms of trade heavily in her own favour, place a brake on their industrialisation, and so on. But the fear of political domination reinforced these fears.

German diplomacy was not prepared to allow these misgivings to go unanswered, for the German position in South-east Europe would be so much the stronger if she had willing, and not resentful allies in the region, allies who would not be ready to take advantage of any opportunity to break or fail to keep the bond. As a consequence, the German leaders from time to time denied any political motivation for their trade policy. For example, Professor MacIver notes that "Hjalmar Schacht, in a speech of November 29, 1938 (as reported in the New York Times), declared that only the unfortunate conditions of international economic relations made the resort to deals and barter necessary and that it would gladly be abandoned were these conditions removed".[19] Again, Dr. Goebbels, at the Leipzig Spring Fair in March 1939 said that "it was easy...for the Western democracies who had sufficient food, raw materials, money and colonies, to criticise German economic methods. While Germans must use hard work and intelligence to gain the goods they lacked, the democracies needed to make no such exertions".[20] But denial alone was not enough.

---

19 "Leviathan and the People", op. cit., p. 119.

20 As reported in "The Economist", 11th March 1939, p. 501.

Therefore, as a first concrete step, the Nazis were careful to recognize the economic fears of South-east Europe. They did not use their powerful bargaining position to wring unreasonable trade concessions, but on the contrary, for the most part "charged competitive prices for their goods, quality for quality"[21], and often paid well above world prices for their imports. There were sometimes delays in filling orders, and Germany sometimes seemed reluctant to supply machinery which would assist industrialisation,[22] but these elements in Nazi policy seem to have been relatively unimportant. South-east European anxiety about economic relations with Germany, so far as it was purely economic in origin, seems to have been rather about what might happen in the future, than about what German policy had already done.

The second and, for our purposes here, much the more important line taken by the Nazis was to accompany economic domination with political penetration and rapprochement. Nazi diplomacy placed no crude reliance on an economic stranglehold alone, but as well attacked with political weapons. For example, after Czechoslovakia had linked with the Franco-Soviet

---

21 "South-Eastern Europe: A Political and Economic Survey", op. cit., pp. 196-197.

22 In any event, Mr. Seton-Watson notes that "although the German interest in selling industrial products conflicted to a considerable extent with the nascent industry of Eastern Europe, there were many branches of industry which were not so threatened, and one school of thought argued plausibly that German help would be invaluable in the planning of an industrialisation which would take account of the interest of the Eastern European economy as a whole" (op. cit., p. 384).

alliance, "German propaganda convinced influential people in Eastern and Western Europe that Czechoslovakia was a dangerous 'centre of Bolshevik infection'",[23] and bred hostility among Czechoslovakia's allies. The hostile Little Entente was undermined and ultimately, with the fall of Czechoslovakia, destroyed. German diplomacy used the complex fears and aspirations of South-east Europe to divide and win the separate support or tolerance of South-east European countries. Bulgaria hoped that German friendship would give her Transylvania: Roumania looked to German friendship to retain it for her. Along with this, Germany tried to strengthen the internal political element which would be friendly to her. Nazi parties were formed in the various countries, with direct aid, encouragement and support from the local German community. The business community, whose welfare depended on a continuing close relationship with Germany, was cultivated as a nucleus on which to build local Nazi strength. On the two planes of diplomatic relations and local penetration, the German political position was thus secured.

In summary, German foreign policy in South-east Europe was a "total diplomacy" of the most ruthless and effective type. No single set of pressures - political or economic or ideological - was applied but all were used in combination. Foreign economic policy was important but it was far from being the whole of foreign policy, and in this respect, the German approach was tactically sound and conceptually mature, and as a result succeeded in very

---

23 Ibid., p. 415.

large measure in guaranteeing her supply position, and in safeguarding her political and military position to the east and south while she was engaged with her enemies in the west.

Bilateral exchange agreements which Germany used for economic penetration and which were then a novelty have since become part of the policy equipment of almost every country in the world. Often without the deliberate intention of the Nazis, these agreements have continued to reflect political prejudice, and to build slowly and sometimes almost imperceptibly economic alliances of much the same general type as the German alliance in South-east Europe. In the 'thirties, however, this was not so. For example, French influence in South-east Europe which had been strong in the earlier interwar years and which had been assisted by an active credit policy waned under the impact of German penetration. France herself had attempted to build economic alliances within Europe but, compared with the German example, these attempts, which will now be briefly described, were pitifully ineffective before 1939.

3. France.

French policy between the wars was dominated by fear of Germany. Prime Minister Clemenceau's attitude at Versailles has been described as determined by the philosophy that

> "...the politics of power are inevitable, and there is nothing very new to learn about this war or the end it was fought for; England had destroyed, as in each preceding century, a trade rival; a mighty chapter had been closed in the secular struggle between the glories of Germany and France. Prudence required some measure of lip service to the 'ideals' of foolish Americans and hypocritical Englishmen; but it would be stupid to believe that there is much room in the world, as it really is, for such affairs as the League of Nations, or any sense in the principle of self-determination except as an ingenious formula for rearranging the balance of power in one's own interests". 24

For the French, therefore, the status quo could not be preserved by formal declarations for its maintenance: positive measures were essential. In the absence of continual reinforcement through alliances, armament building for herself and her allies, and continued armament restriction for Germany, the temporary security of Versailles might be rudely shattered; and France was never satisfied with the measures taken. Therefore, feeling herself politically insecure throughout the 1918-1939 period, she applied an active foreign economic policy whenever she felt that force was a necessary aid to persuasion.

Before 1914, France had used her economic power for political purposes, through, for example, political loans to her eastern ally, Tsarist Russia. During the war itself, she participated in a highly

---

24 "Economic Consequences of the Peace", op. cit., p. 30.

developed economic co-operation among the Allies. The Allied Maritime Transport Council, the Inter-Allied Munitions Council, and the Inter-Allied Food Council were agencies for this co-operation. The Inter-Allied Wheat Executive, established in November 1916 to "arrange for the wheat supplies of all countries to be brought together and allotted by agreement",[25] was by the end of the war "arranging the supplies not only of the Allies but of a large proportion of neutral countries".[26] France wanted this wartime co-operation continued after the war, not only for the economic benefits it might bring but for the sake of the permanent economic alliance which would thus be established against any of Germany's future political ambitions. However, just as France failed to extract adequate political guarantees from the United States and the United Kingdom, so she failed to extract from them agreement to any extension of wartime economic co-operation. Entangling economic alliances were even less acceptable to the two major wartime allies than were entangling political allinnces, and this tended to underline the policy difference between France on the one hand, and Great Britain and the United States on the other, in applying a foreign economic policy in time of peace. One commentator has written:

---

25 J.A. Salter, "Allied Shipping Control: An Experiment in International Administration", Oxford 1921, pp. 134-135.

26 Ibid., pp. 91-92.

"France and Italy made several attempts to bring about an inter-Allied agreement for the maintenance of some kind of economic collaboration after the war or even during the period of transition from war to peace. The fact that these attempts proved unsuccessful (owing mainly to the opposition of the United States and Great Britain) emphasised that the willingness to accept in wartime the restrictions inherent in economic co-operation was due to a realisation of imminent danger and that the participating governments intended to resume their freedom of action as soon as the war had been won. The opposition which all suggestions for the maintenance of wartime controls encountered, especially in business circles, foreshadowed not only the rapid liquidation of inter-Allied economic collaboration but also many of the difficulties with which the economic and financial work of the League of Nations was confronted later". 27

This French attempt to extend the wartime economic alliance into the period of peace seems to have been another manifestation of a persistent tendency, in later nineteenth and twentieth century French policy, to form close economic ties with neighbouring and politically-friendly countries. This tendency has been expressed most spectacularly in numerous French proposals for customs unions of one sort and another. For example, as early as 1836, France proposed a customs union with Belgium, which was abortive largely through political opposition from other Powers. After 1836, there were proposals - whose support seems to have been mainly unofficial - in 1842 by Leon Faucher for a Southern European Customs Union; in 1879 by de Molinari and by Leroy Beaulieu for unions of which de Molinari's would have included Germany and Austria - Hungary while Beaulieu's would have excluded those two countries; in the 1880's by the Comte de Leusse for a Central European Customs Union;

---

27 Martin Hill, op. cit., p. 16.

and in 1896 and 1903 for a Mediterranean Union.[28] After the First World War, French activity for customs unions persisted. The non-governmental Comite International de l'Union douanière Européenne was set up in 1925 to try to solve the political and economic problems of Continental Europe through the creation of a series of customs unions, or of a single union embracing all or most of the countries of Continental Europe. The Committee's aim seems to have been internationalist, rather than nationalist, in spirit. That is to say, the Committee aimed to assist peace through alleviating international friction, rather than to guarantee French security through increase in French power. Much the same approach seems to have underlain the proposals for political and economic union put forward by the French Government in 1929.

M. Briand proposed to the Tenth Ordinary Session of the League of Nations Assembly, on 5th September 1929, that

> "...among peoples constituting geographical groups, like the peoples of Europe, there should be some kind of federal bond; it should be possible for them to get in touch at any time, to confer about their interests, to agree on joint resolutions and to establish among themselves a bond of solidarity which will enable them, if need be, to meet any grave emergency that may arise. That is the link I want to forge". 29

At this stage, M. Briand's conception of the association was therefore extremely vague, and also he seems to have had in mind that the political role of the association would be limited.

---

28 An outline description of these proposals is contained in the League of Nations study entitled "Customs Unions", New York, 1947, pp. 21-22.

29 "Documents on British Foreign Policy 1919-1939", Second Series, Volume 1, London 1946, p. 312.

> "Obviously", he said, "this association will be primarily economic, for that is the most urgent aspect of the question, and I think we may look for success in that direction. Still, I am convinced that, politically and socially also, this federal link might, without affecting the sovereignty of any of the nations belonging to such an association, do useful work....". 30

On 17th May, 1930, M. Briand elaborated his proposal in a Memorandum sent to all European Members of the League of Nations. In this Memorandum, he insisted on a world view, rather than a narrower, European view:

> "La politique d'union européenne...implique... une conception absolument contraire à celle qui a pu déterminer jadis, en Europe, la formation d'Unions douanières tendant à abolir les douanes intérieures pour élever aux limites de la communauté une barrière plus rigoureuse, c'est-à-dire à constituer en fait un instrument de lutte contre les États situés en dehors de ces Unions". 31

There was also an apparent change from his former attitude to the political role of the association, for he now advocated "subordination générale du problème économique au problème politique", and declared that "toute possibilité de progrès dans la voie de l'union économique étant rigoureusement déterminée par la question de sécurité et cette question elle-même étant intimement liée à celle du progrès réalisable dans la voie de l'union politique, c'est sur le plan politique que devrait être porté tout d'abord l'effort constructeur tendant à donner à l'Europe sa structure organique".[32]

---

30 Ibid., pp. 312-313.
31 Ibid., p. 316.
32 Ibid., p. 320. As the British Foreign Office subsequently recognised, what M. Briand intended was not that there should be political union first, but that the political advantages likely to come from economic union should be set against and should override any short-term economic difficulties.

The scheme was ambitious and, as it proved, impracticable. Its objectives were such that no government in Europe could easily afford to refuse to give it careful consideration; but its implications made its ultimate acceptance by any government extremely unlikely. Its principal interest lies in a consideration of the motives which inspired the French Government to put it forward. The contemporary assessment by the British Foreign Office of M. Briand's motives was that:

> "...He may think that the establishment of his 'European Association' would set a further seal on the sanctity of the present territorial and political organisation of Europe established by the Peace Treaties and post-war arrangements. It would be strange if he seriously believes that all or even the majority of European Powers would be likely to accept such a plan, which would offer most of them no advantages and would in their eyes appear merely to reinforce France's political hegemony in Europe. Perhaps, then, M. Briand calculates that the refusal, which is to be expected, of Germany, Italy and other Powers to entertain his proposals, ostensibly directed as they are towards a high moral ideal of stabilisation and co-operation, may both discredit the general policy of these countries in the eyes of the world, and provide him with convincing proofs on which future French Governments can dilate, that France, alone or chief of the European Powers, thinks and works for the salvation of Europe. All this is possible, perhaps even probable; it is typical of a certain kind of French policy, but it does not fit in with what we know of M. Briand. Almost alone among French politicians he has in recent years consistently shown himself a good European, a friend of peace and of the improvement of international relations. It would be disappointing to have to fall back on the conclusion that M. Briand had been persuaded or coerced into the view that all there is for him to work for now and in the future is the maintenance of France's political supremacy. Moreover, the attempt is really too barefaced to be likely to succeed. Germany, Italy and other Powers are not likely to fall into the trap, if trap there be". 33

---

33 Memorandum dated 30th May, 1930, drawn up for official use within the Foreign Office, Ibid., p. 328.

The Foreign Office therefore concluded that M. Briand (with whom, for the moment, the French Government were to be identified) was motivated by genuine idealism and not by any "cynical intention", and that he wanted the peoples and Governments of Europe simply to "understand that they have important common interests, and that they can greatly benefit both themselves and the world at large by forgetting their traditional conflicts and animosities and by co-operating more effectively to promote these interests".[34] The Foreign Office also recognised that M. Briand might, in fact, have in mind, primarily or entirely, economic considerations, rather than political and military objectives: that he might be seeking "to assure France and the rest of Europe against the ever-growing strength of non-European and especially American competition... It is difficult to believe that M. Briand... should not have something like this at the back of his mind; indeed, it is only the economic aspect of European reorganisation which could offer any attraction to Germany, Italy and many other European States, and if Europe is ever to be brought into a closer political formation it can surely be only as a result of closer economic ties".[35] Finally, in a Memorandum for Cabinet dated 3rd July, 1930, the Foreign Office summed up the French intentions as follows:

---

34 Ibid., p. 328.

35 Ibid., p. 328-329. So far as the last part of this quotation is concerned, experience seems to support M. Briand's view that there must be a political stimulus to economic union rather than that economic union can precede and assist some form of political federation.

"The fundamental proposition...is that something like a federal organisation of Europe is needed in the interests both of the peace and of the social and economic well-being of the continent. M. Briand desires to turn the eyes of the peoples of Europe from the traditional hostilities of the past and from alleged conflicts of interests and to fix them instead on those more important common interests which today they share.

"This is entirely in keeping with M. Briand's general policy in the last ten years. He believes in peace, both for his country and for the world, and he sees that Europe is still the chief probable storm centre of war. He therefore wishes to strengthen international safeguards against European war, and for that purpose to increase European co-operation. Some of his colleagues are, no doubt, also actuated by the desire to restore the economic balance between Europe and America". 36

As this quotation suggests, motives may have varied among members of the French Government. That is important, for it suggests that, whether the motive was cynical or idealistic, whether it was nationalist or genuinely internationalist, the security demands of France could bring most Frenchmen together in the proposal for economic union. The uncertainty of the future security position of France made it essential to find either a more certain basis for international co-operation or a stronger set of French alliances. M. Briand's proposal for European Federal Union offered some prospect of achieving one or other of these objectives; and, whether through the mouthpiece of M. Briand or not, was therefore more likely to originate in France than perhaps in any other European country. It was in what had come to be a French tradition for customs or economic union; but, as we shall shortly see, not all customs unions in Europe could receive French

---

36 Ibid., p. 336.

blessing. In the same way as France could hope for unions which would curb the future power of Germany, so other countries might plan for unions to end the hegemony of France.

M. Briand's proposal was referred to a Commission of Enquiry for European Union, set up by the League; but nothing came of it. It may, in any case, have been wholly abortive; but it lost whatever chance of success it had when, in March, 1931, Germany and Austria announced their intention to form a customs union. "Against the background of [the Austro-German proposal], the whole idea of regional customs unions met with strong opposition from the representatives of other countries, on the grounds that such unions were likely to arouse political suspicion, and that, by promoting the formation of blocs, they might retard or prevent the realisation of economic collaboration on a European scale".[37]

Austria's announcement of the plan in March 1931 said that Austria and Germany had

> "...decided that negotiations should be entered upon immediately for an agreement designed to co-ordinate the customs tariffs and economic conditions of the two countries on the basis and within the framework of certain guiding principles". [38]

Mainly no doubt as a sop to those who feared a step towards "Anschluss", the two countries deemed it wise also to "declare themselves willing to enter into negotiations for a similar agreement with any European State

---

37 "Customs Unions, A League of Nations Contribution to the Study of Customs Union Problems", op. cit., p. 23.

38 Document left with the British Foreign Office on 21st March, 1931, by the Austrian Minister, printed in "Documents on British Foreign Policy 1919-1939", Second Series, Volume II, p. 4.

which desires to do so";[39] but they went further than that, and declared specifically that:

> "The contents of the directions for the negotiations with Germany make it clear that the matter has nothing to do with the question of 'Anschluss'. Care has been taken to avoid everything which could be interpreted as relating to 'Anschluss', and this care will also be observed in the further negotiations". [40]

Even if the Austrian declaration was true that ultimate "Anschluss" was not intended, Austria's legal right to enter into the contemplated economic union was, at best, obscure. Under Article 88 of the Treaty of St. Germain, Austria was obliged to refrain, except with the consent of the Council of the League of Nations, "from any act which might directly or indirectly or by any means whatever compromise her independence". Furthermore, under Protocol No. 1 of 4th October 1922,[41] Austria had reaffirmed her obligation under Article 88 of the St. Germain Treaty, and had undertaken (i) "to abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise" her independence, and (ii) to refrain from "granting to any State a special regime or exclusive advantages calculated to threaten" her economic independence.

The reaction of France, and of the Little Entente, to the proposed union was immediate and intense. No assurances given by the Austrian and German Governments were sufficient to dampen French opposition, or, in particular, to settle French fears that political

---

39 Ibid., p. 4.
40 Ibid., p. 4.
41 This Protocol has been referred to previously in Chapter II, p. 40, supra.

union between Austria and Germany would rapidly follow the economic project so far ventilated.

> "Le Gouvernement français estime, en effet, que le mouvement d'opinion que provoquerait dans les deux pays intéressés la proclamation même voilée du principe d'une union douanière, risquerait de rendre vaine une intervention ultérieure; ce principe une fois posé, les modalités s'ensuivraient tout naturellement et l'Allemagne et l'Autriche se seraient engagées dans la voie qui mène à l'Anschluss". 42

The French Government's first step was to seek the opinion of the International Court of Justice on the legality of the proposed union. (It is interesting that the original French protest against the legality of the proposed union later appeared "to have been somewhat hastily made on the basis of inadequate information", with the result that the legal advisers at the Quai d'Orsay seemed "in some doubt if the agreement is in conflict with the existing obligations of Austria and still less of Germany".) 43. However, whatever the ultimate decision on the legality of the undertaking, the French Government rapidly decided to use financial pressure to secure its abandonment. Two forms of pressure were used, the first negative, the other positive. As at the time of the Young Plan negotiations, the German economy was balanced precariously on French, American and

---

42 Note dated 20th March, 1931, from the French Ambassador in London to the British Foreign Secretary, Ibid., p. 1.

43 Telegram dated 27th March, 1931, from the British Ambassador in Paris to the British Foreign Secretary, Ibid., p. 20.

other short-term credits,[44] whose sudden withdrawal would precipitate a financial crisis in Germany and place the German Government in a weak bargaining position vis a vis France on the Austrian question. How far the French Government actively and deliberately caused the withdrawal of French credits is hard to say, but certainly "the utter unreliability of French short-term balances"[45] in the second quarter of 1931 contributed noticeably to German difficulties, both before and after the crisis which followed the collapse of the Austrian Credit Anstalt. The French Government did nothing to prevent fluctuations in the French balances.[46]

---

44 At the London Conference, of July 1931, on the German financial crisis, Dr. Bruning said: "Our banking system, our Reichsbank system, our central bank system, has been based upon a law in connection with the Young Plan which is a quasi-international law, but the covering by foreign exchange and gold is founded not upon Germany's economy or economic life, but upon the amount of foreign short-term credits given by foreign countries to Germany..if there is any crisis in the world in some other country and foreign short-term credits are cancelled and taken away from Germany, at that very moment the difficulty for the German Reichsbank begins" (Documents on British Foreign Policy 1919-1939", Second Series, Volume II, p. 441).

45 Despatch dated 1st May 1931, from the British Ambassador in Berlin to the British Foreign Secretary, Ibid., p. 62.

46 It is worth noting that, at the London Conference of July 1931, M. Flandin said: "Dr. Bruning reminded us just now that the total of the credits coming from France is very small and does not exceed 5 per cent of the total. I can now assure you that that amount has not been in any way decreased recently. We are fully agreed on the necessity for recommending the central banks to take action with a view to stopping as far as possible the withdrawal of foreign credits from Germany...I should like to mention that this insistence on the necessity for settling, for freezing, so to speak, the total of the credits in Germany, has always figured among the French suggestions as one of the first steps to take" (Ibid., p. 453). Nevertheless, French credits had not always been as little as 5 per cent of the total, and it seems that the French Government had shown no haste to "freeze" short-term credits at least until outstanding political issues had been settled.

The second, positive form of economic pressure used by the French Government was to offer, inter alia, loans and credits to the German and the Austrian Governments, subject to certain political conditions. To the Austrian Government, in return for dropping the customs-union project, the French Government promised to give attention to four problems, viz., the market for Central and Eastern European grains, the industrial crisis, the shortage of capital and credit in Central and Eastern Europe, and the special difficulties of Austria. More specifically, the French Government proposed the creation of an international agricultural credit organisation, under the League of Nations, from which Austria would benefit, and declared in addition that:

> "Pour les opérations financières autres que les émissions d'emprunt, par exemple le financement de la production, un groupe de banques françaises a été constitué sous l'égide de la Banque de France et des conversations ont été entamées entre Londres et Paris". 47

Apart from credits, the French Government also had in mind that certain countries might give preferential treatment to Austrian exports, in return for an Austrian declaration to maintain the status quo or for some new commercial advantages in the Austrian market.

The French Government had compensations in mind for Germany also, summarised as follows:

---

47 Memorandum communicated by the French Ambassador to the British Permanent Under-Secretary of State, on 4th May, 1931, Ibid., p. 41. By an agreement of 15th July, 1932, France, along with Belgium, Great Britain, Italy, and the Netherlands, did guarantee a loan of 300 million schillings to Austria, in compensation for the customs union. The undertakings of the Protocol of 1922 were re-affirmed.

"(1) The French Government would be prepared to assist Germany in obtaining greater facilities as regards international finance. (2) Hitherto the French Government had not actively encouraged the conclusion of agreements between French and German industrial cartels. They would be willing to promote such agreements and to offer facilities for their successful operation. (3) If Germany were to co-operate in making the French scheme practicable, she would, in return for importing grain from Eastern European countries, receive facilities for exporting her manufactured goods to those countries. (4) A tendency to participate in the European industrial cartel agreements was beginning to appear in the United Kingdom; on the other hand, a tendency towards the gradual adoption of a system of protection was also discernible. If the United Kingdom and Germany co-operated in the French scheme, the latter might eventually receive guarantees as regards the stabilisation of import duties in the United Kingdom over a period of years". [48]

It was made absolutely clear that there would be no "grant of French loans to a Germany which was pursuing a policy economically hostile to France and contrary to the interests of European co-operation".[49]

These were the inducements held out to Germany to co-operate with the French on the customs union issue. If, however, Germany did not accept these inducements, then France would actively resist her and Germany "would be faced with economic alliances or unions between other countries, which would in all probability close those countries to German goods, leading thus to economic warfare and adding to the distress of Europe and, in particular, of Austria and Germany themselves".[50]

---

48 Despatch dated 7th May, 1931, from the British Ambassador in Paris to the British Foreign Secretary, Ibid., p. 50.

49 Ibid., p. 51.

50 Ibid., p. 51.

To this already impressive array of economic pressures, the French Government added quite early in the conflict, a further, somewhat legalistic point, which is of interest in itself and which also illustrates the difference between British and French policy at this time. As already noted, France had again accepted the most-favoured-nation clause, for the first time since the end of the war, in the trade agreement which she signed with Germany on 17th August, 1927. A similar agreement was signed with Austria in the following year. France reminded Germany that the 1927 agreement

> "...reconnaît à la France le traitement de la nation la plus favorisée; aucune dérogation n'y ayant été apportée en faveur d'une union douanière éventuelle de l'Allemagne, celle-ci ne saurait accorder aucun traitement préférentiel à l'Autriche qui ne serait automatiquement étendu à la France". 51

Under the 1928 Agreement, France applied the same argument to Austria.

On this point, the British Government unequivocally opposed the French view: certainly Britain would not claim most-favoured-nation rights against the formation of a customs union, whether of German or any other origin. On 23rd March, 1931, the French Ambassador in London was informed that

> "...the Anglo-German treaty of 1924 contains (article 4(2)) a special clause by which the provisions of the treaty in regard to the grant of most-favoured-nation treatment were not extended to 'favours granted by one of the two contracting Powers to a third State in view of a customs union which

---

51 Note, dated 23rd March, 1931, from the French Ambassador in London to the British Foreign Secretary, Ibid., p. 11.

> has already been or may hereafter be concluded'. The Anglo-Austrian treaty of 1924 contains no such clause, but the Board of Trade had intimated that they would certainly not raise the point, since they considered it a well-known principle of international theory that most-favoured-nation treatment does not apply in cases where customs unions have been established. Moreover, had Austria requested that an article similar to article 4 (2) of the Anglo-German Treaty be inserted in the Anglo-Austrian Treaty, the Board of Trade would have undoubtedly raised no difficulties". 52

It is significant that the Board of Trade's opinion on this issue was accepted and transmitted, without Foreign-Office modification, to the French Ambassador, as the view of the British Government. Britain's general attitude to the customs-union proposal was cauticus - she "retained an attitude of reserve and deprecated hurried decisions"[53]; and she refused to mutilate accepted principles of international commercial conduct, in order to promote political objectives. Of other French methods, the Foreign Secretary expressed the British Government's strong distaste in a telegram, dated 26th June, 1931, to the British Ambassador in Washington, part of which read:

---

52 Despatch, dated 25th March, 1931, from the British Foreign Secretary to the British Ambassador in Berlin, Ibid., pp. 6-7.

53 G.M. Gathorne-Hardy, "A Short History of International Affairs 1920 to 1939", London 1942, p. 338.

"Both the United States Government and His Majesty's Government have disapproved of the recent attempt of the French Government to use Austria's financial necessity as a means of extorting an undertaking to abandon the customs union. These methods seemed both to us and to the United States of America illegitimate. The same method would be equally illegitimate and impracticable in the case of Germany". 54

In general, this suggests the contrast between British and French policy during the inter-war period: the French had an active foreign economic policy, which they applied frequently and vigorously, while, for the most part, Britain had not. As the 'thirties advanced, however, and the German threat crystallised, the foreign policies of the two countries came closer together. There was some concurrent tendency - though it was never taken very far before 1939 - to develop mutual economic support between the two countries. For example, in the Tripartite Declaration of 25th September, 1936, France, the United Kingdom and the United States affirmed their "common desire to foster those conditions which will safeguard peace and will best contribute to the restoration of order in international economic relations, and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living". Belgium, the Netherlands, and Switzerland adhered to the Tripartite Agreement, but Germany and Italy did not. The value of the franc - which the Tripartite Agreement had

---

54 Ibid., pp. 104-105. The earlier part of this quotation refers to the French attempts to use the Austrian crisis arising from the collapse of the Credit Anstalt to force their will on Austria. The collapse of the Credit Anstalt had severe repercussions in Germany. "To a great extent", said Dr. Bruning at the London Conference in 1931, "our banking difficulties arose from the difficulties in which Austria found herself with her Credit Anstalt at Vienna". Although at that time, France may not have actively intensified German difficulties (see, for example, M. Flandin's statement quoted previously) she certainly attempted to take advantage of those difficulties.

been intended to preserve - fell again in the summer of 1937, and French quota and tariff restrictions which had been withdrawn in 1936 were again imposed. Germany and Italy continued and intensified their policies of autarchy and, although "the United Kingdom took no lead in breaching the defences of restrictions",[55] neither did she attempt, until a very late stage, to build any economic alliance to counterbalance the economic diplomacy of Germany. In any event, contemporary opinion seems to have been against any such development. For example, "The Economist" commented that

> "...political relationships have changed greatly for the worse since 1931. Industries have been concentrated on armament production, and in more than one country self-sufficiency based on the alleged needs of defence has become an obsession.
>
> "These difficulties are formidable, but they should not be allowed to stand in the way of a determined effort by the countries which have adjusted their currencies to secure every practicable amelioration of trade restrictions among themselves. Without a reasonably free apparatus of payment and of valuation, trade cannot flow freely. These countries have an opportunity of demonstrating this truth to the world, and of showing that facilities for trade bring a handsome dividend in increased prosperity". 56

France was left as much to her own inadequate devices in the economic field as in the field of political and military preparedness.

Since the end of the Second World War, however, this has rapidly been changed. The principle of mutual economic support behind the Tripartite Monetary Agreement has reappeared in a wider and more intense form, and this time with a clearly political motivation. After 1945,

---

55 League of Nations, "Commercial Policy in the Interwar Period", Geneva 1942, p. 86.
56 "The Economist", 3rd October, 1936, p. 2.

France envisaged much the same need to secure herself against a future threat from Germany as after 1918; but there was now the additional, and perhaps even more serious menace from Soviet Russia. The latter has brought some rather perverse advantage to France, for it has been the Soviet threat, rather than fear of Germany, which has enabled France to build a close political and economic alliance, especially with the United Kingdom and the United States. Article IV of the Treaty of Dunkirk, for example, established the framework for an economic alliance with the United Kingdom, which has been extended to other countries under Article 1 of the Brussels Treaty and Article II of the North Atlantic Treaty,[57] and which has acquired a special intensity and fruitfulness within the Organisation for European Economic Co-operation.

In addition, however, France has looked for even more precise and intimate bonds of economic alliance or economic union with neighbouring countries. Perhaps the most spectacular of French post-war proposals has been the Schuman Plan for integrating French and German heavy industries. Although this Plan has often been discussed as an economic project, its objectives are essentially political.

> "France...is still unshakeably persuaded that no military control of Germany is ultimately possible unless its heavy industry is removed once and for all time from German national jurisdiction...For M. Schuman the vital consideration

---

57 The text of these Articles is contained on pages 224-5. section 5 infra, dealing with the United Kingdom.

> is..not so much the economic benefits from the abolition of dual pricing of coal and the many other irrationalities of investment and production which hamstring European recovery. Much more important is the whole principle of the independent authority which he has proposed, a political innovation which he believes capable of transforming the very atmosphere of German public life". 58

But there are a number of other projects for economic alliance which have received French support. The European Customs Union Study Group, which developed under United States pressure as a by-product of the European Recovery Programme, drew much of its support from France. So have other, later proposals for the "integration" of "unification" of Western Europe, put forward especially by Mr. Paul Hoffman in his role as Economic Recovery Administrator. On the Council of Europe, French enthusiasm for some positive steps towards European Union has been contrasted with what has been alleged to be British apathy or even British antipathy towards involvement in Continental affairs.

In their more limited, bilateral relations, the French Government has attempted to apply the same policy of integration. In September 1947, the French and Italian Governments "affirmed their desire to examine the basis on which it might be possible to establish a Customs Union between the two countries".[59] On 26th March, 1949, after further discussions and investigation by a Mixed Commission, the two Governments signed a Customs Treaty, subject to ratification, which contemplated

---

58 "The Economist", 17th June 1950, p. 1335. Much the same political motive lay behind the International Steel Cartel formed by Germany, France, Belgium and Luxembourg in 1926. The Cartel was expected, in some quarters, to guarantee continuing peace between Germany and France.

59 Preamble to the Franco-Italian Customs Treaty of 26th March, 1949.

tariff union within one year of the coming into force of the Treaty, and economic union within a period which "the two High Contracting Parties....hope will not exceed six years".[60] Especially during the latter part of 1949, under pressure from E.C.A. for greater "integration" in Western Europe, the French Government explored the possibility of linking the proposed Franco-Italian union with the much older project for Benelux. Nothing came of this more ambitious proposal, and even the Franco-Italian union remains, so far, only a paper project. As an indication of the difficulties which any proposed French unions may expect, Benelux itself has encountered many difficulties and setbacks, and has been, for some time, in grave danger of foundering.

Despite this, the political drive to economic union or alliance, which M. Briand insisted in 1931 must subdue any economic objections, is now present in full measure, and an impressive degree of economic co-operation among the national economies of Western Europe - and North America - has already been achieved. Thus, many of the political advantages which the French Government may have hoped to obtain through formal instruments for economic union, may be achieved less directly and even less spectacularly, but quite as effectively, through such organisations as O.E.E.C. The economic alliance which binds Western Europe is already so strong that it is unlikely that France could gain much immediate security benefit from formal union, to which there would be many and serious short-run

---

60 Article 6 of the Franco-Italian Customs Treaty of 26th March, 1949.

economic objections. In the long-term, of course, economic union would give the alliance a permanence which may be lacking under present arrangements.

French policy, both before and since the Second World War, indicates how a country, in a position of chronic insecurity, tends continually to resort to some form or other of economic sanctions and to seek for defensive economic alliances. Before the War, France could not, for the most part, interest the United Kingdom and the United States in strong political alliances and the failure to form a strong economic alliance followed. After the war, the United States, the United Kingdom, and France shared, broadly, the same apprehensive view of the political situation and, with the assistance of changed economic attitudes, an economic alliance between the three countries - and others - followed naturally and easily. Before the War, also, France was politically divided between resistance and appeasement, and was beset with welfare problems, with the result that she failed for many years to attend to national defence[61] and she yielded to Germany the strong political and economic position she had formerly held, for example, in South-east Europe. After the War, although uncertainties persisted internally, majority determination to resist aggression and powerful external support, both political and economic, gave greater impetus to national defence, and stimulated and encouraged efforts to strengthen, extend, and intensify the economic alliance to which she had readily become a party.

---

61 See, for example, A.J. Brown, "Applied Economics, Aspects of the World Economy in War and Peace", London 1947, pp. 38-39.

The future of the economic alliance in Western Europe - whether it is tightened still further, or in some measure relaxed - depends principally on the policy of Soviet Russia. Soviet foreign economic policy, including the postwar formation of an economic alliance, includes some of the elements of both the French and the German policies. In total, however, it is distinct from them both.

4. The Soviet Union.

The nature of the Bolshevik revolution obviously precluded any liberal external economic policy; but "the blockade of Soviet ports and land frontiers, the frequent seizure of, and embargo on goods and ships sent abroad by the Soviet Government and difficulties with, and often the refusal of, admission of Soviet trade representatives and agents in certain countries"[62] reinforced and quickened the impulse to complete state control of external economic relations. Largely as a result of this experience also, the Soviet "deliberately isolated herself, for she profoundly distrusted all 'capitalist States', and her energies were fully occupied in her immense task of internal reconstruction and social transformation".[63] These two factors of intense state control and friendless isolation dominate Soviet foreign economic policy between the wars.

For some years after 1917, Soviet external trade was almost at a standstill. The war had already drastically reduced trade, but the Revolution, the Treaty of Brest-Litovsk, the civil war and the foreign interventions completed the breakdown which the war had begun. It was during this period of breakdown that the principle of a complete State monopoly of foreign trade became firmly established. The decree of 23rd April, 1918, establishing this monopoly brought to a close a short attempt to allow pre-revolutionary trade organisations to

---

62 Alexander Baykov, "Soviet Foreign Trade", Princeton 1946, p. 7.

63 Hugh Seton-Watson, "Eastern Europe between the Wars", Cambridge 1945, p. 414.

continue under a licensing system. This decree had its clear political element - "The Red Army must defend our country against possible military attacks. The monopoly of foreign trade must repulse all economic and financial intervention from abroad".[64] Since, however, the economic blockade imposed by the Allies after the Treaty of Brest-Litovsk was not lifted until early 1920 and the financial blockade imposed by banking houses in France, the United Kingdom, the United States, Scandinavia, and Estonia continued until 1921, a policy to "repulse all economic and financial intervention" could have meaning only over the long-term. This was also the period of establishment of overall state planning, under which the Soviet came to "trust principally to the wisdom and the good intentions of the central controlling body"[64] and there was no longer a "careful adjustment of means to ends, but the subordination of the economic body to a central will which forms immediate judgments without the use of the monetary balance".[65] With the criteria for economic return obscured, application of economic resources to political objectives, and welfare sacrifices for national security, became easier to accept.

Between 1921 and 1930, however, Soviet external trade was restored almost to pre-war levels. Exports, valued at only 20.2 million roubles in 1921, reached 1,002.3 million roubles in 1929-30,

---

64 L. Krasin, "Problems of Foreign Trade", quoted from Alexander Baykov, "The Development of the Soviet Economic System", Cambridge 1947, p.28.

65 R.L. Hall, "The Economic System in a Socialist State", London, 1937, p. 255.

and, over the same period, imports rose from 208.3 million roubles to 1,068 million. Especially after 1928, however, with the institution of the Five-Year Plans, this trend was sharply reversed, and the Soviet concentrated on developing her economic and financial independence. Although Soviet production expanded during the 'thirties more rapidly than in any previous period and although world trade and commodity prices made some recovery from their low level of 1929 to 1932, Soviet trade, as shown in Table 2, fell away consistently throughout the 'thirties. The value of total Soviet trade in 1938 - taking imports and exports together - was only about one-third of the value in 1928 and one-half of the value in 1932. "The political revolution of 1917, the industrial revolution which made rapid headway from the time of the inauguration of the first five-year plan in 1928 and the rapid increase in population changed... the U.S.S.R. from one of the chief granaries of Europe to an almost self-contained economic unit".[66]

Table 2. Soviet Foreign Trade, 1928 to 1938.

Year	Imports	Exports	Total Trade
	(In millions of U.S. dollars)		
1928	830	705	1535
1932	613	501	1114
1935	210	320	530
1938	268	251	519

Source: League of Nations, "Europe's Trade", Geneva 1941, Annex 1, p. 83.

66 League of Nations, "The Network of World Trade", Geneva 1942, p. 64.

There was nothing new in this Soviet quest for self-sufficiency, except in the desperate energy with which it was carried through and the welfare burdens it imposed on the Russian people. By different means and with much greater moderation, the United States, for example, and the British Dominions had aimed at much the same result, although in their case the motive had been much less political and much more associated with welfare than in the Soviet case. The extreme Soviet policy was also due in part to the absence of foreign capital, caused not only by the understandable hesitations of foreign lenders but also by Soviet wariness about foreign borrowing. The Soviet did receive some foreign credits. For example, credits extended by Germany in the earlier 'thirties were largely responsible for making Germany the chief supplier of heavy industrial equipment during that period. In the main, however, Soviet dependence on internal resources to finance her industrial development intensified the tendency for the Soviet economy to be inward-turning.

Apart from the extent of external economic contact, there is the further question of the nature of that contact- whether it was discriminatory for foreign-policy reasons or otherwise. One of the purposes of a state monopoly of foreign trade could well be "to regulate foreign trade not only according to economic aims but also according to political and social ones. The political aims, based on considerations of the desirability or otherwise of developing economic and political relations with a particular country, could be pursued by a corresponding transfer of import purchases from one country to another without formal changes in existing trade agreements with the country

concerned".[67]

Soviet views on discrimination received some expression in her proposal for a Pact of Economic Non-Aggression, submitted to the Commission of Enquiry for European Union in 1931, and to the Monetary and Economic Conference of 1933. The text of the Russian Protocol, as presented in 1931, read as follows:

> "1. The contracting parties once more solemnly confirm the principle, proclaimed at the International Economic Conference of 1927, of the peaceful coexistence of countries, irrespective of their social-political and economic systems.
>
> "2. The parties undertake in their mutual relations to forego any discrimination whatever, and to regard as incompatible with the principles of the present Protocol the adoption and application in their respective countries of a special system directed against one or more of the countries signing the present Protocol or not applicable to all other countries". 68

M. Litvinoff said that what the Soviet had in mind would "amount to the abstention from hostile measures in the economic sphere against any country or group of countries from political or other motives - in other words, to declare economic war illegal".[69] Elsewhere, he supported the most-favoured-nation principle, saying that "no one will deny that this principle has considerably facilitated the conclusion of trade agreements, has introduced tranquillity and stability into international economic relations, and has even contributed to the development of international trade".[70]

---

67 "The Development of the Soviet Economic System", op. cit., p. 73.
68 Commission of Enquiry for European Union, Minutes of the Third Session of the Commission, 15 to 21st May 1931, p. 90.
69 Ibid., p. 66.
70 Ibid., Fourth Session, 3rd to 5th September 1931, p. 14.

More than anything else, the Soviet proposal probably pointed to her fear that, in a discriminatory and unfriendly world, she might suffer most. It was received without enthusiasm by the other members of the Commission, and, in accordance with the well-established procedure for killing unwelcome proposals, it was passed to and fro among various committees, without any attempt at substantive action. Nothing subsequently came of it. Later, the Soviet adhered to a number of minor League agreements on financial and veterinary questions, but none obliged her to non-discrimination over any wide field of policy. At the same time, it seems true that, for a large part if not all of the inter-war period, the Soviet remained attached to policies of strict non-discrimination, at least for other countries. A League study commented that:

> "If concrete evidence of the Soviet Union's attitude towards regional exceptions to m.f.n. rights is meagre because of the rarity and peculiar nature of her treaties, there is no doubt that she has been opposed to admitting such exceptions. She has been categorical in her insistence on the fullest possible interpretation of the m.f.n. clause and there appear to be no instances of Soviet acceptance of a regional exception". 71

Non-discrimination in the Soviet's own export and import policy is less easy to establish. The Soviet tariff meant little in conditions of state purchase of all imports, and the opportunity was always open to the Soviet export agencies to sell at artificial and fluctuating

---

71 League of Nations, "Customs Unions", New York 1947, p. 58.

prices, or to withhold supplies completely.[72] In any event, Soviet trade figures show little consistency either in the source of her imports or the destination of her exports. As shown in Table 3, Germany, for example, supplied one-quarter of her total imports in 1928, but only 4 per cent ten years later. The United Kingdom, on the other hand, increased her share of Soviet imports from 2 per cent to 11 per cent over the ten-year period, and, in 1938, took almost one-third of Soviet exports as compared with one-fifth in 1928.

Over this period, there was a marked change in the composition of Soviet trade. "The composition of imports...was profoundly affected by the industrialisation programme. Imports of consumers' goods virtually came to an end while imports of iron and steel and machinery reached high figures, particularly during the early 'thirties, before the heavy industry of the U.S.S.R. had attained an advanced stage of development".[73] These capital goods German industry was well fitted to supply, as it had done in the earlier 'thirties, but Soviet imports

---

72 The Soviet did appear to discriminate (especially in her purchase of imports) whenever there was any act of political hostility against her. For example, after the Arcos raid of 1927 in the United Kingdom, Soviet trade with Britain dropped sharply in 1927-28, and, although exports recovered in 1929, Soviet imports from the United Kingdom still remained at about half their 1926-27 level in that year. The Soviet also took counter measures whenever necessary against countries which discriminated against her exports. In general, Soviet export and import policy seems to have been determined on a much wider basis than simple commercial advantage, although it seems, on the political level, to have been much less consistent and politically planned than any attempt to form an economic alliance would imply.

73 "The Network of World Trade", op. cit., p. 64.

Table 3. Direction of Soviet Trade: Percentage Changes.

	Imports		Exports	
	1928	1938	1928	1938
	%	%	%	%
United Kingdom	2	11	20	30
Germany	25	4	24	8
Rest of Europe	15	26	30	38
United States	19	30	6	8
China (inc. Manchuria)	6	7	4	8
Near East	9	7	10	8
Rest of World	24	15	6	-
	100	100	100	100

Source: "The Network of World Trade", op. cit., Table 35, p. 65.

in later years were switched heavily to the United Kingdom and the United States. This switch was no doubt due as much to deliberate action from the German as from the Soviet side, but it is significant that it occurred at a time when the prospect of aggression from Germany and the prospect of alliance with the Western Powers was greater than at any time during the inter-war period. Nevertheless, neither this nor any other part of Soviet policy suggests any effective attempt by the Soviet to form any economic alliance in the inter-war period. Even from South-eastern Europe,[74] where Russian interest and influence had traditionally been great, the Soviet had withdrawn and the area was left to German political and economic domination.

It can be concluded, therefore, that, while Soviet external economic policy between the wars was dictated in large measure by political considerations, it had any marked success only in building Soviet independence of foreign trade and foreign capital. This policy of self-sufficiency, extending as it did to "the domestic production of raw materials...so as to render the U.S.S.R. less dependent upon imports of such materials, even those from the tropical belt",[75] was strikingly successful, no doubt at the expense of a severe reduction of the standard of life of the Russian people.

---

74 As indicated in, for example, the trade figures in Annex III of "The Network of World Trade", Soviet trade with South-east Europe was negligible especially in the 'thirties. The predominance of Germany in that area has already been sufficiently illustrated.

75 "The Network of World Trade", op. cit., p. 64.

Beyond that, however, the Soviet did not build - or, it seems, attempt to build - any economic empire or any strong economic alliances. The policy of self-sufficiency itself tended to militate against any such development which, in any event, was made difficult if not impossible by Soviet political isolation throughout the period. It may be assumed, however, that a policy as narrowly defensive as total self-sufficiency would be accepted only under the pressure of peculiarly unfavourable external conditions, and that a supplementary movement towards economic alliance would take place as soon as and so far as these external conditions improved.

Post-War Experience.

With the end of the Second World War, the Soviet immediately acquired a set of valuable allies in Eastern Europe. The years of friendless isolation were over, and, with their passing, much besides in Soviet foreign economic policy took on a markedly new aspect. For the moment, however, there were signs that the Soviet might project her alleged support for non-discrimination and anti-regionalism into the postwar period. She accepted the economic provisions of the United Nations Charter - which were sufficiently general, in any case, to be innocuous without detailed elaboration; she participated in the non-discriminatory work of UNRRA, which helped her own reconstruction and that of her Eastern European allies, without imposing any off-setting obligation on the conduct of their own economic policies; she opposed UNRRA's termination, which would have ended the use of Western

economic resources, without political discrimination, for reconstruction needs wherever they occurred; and she participated in the Bretton Woods and Hot Springs Conferences.

The signs of change appeared when she accepted the United Nations Charter but none of the important and related Specialised Agency Agreements, and when she declined to participate in, for example, the Trade and Employment Conferences. Perhaps this sprang from an honest refusal to accept obligations which a bloc foreign economic policy would render meaningless. But the motive may have lain deeper than this. If Soviet foreign economic policy assumes that economic instability will breed political extremism which is more likely, in the postwar period, to take the form of communism than any other, then to foster economic instability is the short route to winning allies. Taking this line, the chances of economic instability might be enlarged if the Western world were uncertain of the economic policies of that major part of the world economy represented by Eastern Europe, and the effort at stability itself might break down if a reasonably universal participation were not achieved. In any event, it would seem a misguided policy for the Soviet to participate actively in Western proposals and thus strengthen the anti-communist bloc- if there was such a bloc in the earlier postwar years - against herself. This Soviet policy seems to have been aggressive, although it is just possible that it was defensive, or did not assume its more extreme forms, until the foreign-policy motivation for economic stability and economic development in Western countries became more clear-cut. Soviet policy was illustrated

by the Soviet attitude to full employment. The Soviet strongly supported the inclusion of a full-employment pledge in the United Nations Charter, but it may have done so in order to highlight then and thereafter a feature in which the communist economy had a clear advantage over its capitalist alternative. In subsequent international discussions on full employment, Soviet policy seemed to be to exaggerate every downturn in the free economies, but to offer no constructive remedy short of communist revolution.[76]

For the most part, it is impossible to separate Soviet policy from the policies of the other Eastern European countries. In one respect, however, there is an apparent difference. Although the Soviet remained outside all the Specialised Agencies except for a brief flirtation with the World Health Organisation, some or other of her Eastern European allies did join the Specialised Agencies, at least for a short period. Poland and Czechoslovakia were members of the International Bank for Reconstruction and Development while there was still some prospect of obtaining dollars for East European development, and other Eastern European membership of the various Specialised Agencies seems to have been predicated on this expectation that the Agencies could be used to speed the way to economic maturity. In 1950, the Secretariat of the Economic Commission for Europe, in discussing productivity in Eastern Europe, noted that:

---

76 See, for example, Soviet statements on full-employment policy at the Ninth Session of the Economic and Social Council, held in Geneva in July and August, 1949.

> "Several countries have established long-term plans covering periods of up to five and six years which indicate the general tendency of their economic policies. All these plans provide for large-scale industrialisation, partly based on the transfer of population from agriculture to industry. These industrialisation plans do not appear to be based on expectations of an extensive capital inflow, but rather on the countries' own resources". 77

Self-reliance for capital needs was, however, not Eastern Europe's original intention. Loans from the International Bank were eagerly sought, not necessarily, of course, to build any permanent link with the West but rather to hasten the trend to sturdy independence. Soviet participation in the Paris Conference on the European Recovery Programme may have been inspired by the desire to obtain American capital if at all possible, and to demonstrate to her Eastern European allies that the attempt had been made to secure their capital needs while preserving their political independence. Later, at the Seventh Session of the Economic and Social Council, the Soviet attacked what she alleged to be the discriminatory policy of the International Bank which had failed to extend loans to its Eastern European members.

Since it was sound policy for Eastern Europe to strengthen its economy - and thus its war potential - with Western capital, it was the United States, and not Eastern Europe which brought the flow of capital to a halt. Similarly, Eastern Europe remained anxious to buy Western capital goods, if not with loans, then with current earnings and existing assets. The trade figures given in Table 4 show the continuing Eastern European emphasis on import of capital

---

77 "Economic Survey of Europe in 1949", op. cit., p. 216.

Table 4. Imports of Eastern European Countries (including the USSR) from Western European Countries and the United States.

(Millions of dollars f.o.b. 1938 figures in 1948 prices, postwar figures in current prices).

Commodity Group	Western European Countries			United States			Total		
	1938	1948	1949	1938	1948	1949	1938	1948	1949
Food, drink and tobacco.	68	49	46	6	19	14	74	68	60
Raw materials and articles mainly manufactured.	171	96	112	75	29	42	246	125	156
Metals and Manufactures.	232	65	93	44	4	1	276	69	94
Machinery.	204	103	174	84	50	9	288	153	183
Passenger Cars.	12	6	8	4	1	-	16	7	8
Transport Equipment.	75	29	29	23	1	2	98	30	31
Chemicals and related products.	98	43	58	4	5	3	102	48	61
Textiles and Manufactures.	116	36	43	1	2	3	117	38	46
All other manufactures.	88	23	24	15	3	2	103	26	26
Unspecified.	452	285	360	-	14	5	452	299	365
Total	1,516	735	947	256	128	81	1,772	863	1,030

Source: Extracted from Table 61 of "Economic Survey of Europe in 1949", United Nations, Geneva, 1950.

"Eastern European Countries" include Bulgaria, Czechoslovakia, Hungary, Poland, Roumania, Yugoslavia and the U.S.S.R.

"Western European Countries" include all other European countries except the Soviet Zones of Germany.

goods, despite increasing Western restrictions on their export. Only imports of food, drink and tobacco declined in 1949, as compared with 1948. The outstanding increases were in machinery (an increase of almost 70 per cent), and in metals and manufactures (an increase of almost 60 per cent). Increased imports from Western Europe in both these commodity groups more than offset the sharp decline in imports from the United States following imposition of security export restrictions on 1st March, 1948.[78] In 1938, total imports by Eastern European countries (excluding Czechoslovakia) of capital goods from Western Europe, including the United Kingdom and Czechoslovakia but excluding Germany, were valued at $US373 million. In 1948, the figure was only slightly below at $US359 million and, in 1949, had surpassed the pre-war figure at $US479 million.[79] Imports of consumption goods from the same countries, which were valued at $US195 million in 1938, stood at $US185 million in 1948 and $US218 million in 1949.[79] Imports of capital goods had declined only from those countries where special factors operated - that is, Germany, where industrial recovery was incomplete, and the United States, where severe export restrictions had been applied. In the case of Czechoslovakia, there had been a substantial diversion of capital goods exports to the other Eastern European countries, especially after the Communist coup in 1948.

---

78 Largely for this reason, the United States has tried to have its export controls adopted by other Western countries, since otherwise United States exporters lose markets without gaining any security or foreign-policy advantage. See Section 6 infra.

79 All these figures are from "Economic Survey for Europe in 1949", p. 85. The 1938 figures are in 1948 prices, and the postwar figures in current prices.

As these figures in themselves suggest, Soviet - or Eastern European - policy has never been to cut off East-West trade. Their contrary intention to expand it has been vehemently expressed, for example, in their pressure for the creation of the Committee on the Development of Trade of E.C.E.[80] and the Czechoslovak objections to United States export restrictions placed before the Contracting Parties to GATT. At the Third Session of the General Assembly in 1948, the Soviet, along with other Eastern European countries, attacked the discriminatory United States export restrictions, and demanded that most-favoured-nation obligations be observed. M. Arutiunian reminded Members of the United Nations that the United States-Soviet Agreement of 4th August 1937 was still in force and that it "provided that in their trade relations the two countries would observe the most favoured nation principle unconditionally and without reservation".[81] He quoted with approval "the New York Post of 12 August 1948 in which it was stated that it seemed unquestionable that the United States was violating its trade agreement with the U.S.S.R. in the most blatant and unpardonable manner".[81] Especially after the outbreak of hostilities in Korea, the Eastern Europeans were scrupulous in their fulfilment of Western trade contracts, and were quick to take up deliveries in case Western export restrictions might be intensified.

Nevertheless, although there has been this continuing support of East-West trade, there has been little doubt of Soviet intentions

---

80 At the same time, the Soviet showed no more willingness than Western countries to make policy sacrifices for the sake of expansion of East-West trade.

81 Official Records of the Third Session of the General Assembly, Part I, Second Committee, Summary Records of Meetings 21 September - 26 November 1948, p. 215.

to form a strong economic bloc in the east. By January, 1949, the Council for Mutual Economic Assistance - Comecon - had been established, the six members of which undertook "the implementation of broader economic co-operation between the countries of Peoples' Democracy and the Soviet Union", and inter alia, "the development of multilateral exchanges among the member countries".[82] In part, no doubt, Comecon was the Soviet answer to O.E.E.C.; but the whole tendency since 1945 had been to weld Eastern Europe into an economic unity; and Comecon was to this degree a straightforward development of already existing trends. Long before 1949, most-favoured-nation principles and anti-regionalism had outlived their foreign-policy usefulness for the Soviet, except, as indicated previously, as a stick with which to beat the United States and other Western countries.

As an indication of this, it is notable that although "Western European exports to Eastern Europe increased only moderately in 1948 (declining, in fact, in the case of exports to the U.S.S.R.) while exports from Eastern to Western Europe rose appreciably, but were still only about 40 per cent of the pre-war level",[83] there was

---

82 United Nations Economic Commission for Europe, "Economic Survey of Europe in 1948", Geneva 1949, p. 147.

83 Ibid., p. 148. E.C.E.'s "Economic Bulletin for Europe" (Second Quarter 1949, Vol. 1 No. 2, p. 27) shows that exports from Eastern to Western Europe (including Germany) in 1948 were 134 per cent of their 1947 value, but they were still only 34 per cent of their value in 1938 (after conversion of all values to 1948 prices). Similarly, exports from Western to Eastern Europe in 1948 were 110 per cent of their 1947 value but only 42 per cent of their 1938 value.

It must be recognised, of course, that Eastern European concentration on intra-bloc trade results not only from the efforts of Eastern European countries themselves but is intensified by Western passivity towards and restrictions on trade with Eastern European countries. Similarly, trade within Western Europe is affected from two sides - by its own antipathies towards Eastern Europe, and Eastern antipathies towards the West.

no similar hesitation in trade within Eastern Europe. On the contrary, "trade among Eastern European countries...was almost twice as large in volume in 1948 as in 1947 and was about three times as large as before the war".[84] Although this increase was due principally to expansion of trade between the Soviet and the smaller Eastern European countries, there was a substantial increase in exchanges among the smaller countries themselves. This expansion was assisted by special, far-reaching agreements. For example, Poland and Czechoslovakia

> "...concluded an agreement in July 1947 for the common development of the important industrial area of Teszin-Cieszyn on both sides of their common frontier, and for the joint development of the harbour of Szczecin, as well as for allocation of production in a number of branches of the engineering industry between the two countries".[85] [86]

Under this agreement, a Polish-Czechoslovak Council of Mutual Economic Co-operation was set up whose objective was stated by M. Minc, the Polish Minister of Industry, in March 1948, to be to "transform economic co-operation into economic alliance".[87] In November 1946, Yugoslavia formed a currency and customs union (or perhaps more accurately a free-trade area) with Albania, and in the following year signed a pact with Bulgaria, providing inter alia for customs union between the two countries. At that time, M. Dimitrov spoke of

---

84 Ibid., p. 145.
85 This agreement was concluded before the communist coup in Czechoslovakia, but while the Czechoslovak Government was under communist influence and sympathetic to the Soviet bloc.
86 "Economic Survey of Europe in 1948", op. cit., p. 202.
87 Quoted from Brian Ireland in "Central and South East Europe 1945-1948", Edited by R.R. Betts, London 1950, p. 153. This study has also been used for material in the later part of this paragraph.

Bulgaria participating in a federation of Eastern Europe but this suggestion was later withdrawn under Soviet pressure. The Soviet concluded comprehensive trade agreements with each of the other Eastern European countries which resulted in a large-scale diversion of their sales and purchases to the Soviet Union. In the period from 1936 to 1938, for example, Poland had drawn just over one per cent of her imports from the Soviet, and had sold to her large Eastern neighbour less than one half of one per cent of her exports. After the war, however, the Soviet became Poland's largest market and supply source, although the percentage of Polish trade with the Soviet dropped sharply from the extremely high levels of the earlier postwar period. The Soviet supplied 70.3 per cent of Polish imports in 1946 and 26.5 per cent in 1947, and she took 46.8 per cent of Polish exports in 1946 and 28.6 per cent in the following year. In 1948, 46 per cent of total Polish trade was directed to the Soviet and other Eastern European countries.

It must be emphasised that trade agreements within Eastern Europe were accompanied by trade agreements with Western countries, including some long-term agreements with the United Kingdom providing for substantial trade exchanges. The question is whether the Eastern European countries saw these Western agreements as furnishing the margin of goods - especially capital goods - which could not be obtained in adequate quantity within the Soviet bloc and whether, after a temporary phase of mutually advantageous exchanges, they would, perhaps sharply, break off economic contact with the West.

Miss Doreen Warriner has ventured the opinion that, in Eastern Europe, "there is no intention of forming an autarkic economic unit

cut off from the west",[88] that "Russia does not dominate the trade of eastern Europe",[88] and that "in 1948, half of eastern Europe's total foreign trade was with western Europe, one quarter with the Soviet Union, and one quarter was trade between the east European countries".[88] Elsewhere, she notes that industrialisation in Eastern Europe should mean, if the experience of other countries is repeated, not a reduction of trade with Western Europe but a substantial expansion. The possibility of large-scale, long-term trade between East and West should not be entirely discounted and the statement that there is no intention to form an autarkic economic bloc in Eastern Europe cannot perhaps be entirely refuted. Nevertheless, the balance of the evidence seems to be that a political and economic bloc has been in process of formation in Eastern Europe for many years, that the stimulus for this has been generated within Eastern Europe although it may have been intensified by the policies of Western countries, and that, although trade with Western Europe may still be large and although the Soviet may not entirely "dominate" trade, the relative importance of Soviet and Western European economic influence has greatly changed since pre-war years, largely as a result of the Soviet's deliberate policy. Finally, as Miss Warriner acknowledges, the causes of the present trade stagnation between East and West are mainly political. Although the West must take some share of the blame for the political

---

88 Doreen Warriner, "Revolution in Eastern Europe", London 1950, p. 165.

barrier to trade exchanges, it seems entirely unrealistic to suggest that there has been no political stimulus in Eastern Europe to form a tight economic bloc, which immediately might place the West on the margin of economic co-operation and ultimately might exclude it altogether. Although industrialisation under laissez-faire between friendly countries or between countries not applying a discriminatory foreign economic policy may have led to expanded trade in virtually all directions, it does not follow that, when Eastern Europe has attained its industrialisation objectives, and can cut itself off from the West, it will not be guided by the political aim of autarky within its own political bloc, rather than by the welfare aim of equal and universal co-operation.

Some further indication of the strength of the economic bloc already formed in Eastern Europe is given by the change in trade relations which has accompanied a change in political affiliations. In 1948, Czechoslovakia experienced a communist coup which took her unequivocally into the Soviet orbit. As a result, Czechoslovakia, which had suffered least from wartime destruction, and "which, by 1947, had already resumed exports to Western Europe on a scale approaching pre-war"[89], embarked upon a large-scale "diversion of its exports of high-priority goods from Western to Eastern Europe, as a result of which Czechoslovakia offered a much higher proportion of

---

89 Ibid., p. 155.

less essential goods for sale in the West".[89] By 1949, Czechoslovak exports to Eastern Europe were running at 311 per cent of their 1947 level, while exports to Western Europe had fallen to 76 per cent of their value in 1947. Later in 1948, Yugoslavia broke with the Cominform, and, as a result, it was reported, in early 1949, that "trade between the U.S.S.R. and Yugoslavia....is to be curtailed to only one-eighth of the 1948 value".[90] The changes in trade which these two political changes entailed is shown more broadly in Table 5.

If, as the evidence suggests, the ultimate aim of the Soviet and the other Eastern European countries is to form a powerful, autarkic unit in the East, the chances of continuing useful trade between East and West seem slim. Despite this, it has until quite recently been insisted in some quarters that the Economic Commission for Europe should be used "as the co-ordinating body through which East-West trade and all-European planning could be promoted",[91] and that "the economic arguments for this course are unanswerable".[91] There is no question that a single economic world in which goods, services and capital pass freely in search of the maximum economic return is, as Mr. Feis has put it, "the pattern for which reason reached";[92] but the economic arguments, as well as being unanswerable,

---

90 Ibid., p. 147.
91 K. Zilliacus, "I Choose Peace", London 1949, pp. 450-451.
92 H. Feis, "The Changing Pattern of International Economic Affairs", New York, 1940.

Table 5. Trade of Czechoslovakia and Yugoslavia with Eastern and Western Europe, 1938 and 1947-49.

(Millions of dollars, current f.o.b. prices)

	Year	Exports to Eastern Europe[1]	Imports from Eastern Europe[1]	Exports to Western Europe	Imports from Western Europe.
Czechoslovakia	1938	72	45	198	138
	1947	111	96	346	253
	1948	286	267	311	242
	1949	345	339	263	264
Yugoslavia	1938	17	31	102	75
	1947	44	53	45	58
	1948	150	133	101	100
	1949	27	39	124	126

Sources: "Economic Survey of Europe in 1948", Tables 84 and 86, and "Economic Bulletin for Europe", Second Quarter 1950, Vol. 2 No. 2, Table XXI. Where these two sources do not agree, the more recently compiled figure, contained in the Bulletin, has been used.

1. Poland, Czechoslovakia, Roumania, Hungary, Yugoslavia, Bulgaria and the U.S.S.R.

are also largely irrelevant. At the beginning of 1950, the Economic Commission for Europe had to report that "no agreements at all have been concluded since 1949 between the Soviet Union and several western European countries, including Belgium and France; there has been no formal agreement with the United Kingdom (beyond contracts for the delivery of coarse grains and timber), and the same type of situation prevails in relations with some Scandivanian countries".[93] The Commission recognised that the causes were basically political. Moreover, unlike the period of Nazi economic diplomacy before the War, the Western countries were now forming their political and economic bloc quite as rapidly and as effectively as the countries of the East. This revolutionary change in Western policy will be traced inthe two following sections.

---

93 "Economic Survey of Europe in 1949", op. cit., p. 92. The expression "since 1949" is intended to mean that no agreements were concluded during 1949 for trade during 1950.

are also largely irrelevant. At the beginning of 1950, the Economic Commission for Europe had to report that "no agreements at all have been concluded since 1949 between the Soviet Union and several western European countries, including Belgium and France; there has been no formal agreement with the United Kingdom (beyond contracts for the delivery of coarse grains and timber), and the same type of situation prevails in relations with some Scandivanian countries".[93] The Commission recognised that the causes were basically political. Moreover, unlike the period of Nazi economic diplomacy before the War, the Western countries were now forming their political and economic bloc quite as rapidly and as effectively as the countries of the East. This revolutionary change in Western policy will be traced inthe two following sections.

---

93 "Economic Survey of Europe in 1949", op. cit., p. 92. The expression "since 1949" is intended to mean that no agreements were concluded during 1949 for trade during 1950.

5. The United Kingdom.

As already noted, United Kingdom policy in the inter-war period, in so far as economic policy was linked with foreign policy, contrasted sharply with that of France, largely because Britain had not the same mercantilist tradition as France, nor the same intense fear of a resurgent Germany. Nevertheless, taking the inter-war period as a whole, there was a substantial growth of government intervention in economic affairs, especially after the onset of the Great Depression in 1929. Although this intervention was inspired by welfare rather than power, it established an essential basis for an effective foreign economic policy if in the future this were deemed necessary.

Government intervention did get some impetus directly from the First World War. For example, in 1917, a Royal Commission recommended that, for certain articles imported by the United Kingdom, "the possibility of economic pressure from foreign countries controlling supplies of raw materials requires especially to be guarded against, and that government action is most needed in order to promote economic independence". From these recommendations developed the Safeguarding of Industries Act of 1921, and certain policies for the protection of British agriculture. However, even the World War experience of food shortage did not provoke any intensive mercantilist policy for British agriculture. Looking back from 1938, it was said that:

> "As regards the defence argument, the object of British agricultural policy has not been self-sufficiency, nor even to expand British agriculture in peace-time to the

maximum output possible under war conditions, but rather to maintain a profitable and well-conducted industry". 94

There was much the same absence of a mercantilist approach in the United Kingdom control of overseas investment during the inter-war period. Of British policy before 1914, it has been said that:

> "Foreign lending for political reasons, similar to certain French loans to Russia, played a negligible part in international financial relations...The Government preferred to be free from any responsibility for foreign loans, recognising that thus they would avoid conflict with foreign governments, and also that, if a loan which they had openly supported proved to be unsound, they would be exposed to attack by the investing public". 95

During the war, in 1915, the United Kingdom Treasury "placed a complete embargo on foreign lending, but permitted the floating of important Empire issues".[96] Although this embargo was raised in 1919, there was, until 1925, an "unofficial censorship"[96] of new overseas issues and capital transfers. When, after 1931, the British balance-of-payments position became dangerously exposed, there was again instituted an "official censorship of new issues for overseas borrowers, in the interests of exchange security",[97] and, once again, this control seems

---

94 "The British Commonwealth and the Future"; Proceedings of the Second Unofficial Conference on British Commonwealth Relations, Sydney, 3rd-17th September, 1938", London 1939, p. 21.

95 J.H. Richardson, "British Economic Foreign Policy", London 1936, pp. 58-59. Mr. Richardson quotes a statement made by Sir Edward Grey in the House of Commons in 1914, to the effect that: "I do not say that there are no cases in which financiers come to the Foreign Office and ask if there is any objection to them. But generally speaking...these are things in which the Foreign Office does not interfere".

96 W.K. Hancock, "Survey of British Commonwealth Affairs", Volume II, London 1942, p. 184.

97 "The British Commonwealth and the Future", op. cit., p. 19.

to have been "exercised more favourably towards Empire than towards foreign borrowers".[97] Perhaps partly as a result of the greater favour shown to Empire borrowers, the proportion of total British investments held within the Empire rapidly increased.

> "The external investment of £3,763,000,000 estimated for 1914 had been divided into £1,983,000,000 invested outside the Empire, and £1,780,000,000 inside it. Sir Robert Kindersley estimated that in 1928 the total British investment in the overseas Empire was £1,918,000,000, whereas the investment in foreign countries had fallen to £1,473,000,000. In 1936 the Empire investment was £1,981,000,000, and the foreign investment had fallen to £1,259,000,000. Empire holdings now counted for 60 per cent of Great Britain's total external investment". 98

The important thing, however, is that British control of external investment was imposed for balance-of-payments rather than for foreign-policy reasons; and the objectives which the control sought were, like other elements in British economic policy, "generally...economic rather than political".[99] The preference shown to Empire borrowers no doubt derived in part from the special political link between the United Kingdom and Empire countries, which the British Government wished, at all times, to maintain and even strengthen; but it was also inspired by the need to raise the average quality of British investments, which had been lowered as a result of the sale of United States securities during the war. The increasing proportion of investments within the Empire was "largely determined, not by the investor's sentimental preferences,

---

98 "Survey of British Commonwealth Affairs", op. cit., Volume II, p. 182.

99 "British Economic Foreign Policy", op. cit., p. 61.

but by the stage of development at which the different oversea countries had arrived"[100], and by the greater assurance of return which the Empire countries consequently offered. There were, of course, a number of guaranteed loans under the auspices of the League, the Dawes Loan to Germany, the loans to Austria, and perhaps one or two others, in which the principal motive was political rather than economic; but, in the main, British external investment between the wars seems to have been undertaken and to have been directed in accordance with pressures and incentives which were basically economic. However, this attitude was modified in some measure in the last year or two before the outbreak of war, although political credits seem to have been granted even then as a number of separate acts of policy rather than as part of any comprehensive mercantilist programme. In 1938 and 1939,

> "Britain found herself faced with the task of forging new economic weapons to meet the German economic offensive in Eastern Europe. The first noteworthy step in this direction had already been taken in July 1938, when the British Government was authorised by Parliament to grant a credit of £6,000,000 to Turkey for the purchase of armaments in Britain - a measure described by Mr. Dalton as 'a new line of departure...an act of foreign policy and...an act of financial and economic policy". 101

Early in 1939, the functions of the Exports Credit Guarantee Department, whose "operations...had been conducted [hitherto] on a purely commercial basis"[102], were extended to permit guarantees of up to £10

---

100 "Survey of British Commonwealth Affairs", op. cit., Volume II, pp. 182-183.

101 E.H. Carr, "Britain: A Study of Foreign Policy from the Versailles Treaty to the Outbreak of War", London 1939, p. 94.

102 Ibid., p. 95.

million at any one time on transactions "expedient in the national interest". This was quoted by the President of the Board of Trade as an act of "economic rearmament...exactly like our other rearmament".[102] The guarantee limit was later raised from £10 million to £60 million. In March 1939, an agreement was concluded with Rumania under which Britain purchased Rumanian wheat and granted Rumania a loan of £5 million for purchase of British exports. Finally, "the years 1938 and 1939 saw the grant to Turkey by Great Britain and Germany and to China by the United States and Great Britain, of 'commercial credits' whose political motive was scarcely disguised".[103] The last-minute change in British policy probably added little to Britain's defensive strength, but it suggested a likely line of British policy if an external threat should emerge again.

In the field of commercial policy, the interwar period was marked especially by the passing of the long-established policy of free trade and the entry of an important element of tariff discrimination under the British preferential system. A number of features of the relationship between British commercial and foreign policies have already been touched on in dealing, for example, with France, but there are some further points to be brought out here.

Two sets of obligations accepted by the British Government during the war would, if they had been implemented, have committed the United Kingdom to two tight economic alliances from the beginning of the inter-war period. The first of these was contained in the Resolutions

---

103 "The Twenty Years' Crisis, 1919-1939", op. cit., pp. 126-127.

of the Economic Conference of the Allies held in Paris from 14th to 17th June, 1916. The preamble to the Resolutions declared that:

> "the Representatives of the Allied Governments consider that it has become their duty, on grounds of necessary and legitimate defence, to adopt and realise from now onward all the measures requisite on the one hand to secure for themselves and for the whole of the markets of neutral countries full economic independence and respect for sound commercial practice, and on the other hand to facilitate the organisation on a permanent basis of their economic alliance".

The Resolutions themselves dealt with "Measures for the War Period", and "Transitory Measures", and then, turning to "Permanent Measures of Mutual Assistance and Collaboration among the Allies", set down agreed policy as follows:

> "I. The Allies decide to take the necessary steps without delay to render themselves independent of the enemy countries in so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities.
>
> These steps should be directed to assuring the independence of the Allies not only so far as concerns their sources of supply, but also as regards their financial, commercial, and maritime organisation.
>
> The Allies will adopt the methods which seem to them most suitable for the carrying out of this resolution, according to the nature of the commodities and having regard to the principles which govern their economic policy.
>
> They may, for example, have recourse either to enterprises subsidised, directed, or controlled by the Governments themselves, or to the grant of financial assistance for the encouragement of scientific and technical research and the development of national industries and resources; to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

Whatever may be the methods adopted, the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries.

II. In order to permit the interchange of their products, the Allies undertake to adopt measures for facilitating their mutual trade relations both by the establishment of direct and rapid land and sea transport services at low rates, and by the extension and improvement of postal, telegraphic and other communications".

Although, as pointed out previously, the intent of these Resolutions received continuing strong support from the French Government, they were never implemented after 1918. After the defeat of Germany, the United Kingdom had a quite different conception of her future security from that of the critical war years, and the desire for de-control, for a return to the economic practices of the pre-war years, operated strongly against a continuing economic alliance. The 1916 Resolutions were, consequently, consigned to the archives. "In spite of powerful advocacy of protection, free trade both as a dogma and as a practical policy lasted until well after the war",[104] and non-discrimination followed as its inevitable concomitant. By 1924, Britain had concluded reciprocal most-favoured-nation agreements with both Austria and Germany, and, by 1928, so had France.

The second set of commitments were subjected to long years of criticism and argument, but eventually they were largely implemented. Decisions of the Imperial Economic Conference of 1917 called for

---

104 "The British Commonwealth and the Future", op. cit., p. 18.

Imperial self-sufficiency, tariff preferences, and migration within the Empire. Large-scale migration within the Empire was a feature of the whole of the inter-war period, except for the depression years; and, although the proposals for Imperial self-sufficiency were never seriously studied, reciprocal tariff preferences within the Empire were eventually accepted by the United Kingdom. Acceptance came, however, only after long pressure by the Dominions, whose main objective of welfare rather than political security was suggested by such slogans as Mr. Bruce's cry for "Men, money, and markets".

Tariff preferences could hardly be accorded the Dominions while the United Kingdom remained the citadel of free trade. In 1915, ad valorem duties of 33⅓ per cent were imposed on a limited range of United Kingdom imports. After the war, legislation in 1920 forbade import of a wide range of dyestuffs and the Safeguarding of Industries Act was passed in 1921 to protect "certain special industries and...employment in the United Kingdom against the effects of the depreciation of foreign currencies and the disposal of imported goods at prices below the cost of production". "Key Industry" duties are still charged on a large number of United Kingdom imports, which are however highly specialist articles, forming a relatively small percentage of the total value or volume of British trade. These postwar duties were mainly defence duties, aimed at ensuring domestic supplies of essential manufactures in time of war. By 1930, only about 3 per cent of British imports were subject to protective duties and a further 9 per cent to revenue duties. Although the Dominions tried hard during the 'twenties to turn these defence duties into a

more elaborate system of Imperial preference, neither welfare nor foreign-policy considerations were able to move the United Kingdom any further from its dedication to free trade.

The Import Duties Act of 1931 opened the door wide for reciprocal extension of preferences, and the economic crisis which forced that Act through also urged the United Kingdom to secure whatever markets she could. The Ottawa Agreements were in this sense primarily the product of economic crisis, and it seems largely fortuitous that the cry for unity of Empire happened to point in the same direction as the demand for overseas markets. No economic sacrifice was intended - or would have been politically tolerable - in the disastrous days of 1932 for the sake of binding the Empire together. On the contrary, Ottawa was expected to expand Empire trade, to raise personal incomes, and, what is more, to offer the prospect of returning prosperity not only to the Empire countries but to the whole of the trading world. Before he went to Ottawa, Mr. Baldwin was speaking of the Conference as a first step towards greater freedom of trade, and he repeated this view in his opening address at the Conference, suggesting that Empire trade be expanded by lowering trade barriers and thus contributing to the recovery of world trade. Still, there was a complexity of motives at Ottawa, even though welfare might have been the overriding one. Professor Hancock has written that:

> "Different delegations wanted to increase Empire trade for different reasons. Some wanted to increase it just because it was trade. Others wanted to increase it in order to tighten the bonds which made the Empire a political force. After all, it had been part

> of the faith of Joseph Chamberlain and Alfred Deakin and many other leaders that imperial preference was the road to imperial unity. Mr. Baldwin and Mr. Bruce now reaffirmed this faith. 'The real importance of Ottawa', Mr. Baldwin said, 'lies in the fact that it marks the point where two roads diverge, the one leading to the development of purely national interests, the other to closer imperial unity'". 105

The hard bargaining between the delegations at Ottawa is further evidence that the agreements were aimed at clear commercial advantage - "...Mr. Joseph Chamberlain must have turned many times in his grave as the haggling arguments proceeded here...".[106] Nor was there the slightest suggestion at Ottawa about forming any Imperial economic union or free trade area. "This Conference", commented "The Economist", "has exploded finally the futile delusions of the Empire Free Trade campaign".[107] The domestic producer was placed unequivocally first, and, for the most part, the Empire producer received his margin of preference, not by reducing the terms of competition in his favour, but by raising the terms of competition against the foreigner. If there was, in the Ottawa Agreements, any foreign-policy equivalent to the defence motivation of the Safeguarding of Industries Act, it seems to have operated only as a vague,

---

105 "Survey of British Commonwealth Relations", op. cit., Volume II, p. 220. There is nevertheless little doubt that a substantial body of opinion in British industrial and shipping circles wanted no increased restrictions and discriminations for the sake of Imperial unity but on the contrary felt that the policy of protection so far implemented should be reversed. "The Economist", representing a large liberal element in the United Kingdom, denounced "the pursuit of crazy dreams of economic Imperialism" (2nd July 1932, p. 12).

106 "The Economist", 3rd September 1932, p. 421.

107 Ibid., 27th August 1932, p. 379.

supplementary background to negotiation, and to have had little practical effect on policy in itself. It must also be borne in mind that other elements in British policy in 1932 - as for some years afterwards - showed no obvious preoccupation with defence or with building any alliance system against a threat to national security. In any event, if Ottawa strengthened Empire bonds, it also drove a wedge between Empire countries and their most powerful potential ally, the United States.

Once the preference system was established, however, it was difficult to abolish it - difficult not only for economic reasons but also for the impact it might have on relationships within the Empire. Even in 1951, this is no doubt still to some degree true. In any event, by 1937, there was strong sectional feeling in the United Kingdom that Ottawa, as a welfare experiment, had failed. In the previous year, a committee of the Labour Party Executive had declared that trade discrimination between Empire and foreign countries was wrong in principle and should be abandoned. In reply, the Chancellor of the Exchequer (the Rt. Hon. Neville Chamberlain) was prepared "to admit that everything has not worked out in practice quite as we expected, and that when the time comes for renewal we may have to ask for a good deal of revision"[108]; but, if only for the sake of the political

108 Speech at the Annual Conference of the Conservative Association, quoted from D.B. Copland and C.V. Janes "Australian Trade Policy, A Book of Documents 1932-1937, Sydney 1937, pp. 145-146.

It is noteworthy that, in his speech to Parliament in October 1932, when it was clear that, under Dominion pressure, Britain had concluded agreements which did not free world trade but on the contrary raised higher and more discriminatory tariffs against the flow of goods, Mr. Neville Chamberlain tended to rely on an appeal to Imperial unity and Imperial progress to justify the Agreements. From this, he led unconvincingly to the theme that this unity and progress might lead to larger progress and co-operation in the trading world as a whole.

links within the Empire, the principle of Ottawa was to be retained.

> "There was a period after the war when we were passing from the old conception of a mother country and her colonies to the new ideas of a free association of equal nations, during which the assertion of their independent nationalism seemed to be more important in the eyes of some of the Dominion Governments than the remembrance of their common origin and common ideals. It looked for a time as though there were a real danger lest, in the event of a clash between sentiment and immediate national interests, sentiment might be overwhelmed. Ottawa was an attempt to bring the Empire together again and to supplement and support the common sentiment by bringing more material interests into line with it. ...the Ottawa Agreements...began a new consciousness of mutual sympathy which has shown itself since over and over again in conversations and conferences with Dominion Ministers". 108

It is arguable, however, that, when the welfare benefits of preference proved to be less than had been hoped, the United Kingdom Government used, without much conviction, the argument of Empire solidarity to justify a policy to which it was too far committed to retreat. In any event, it was certain that a body of responsible opinion in the United Kingdom in the later inter-war years, saw the Ottawa Agreements as a hindrance to an effective British foreign policy towards, for example, Continental Europe and the United States. Thus, the Report of the British Commonwealth Relations Conference of 1938 recorded that, when a proposal for a Commonwealth Economic Council was discussed,

> "...the political embarrassment of the United Kingdom in its relations with Europe as a result of its commitments under the Ottawa Agreements, was again emphasised. The Commonwealth was urged to drop its exclusiveness, or rather to make it possible to offer the advantages of economic co-operation to all nations of proved goodwill. This would mean the surrender of exclusive preferences in the British market, but it was urged that the advantages to the United

links within the Empire, the principle of Ottawa was to be retained.

> "There was a period after the war when we were passing from the old conception of a mother country and her colonies to the new ideas of a free association of equal nations, during which the assertion of their independent nationalism seemed to be more important in the eyes of some of the Dominion Governments than the remembrance of their common origin and common ideals. It looked for a time as though there were a real danger lest, in the event of a clash between sentiment and immediate national interests, sentiment might be overwhelmed. Ottawa was an attempt to bring the Empire together again and to supplement and support the common sentiment by bringing more material interests into line with it. ...the Ottawa Agreements...began a new consciousness of mutual sympathy which has shown itself since over and over again in conversations and conferences with Dominion Ministers". 108

It is arguable, however, that, when the welfare benefits of preference proved to be less than had been hoped, the United Kingdom Government used, without much conviction, the argument of Empire solidarity to justify a policy to which it was too far committed to retreat. In any event, it was certain that a body of responsible opinion in the United Kingdom in the later inter-war years, saw the Ottawa Agreements as a hindrance to an effective British foreign policy towards, for example, Continental Europe and the United States. Thus, the Report of the British Commonwealth Relations Conference of 1938 recorded that, when a proposal for a Commonwealth Economic Council was discussed,

> "...the political embarrassment of the United Kingdom in its relations with Europe as a result of its commitments under the Ottawa Agreements, was again emphasised. The Commonwealth was urged to drop its exclusiveness, or rather to make it possible to offer the advantages of economic co-operation to all nations of proved goodwill. This would mean the surrender of exclusive preferences in the British market, but it was urged that the advantages to the United

Kingdom and to the Dominions of a peaceful and prosperous Europe would far exceed the value of their present exclusive preferences. It was admitted that it would be difficult, but probably not impossible to secure the concurrence of the Dominion producers in this view". 109

This view has recurred in postwar years. In 1938, however, it seems to have been reflected in policy chiefly as a background to the negotiation of the Anglo-American Trade Agreement of 1938. This Agreement was signed only ten months before the outbreak of war, and it involved an important application of the principles of freer, less discriminatory trade relations on which the American trade-agreements programme had been based. Quite apart from any commercial benefits, it was important for United Kingdom foreign policy to demonstrate to the World - and more specifically to the Axis Powers - that agreement with the United States could be reached in the trade field and that no commercial animosity would be allowed to prejudice co-operation on a wider basis.

Nevertheless, there was a complex mixture of economic and political considerations in the British approach to the Agreement, which it is difficult to separate out.

> "...it is probable that political considerations were dominant in the minds of the British negotiators. Considerations of power politics, however, were tempered by the economic interests of domestic producers. An analysis of the tariff reductions made by the United Kingdom will show the extent to which the British negotiators were willing to disregard certain private economic interests". 110

---

109 "The British Commonwealth and the Future", op. cit., p. 188.
110 Carl Kreider, "The Anglo-American Trade Agreement: A Study of British and American Commercial Policies 1934-1939", Princeton 1943, p. 6.

In any event, the principal foreign-policy value of the Agreement would have been negative. In some measure, the Agreement may have shown that an economic alliance between the two democracies was possible, by the application of most-favoured-nation, moderate tariff rules, as contrasted with the complex, discriminatory systems of the Axis Powers. For the most part, however, the conclusion of the Agreement and the maintenance of commercial amity between the two democracies merely left the way clear for friendly relations at other, including political, levels, and avoided the creation of a point of conflict which could have been damagingly employed by the opponents of an Anglo-American alliance. In short, it is unlikely that "the agreement convinced Germany and Italy of Anglo-American solidarity, but Germany and Italy would scarcely have concealed their jubilation if negotiations had failed".[111] With this limited political value in mind and although they may have made some concessions for political reasons, it seems clear that the British negotiators were throughout intent on securing the best tariff bargain,[112] probably within the somewhat vague political framework that their demands should not be pressed to such a point that negotiations might break down. Even this, of course, was an important refinement of the crude political arguments advanced in favour of the Ottawa Agreements; but it was a most uncertain background of economic co-operation as compared with the intensity of the Anglo-American economic alliance after 1945.

---

111 Ibid., p. 34.
112 Note, for example, the statement by the President of the Board of Trade in the House of Commons in June 1938 that "it was...useless to conclude an agreement in which one side alone makes all the concessions" (quoted from "The Economist", 18th June, 1938, p. 646.

In conclusion, it may be said that British commercial policy, like investment policy in the inter-war period, showed no strong, consistent, and informed preoccupation with foreign policy. For the most part, welfare considerations were predominant, although it seemed that in the last year or two before the outbreak of war, commercial policy, like investment policy once again, was beginning to show a clearer recognition of political factors. The emphasis on welfare, it might be noted, tallied with Britain's assessment of her security position between the wars. Immediately after 1918, there were some continuing fears about security, and the Safeguarding of Industries Act, for example, reflected these fears in commercial policy. For most of the 'twenties and 'thirties, however, Britain was complacent about her security with the result that economic policy in general could be decided on the single basis of welfare. Even when complacency was disturbed after the middle 'thirties, the foreign policy of appeasement called, not for economic policies of resistance and discrimination, but for policies of attempted co-operation which could be loosely regarded as an extension of the policies of welfare already being pursued. Only when appeasement began to fall into disrepute was an active foreign economic policy aimed at enhancing relative power called for, and, to a limited extent, it was then implemented.

Post-War Experience.

At the end of World War II, Britain's balance-of-payments position seemed to make some recourse to Schachtian practices unavoidable, although Britain was committed, especially through agreements with the United States, to eliminate these practices as soon as possible. Beyond discriminations for balance-of-payments reasons, however, the assumption was that there would be no distortions introduced into Britain's external economic policy because of, for example, foreign policy. This assumption - despite the recognition that there would be a continuing need for overall government control of the domestic economy and of external economic relations - underlay British acceptance of the Mutual Aid Agreement, the UNNRA Agreement, and the various Specialised Agency Agreements. Whether the assumption was based on a deliberate disavowal in principle of a discriminatory foreign economic policy or on a belief that there would be no major political frictions in the post-war world is difficult to say. But a non-discriminatory foreign economic policy would be logical and safe only if there were no serious threat to Britain's national security, or if, as with the Soviet in the inter-war period, Britain were likely to gain in foreign-policy and defence potential, rather than lose by universally-accepted policies of non-discrimination.

Professor Jewkes has written that:

> "...the Labour Government when it came into power firmly believed in freer world trading and showed considerable courage in seeking to foster it. It is true that immediate British interests coincided with this policy.

The traditional dependence of Great Britain upon exports had been increased by the loss of some investments during the war. The conditions attached to the American Loan pledged Britain to multilateralism willy-nilly. But no one could doubt the high motives of the British Government when they opted for freer world trading. Thus Sir Stafford Cripps:

> If, on a basis of self-defence and timidity, trade and financial restrictions of every kind are to spring up again, we shall all be the sufferers however much we try by economic and financial devices to protect our own people. The cumulative despair of restrictionism has proved itself the worst friend of the masses...and has been a powerful factor in bringing about the crisis of war. We must do something better, more courageous and more imaginative after this war than was done after the last". 113

The financial crises of 1947 and later forced Britain away from this quest for a freer trading world into a policy of intensive restriction. But even so, the hope remained that the period of restriction would be temporary, and the policy itself was motivated, initially at least, not by foreign policy but by economic pressures. However, coincident with Britain's financial difficulties came the deepening Anglo-American political breach with the Soviet. As a result, British external economic relations have, since 1947, become increasingly marked by restrictions from two sides. On the one side are balance-of-payments restrictions and on the other foreign-policy and security restrictions, some deliberate and the rest passive by-products of Western foreign policy.

---

113 John Jewkes, "Ordeal by Planning", London 1948, p. 231. The Statement by Sir Stafford Cripps was made on 3rd October 1946.

Three main steps have brought British policy to this position. The first was British participation in the European Recovery Programme; the second, the series of economic and political alliances which the United Kingdom concluded after 1947; and the third, the deliberate reduction of economic contact with Eastern Europe.

So far as the European Recovery Programme is concerned, Mr. Bevin, along with the French Foreign Minister (M. Bidault), tried to bring the Soviet and other Eastern European countries within the scope of the Programme. The claim may have been wholly sincere that it was "much to the regret of the Governments of France and the United Kingdom"[114] that the Soviet could not join them in responding to the United States on Mr. Marshall's proposals. Certainly, the economic disadvantages arising from the exclusion of Eastern Europe would have been one cause for British and French regret. The Committee on European Economic Co-operation which met between July and September 1947 acknowledged as one of the principal causes of European economic difficulties the "physical devastation and disruption in Western Europe and in the principal food and timber-producing zones of Eastern Europe, which, together with the dislocation of the European transport system, caused a temporary paralysis of production in Western Europe, including Germany".[115] "The devastation

---

114 General Report of the Committee on European Economic Co-operation, Paris 1947, p. 5.
115 Ibid., p. 4.

in Eastern Europe", said the Committee, "cut off a major source of food and timber".[116] There was therefore a sound economic case for assisting the recovery of Eastern European production and for bringing together the needs and resources of East and West.

Outside the European Recovery Programme, the United Kingdom recognised the value of trade with Eastern Europe to its own economy, and concluded trade agreements with the Soviet, Poland, and other Eastern European countries, both before and after 1947. "The Government", said the Chairman of a large British export firm in 1950, "have always done everything possible to encourage exports to the U.S.S.R."[117] In the first year of the European Recovery Programme, Mr. Hector McNeil told the Third Session of the General Assembly that:

> "...His Majesty's Government was extremely anxious to see a development of [trade] exchanges [between Eastern and Western Europe];...the United Kingdom, like all other participants in the European Recovery Programme and like the Administrator of the Programme himself, was of the opinion that the success of the Plan depended to a large extent on the resumption of trade exchanges between the West and the East of Europe". 118

Nevertheless, the Eastern European countries having been left out of E.R.P., there was an almost unavoidable tendency for trade with Eastern Europe to become marginal. The close and continuous consultation which developed between Western European countries on O.E.E.C. tended to induce each country to seek out, to the maximum

---

116 Ibid., p. 3.
117 Chairman, Messrs. Craven Bros. Ltd., "The Times", 5th September, 1950.
118 Official Records of the Third Session of the General Assembly Part I, Second Committee, Summary Records of Meetings, 21 September-26 November 1948, p. 206.

possible degree, its import needs and its export markets in Western Europe. Almost as a last resort, these countries turned to Eastern Europe.[119] It is difficult to say whether the United Kingdom was deliberately unconstructive on, for example, E.C.E.'s Committee on the Development of Trade; but, in any event, there was not the incentive within a body of that type to expand European trade that there was within, for example, O.E.E.C., and, since most trade would take place on a government-to-government basis or within the framework of a detailed governmental agreement, the Committee was reduced to futility by political distrust. Outside the Committee but within the sponsorship of E.C.E., a limited agreement on export of Eastern European grains to the West was concluded in November 1950. Here again there were suspicions that the United Kingdom Government was unwilling to co-operate very actively in the expansion of East-West trade, except on the basis of strictly bilateral negotiations with Eastern European countries; but in the case of the grain agreement there seem to have been especially sound reasons for British inactivity.[120]

The trend already established by O.E.E.C. to diminish Western economic contact with Eastern Europe, has been confirmed by three

---

119 Note the report of 6th May 1951 - which might be exaggerated - that Denmark, despite a critical shortage of coal and consequent large-scale unemployment in her heavy industries, has refused supplies of coal from Poland. "Poland has been pressing Denmark to buy Silesian coal, in exchange for which she would buy Danish-built ships for her Baltic fishing fleet. But the Danes, as members of the North Atlantic Treaty Organisation, hope not to be obliged to expand their trade with any Soviet-dominated State" ("The Sunday Times", London, 6th May, 1951).

120 "The Economist" of 25th November 1950 reported that: "The British went to Geneva with 800,000 tons /of coarse grains/ already in the bag, so their reticence may count for once as an unmixed virtue. But there was some tendency among the Continentals to construe their motives as the usual desire to stand aloof from a European venture" (p. 875).

other major agreements between the United Kingdom and other countries of the West. Firstly, Britain's refusal, after World War I, to form an economic alliance with France was not repeated after 1945. Article IV of the Treaty of Dunkirk, signed by Great Britain and France on 4th March 1947, provided:

> "Bearing in mind the interests of the other members of the United Nations, the High Contracting Parties will by constant consultation on matters affecting their economic relations with each other take all possible steps to promote the prosperity and economic security of both countries and thus enable each of them to contribute more effectively to the economic and social objectives of the United Nations".

On a number of occasions, the United Kingdom extended financial assistance to France, and an Anglo-French Economic Committee has held frequent meetings in the last four years. But, under Article I of the Brussels Treaty of 17th March 1948, this Anglo-French economic alliance was extended to include Belgium, the Netherlands and Luxembourg. Article I of the Brussels Treaty read:

> "Convinced of the close community of their interests and of the necessity of uniting in order to promote the economic recovery of Europe, the High Contracting Parties will so organise and co-ordinate their economic activities as to produce the best possible results, by the elimination of conflict in their economic policies, the co-ordination of production and the development of commercial exchanges.
>
> The co-operation provided for in the preceding paragraph, which will be effected through the Consultative Council referred to in Article VII as well as through other bodies, shall not involve any duplication of, or prejudice to, the work of other economic organisations in which the High Contracting Parties are or may be represented but shall on the contrary assist the work of those organisations".

Finally, the North Atlantic Treaty of 4th April, 1949, extended the economic alliance to almost the whole of Western Europe and to the United States and Canada. Article 2 provided that:

> "The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

This was the positive side of British foreign economic policy: close collaboration with the Western allies. As already suggested, it involved, as a corollary, a strong tendency for economic contact with Eastern Europe to decay. But British policy, though in this particular it has been less extreme than the policy of the United States, has also included deliberate action to reduce the flow of goods between East and West.

For the most part, however, circumstances seem to have forced this on an unwilling British Government. Note has already been taken of the series of commercial agreements and contracts which the United Kingdom concluded with the Soviet and other Eastern European countries for the sale, especially, of machinery and other manufactured goods, and the purchase of, principally, grains and timber. As political differences between East and West have intensified, the tendency has been for the volume of these exchanges to settle at a relatively low level compared with pre-war years, and for annual agreements to give way to ad hoc, less comprehensive contracts. Nevertheless, a considerable volume of trade has continued to flow and, as late as November, 1950, it was announced that a new "contract for the supply of 800,000 tons of Russian coarse grains in eight months from December 1 has been signed between the Ministry of Food and the Soviet exporting

agency"[121], and that "the Soviet exporting agency has taken up the option under the contract for 150,000 standards of timber signed in the summer to supply an additional 50,000 standards"[121]. This newspaper report also noted, significantly, that "payment will be made in sterling"[121], and "no restriction is imposed on what may be bought for the sterling other than the existing list of strategic goods restricted on security grounds"[121]. On this point, "The Economist" commented that:

> "Coarse grains cannot be considered a strategic material and therefore Britain is quite free to trade with Russia in them. But it means that Britain will provide Russia with sterling that can be used to buy tin, rubber and wool". 122

This comment illustrates concisely the hesitant nature of the British approach to trade with the Soviet. The growing tendency has been, not to dwell on any welfare gain likely to accrue from any proposed exchanges with Eastern Europe, but rather to look searchingly for any possible impediment they might entail for foreign policy or defence. Although Mr.Attlee has said, in speaking of United Kingdom trade with Eastern Europe, that "a whole lot of trading goes on which is outside the control of the Government"[123], this hesitancy

---

121 "Daily Telegraph", London, 7th November, 1950.

122 "The Economist", London, 11th November 1950, p. 767. It is not clear what "The Economist" meant by implying that Britain might not be "quite free" to import certain goods from Russia. There would seem to be no objection to obtaining even guns and aeroplanes from Russia, if Britain wanted them, the Russians would supply them, and no undue dependence on Russia for future supplies were involved. The objection would come only if Britain supplied guns and aeroplanes to Russia. In any event, Britain is still "quite free" to import what she likes. If "The Economist" had United States pressure in mind, it might be noted that the United States has herself recently imported from Russia large consignments of such vital strategic materials as manganese and chrome ore.

123 House of Commons, 12th September 1950, Hansard Vol. 478, Column 983.

on foreign-policy and defence grounds is likely in fact to be decisive, in present conditions of general governmental control of trade, in determining the volume of United Kingdom exchanges with Eastern Europe.

Firm security restrictions are already in force. On 15th February 1949, the President of the Board of Trade announced a system of control on exports to Eastern Europe. In September 1950, he told the House of Commons that:

> "...We took the lead a year ago in making arrangements for constant consultation with other countries on this matter of control of exports of strategic value, and, as a result of this consultation with the countries concerned, we have drawn up and maintained in force two export control lists. There is List I, which now covers 119 items, including metal-working machinery, chemicals and so on, of which exports to the Soviet bloc are prohibited. List II covers goods which are subject to quantitative control. A trickle of supplies is allowed in this case, related to what ought to be the normal peace-time civilian use in the countries with which we are concerned. These lists are constantly being amended or extended.
>
> In the last few days we have been discussing with other countries concerned the addition of some 59 items for complete prohibition and 45 items for quantitative control. Many of the goods which we discussed are already subject to control in this country, so if international agreement is reached we shall be adding to our list a number somewhat smaller than will be added by other countries". 124

This issue had been raised by Mr. Churchill, after the outbreak of fighting in Korea, in a broadcast of 26th August, 1950. He had asked the Government "to stop the export by any firm of machine tools, Diesel engines and the like to Soviet Russia and other countries behind the Iron Curtain". 125 A week or so later, Messrs. Craven Bros. Ltd., one of the largest British exporters of machine tools, came out in

---

124 House of Commons, 18th September, 1950, Hansard Vol. 478, columns 1568-1569.
125 "The Times", London, 11th September, 1950.

strong support of Mr. Churchill, a circumstance which demonstrates the ease with which security export restrictions or even more comprehensive economic sanctions or economic blockade might be imposed within a full-employment economy, where there is an abundant local and friendly export demand. The Chairman of the Company was reported to have said that "for two years the company has made strong representations to the Government urging the view that the continued supply by Britain of machine tools and other war potential to the U.S.S.R. and its satellites is in fact crazy".[126] The Company's readiness to adopt this attitude was determined principally, as the Chairman acknowledged, by the fact that if machine tools were supplied to Eastern Europe, part of the demand "in friendly countries and the Commonwealth"[126] would be left unsatisfied. In any case, machine-tool exports to Eastern Europe had already declined severely compared with pre-war. On 11th September 1950, "The Times" noted that:

> "The volume of United Kingdom exports of machine tools since the war has, in fact, been trifling in comparison with the sales which kept many firms in the British machine tool industry alive in the slumps of fifteen years ago. In 1949 this country exported more than 45,900 tons of machine tools, of which 724 tons went to the Soviet Union. The comparable figures in 1938 were 24,100 tons and 10,100 tons". 127.

In his response to Mr. Churchill, the Prime Minister gave an assurance that the Government would carefully scrutinise exports to the Soviet, but he insisted that "it has never been our policy to set up

---

126 "The Times", London, 5th September, 1950.

127 "The Times", London, third Leader, 11th September, 1950. There was a substantial increase in exports of British machine tools to the Soviet in 1950, though they were still very far short of the pre-war level.

an Iron Curtain between the Western and Eastern countries of Europe in trading matters".[128] Later in the House of Commons, the President of the Board of Trade, in drawing attention to "the grave consequences which would undoubtedly result from any attempt to put an iron curtain, a complete iron curtain, on trade between Eastern and Western Europe", said:

> "...the House should be under no illusions that if we are seriously to consider putting [such] strategical materials [as wool and rubber] - although the phrase in this context is almost meaningless - under such a form of control as to deny them to particular countries this would not mean closing free markets;...but it would mean also that action of this kind would be tantamount to an economic blockade against a group of countries with whom we have had, and still have, mutually advantageous trading relations and who have been, and are today, delivering to this country substantial quantities of at least one material of undoubted strategic value.
>
> "Timber, wool, rubber and other materials, like machine tools, are capable of alternative uses; they can serve the purpose of war, or the purposes of peace, reconstruction and capital development".[129]

There, so far as can be gathered, the matter rested:[130] United Kingdom exports, so far as they had a "security" importance, would be restricted or prohibited, but, beyond that, there would be no full-scale economic sanctions or economic blockade.

---

128 Broadcast over B.B.C. on 2nd September 1950, as reported in "The Sunday Times", London, 3rd September, 1950.

129 House of Commons, 18th September, 1950, Hansard Vol. 478, Cols. 1578-9. The phrase in the earlier paragraph should presumably read "...this would not only mean closing free markets..."

130 Note that early in May 1951, there was pressure in the House of Commons for tighter control of rubber and other exports to China. The Government announced that severe restrictions, though not complete prohibition, on rubber exports had already been imposed, and that other exports, beyond munitions and other goods for direct military use, were being carefully controlled. By this time, of course, British forces had been fighting Chinese armies in Korea for some months, although there was technically no war with China itself, and British export controls were therefore nearer in motivation to a wartime than a peacetime blockade.

In a confused way, this had become the issue behind the Commons debate. As "The Times" put it, it had become

> "...the issue of economic blockade itself - an extremely grave act of State which could only be taken in concert by the Atlantic Powers after the gravest forethought... Today it can be argued - and it is argued for purposes of blockade in war-time - that all goods sent across the frontiers are of 'key importance for strategic purposes.' The purpose of trade between either individuals or nations is the exchange of desired goods or services for other goods or services less desired. In international trade both parties to the transaction derive benefit from this filling of the deficits of one country from the surpluses of another, and are thereby better fitted to pursue their national aims. This country has until now - within safeguards - been ready to live and trade with all who live at peace with it. If one nation sufficiently mistrusts another's aims, it will be justified in refusing to trade with it at all: and such a refusal might be regarded as a logical development of the present defence policies of the other Atlantic Pact Powers. But an economic blockade would take all concerned a long step farther along the road to open war. And the aim of these defence policies - and the deep hope of the peoples who resolutely support them - is that the peace shall be preserved...Governments on both sides of the Atlantic are bound already to tighten up the screening for strategic reasons of particular goods sent to Russia and eastern Europe. Whether they wish to do more depends upon whether, in their view, the 'point of no return' has been reached - which will be a sombre and fateful conclusion". 131

If however present trends continue, if the Soviet threat remains undiminished, and if the United States maintains its pressure for thoroughgoing export restrictions by Western Europe, the only issue remaining might be not whether to apply economic sanctions or an economic blockade against Eastern Europe but whether to give the then existing blockade statutory force. Some rough analogy may be found

---

131 "The Times", London, Leader, 11th September, 1950.

in the issue of whether a war should be waged with or without a formal declaration. United Kingdom policy, and especially international agreements to which she is a party, are already tending towards a blockade of Eastern Europe - a blockade of capital, of exports (except - and then within narrowing limits - of those goods of which friendly, "peaceloving" countries have taken all they want),[132] and of imports (except those which cannot be obtained elsewhere, sometimes under credits or grants). The extreme difficulty of defining what materials are "strategic" for modern war preparations and an underlying hesitancy to promote any exchanges which can possibly be avoided could, unless carefully watched, reduce trade to such a tiny flow of non-essential commodities that the question of imposing an economic blockade would become academic.

The diminishing gap between the present policy and a policy of blockade is in large measure a direct by-product of the agreements for economic alliance into which the United Kingdom has

---

132 The Prime Minister said on 12th September, 1950, that "we have to take account also of the position of our friends and allies, to whom we have obligations. The House may be certain that wherever it is necessary to ensure the availability of goods needed for our increased war effort or for that of our friends in the North Atlantic Treaty Organisation, or, of course, in the Commonwealth, the requisite action has been and will be taken" (Hansard, Vol. 478, Col 971). For Britain, the blockade of capital for communist countries is expressed in practical terms not so much by a refusal to make capital available to the Soviet bloc, but by special efforts, despite Britain's balance-of-payments difficulties, to give assistance to the underdeveloped countries of the non-Soviet world. The Prime Minister has said that "we have sought with others to help to restore war-shattered economies, to raise the standard of life in the less-developed parts of the world, to try to remove the poverty and misery which form the breeding grounds for Communism" (Hansard, Vol. 478, Col. 956). By the end of 1950, Britain had also extended credits amounting to £18 million to cominform-blockaded Yugoslavia.

entered. An economic alliance cannot confer special favours on one group of countries without at the same time imposing special discriminations against another group. The economic alliance itself is an expression of foreign-policy hostility towards the Soviet Union which, especially in a period of full employment and close governmental control of external trade and payments, leads almost inevitably, perhaps even imperceptibly,[133] to discriminations, or sanctions, or, at its ultimate, de facto blockade. Explicit export restrictions become a final and almost unnecessary formal step towards rounding off the blockade.

While the general lines of British policy seem to lead logically and ultimately to blockade, actual British practice so far falls far short of such a "sombre and fateful conclusion". Mr. Attlee's statement that the Government does not propose to apply a blockade has a real and practical significance. A considerable volume of useful trade is continuing, as shown in Table 6.[134] There is an unhealthy unevenness about exchanges with Eastern Europe and the rapid expansion in the value of British trade as a whole is not reflected in the Eastern European figures. There is also the point

---

133 Note that the "Economic Survey of Europe in 1949" comments that one reason "for the failure of east-west trade to recover or to show promise of future development lies in the complete absence of any common and agreed approach to the problem by eastern and western Europe. This arises in part from the inadequacy of the passive attitude to the problem commonly taken by western European countries in place of the active measures that would be required to promote trade" (op. cit., p. 94).

134 For example, Russia was the largest single market for British generators in 1950, taking over 35 per cent of total exports.

Table 6. United Kingdom Trade with Eastern Europe

United Kingdom Imports
(£ Stg., c.i.f.)

Country	1938	1948	1949	1950
1. Soviet				
Grains & Flour	4,186,283	21,632,128	4,133,624	13,517,926
Animal Feeding-stuffs	156,197	-	685,225	30
Wood & Timber	5,625,306	1,537,244	4,948,925	10,442,364
Total U.K. Imports from the Soviet	19,498,618	27,126,010	16,051,483	34,223,926
2. Poland	9,533,332	8,986,821	14,839,256	19,164,030
3. Czechoslovakia	6,943,431	6,428,834	2,260,948	8,782,197
4. Roumania	3,837,960	3,277,914	1,955,125	569,708
5. Bulgaria	506,655	140,068	160,302	53,163
6. Hungary	2,450,411	6,093,010	6,803,966	374,271
7. Yugoslavia	2,463,978	4,578,575	11,865,179	11,399,456
Total 7 Eastern European Countries	45,234,385	56,631,232	53,936,259	74,566,751
Total United Kingdom Imports	919,508,933	2,078,040,435	2,274,138,240	2,602,945,396

United Kingdom Exports[1]
(£ Stg., f.o.b.)

1. Soviet				
Machinery, including Machine Tools Generating Sets & Generators.	3,348,285	3,536,779	6,540,958	9,993,682
Iron & Steel and Manufactures thereof	324,993	473,853	477,183	100,242
Total U.K. Exports to the Soviet	17,407,017	7,078,995	10,333,523	14,207,983
2. Poland	7,475,680	11,593,767	10,806,485	7,976,358
3. Czecholslovakia	2,838,632	7,224,238	6,106,137	5,048,379
4. Roumania	1,406,008	959,109	2,366,731	1,392,887
5. Bulgaria	343,449	390,625	772,804	487,402
6. Hungary	661,041	2,516,468	4,682,878	1,947,633
7. Yugoslavia	1,366,772	2,991,510	4,322,548	6,869,308
Total 7 Eastern European Countries	31,498,599	32,754,712	39,391,106	37,929,950
Total United Kingdom Exports	532,279,966	1,646,495,096	1,844,445,192	2,255,048,383

Source: Annual statement of the Trade of the United Kingdom with British Countries and Foreign Countries, 1939, Vols. I and IV; and Accounts Relating to Trade and Navigation of the United Kingdom, 1950 and 1951.

1 Includes re-exports.

that much of the trade up to the end of 1950 depended on agreements, notably with Poland, concluded before the pressure for control of Eastern European trade became intense, so that there might be a sharp fall in the value of exchanges when existing agreements expire. Nevertheless, trade channels are still clearly open, and British export restrictions have been drawn up with care and discretion. Britain's dependence on international trade, her liberal trading traditions, and, it must be added, a strong disinclination to take extreme political measures are important elements in her approach which stop policy short of blockade. This is true not only for Britain herself but also for parts of the Empire. For example, even in the present conditions of close governmental economic control, it is extremely difficult for Hong Kong to apply sanctions or a blockade against communist China. A commentator has recently written that

> "...the weakness of schemes for economic sanctions [is that] an almost imperceptible loss for one nation imposing sanctions may be a crippling blow for another. A slight inconvenience at this end may mean stark ruin for traders in Hong Kong.
>
> ....no scheme of compensation in such cases has ever been projected. It explains why previous attempts at sanctions have broken down, and it explains the latent hostility to such proposals, whatever the political and other merits of the cause at issue". 135

For the most part, full employment and close governmental control of the economy provide the necessary compensation to firms and individuals within the economy who might otherwise be ruined by sanctions.[136]

---

135 Article by Mr. George Schwartz, "The Sunday Times", 28th January, 1951.

136 An incomplete, but significant analogy can be drawn with conditions during time of war.

That explains why firms which depended on the Soviet market during a period of slump have been prepared to advocate increased restrictions on export of their own products to the Soviet, after a prolonged period of boom. Furthermore, the habit of assistance between members of an economic alliance is likely to even out the unequal sacrifices which sanctions would otherwise impose on the different applying countries. Thus, United States aid under the European Recovery Programme was probably greater than it would have been if Western Europe had hastened its return to equilibrium in international payments by an all-out drive for restoration of trade with Eastern European countries.[137]

Nevertheless, it still remains true that sanctions against China would be a very much more desperate measure for Hong Kong than for the United Kingdom. It is similarly true that "sanctions" against Eastern Europe have been more serious for the United Kingdom than for the United States. In large measure, this explains why the export restrictions imposed by the United Kingdom and other Western European countries have been much less severe than the American controls.

---

137 Note that K.W. Rothschild writes that "Austria's exports are today more oriented to the West than they were before the war...While the changed demand pattern which planning has brought to [Eastern European] countries must mean a permanent closure for some of Austria's traditional exports to these areas, prospects for other goods, as for instance for the products of the important engineering industry, would seem to have become brighter, But the export of these products to Eastern Europe is discouraged under the Marshall Plan, while Austria has only limited opportunities of selling them in the West" ("The Austrian Economy since 1945", London 1950, pp. 70-71). Any losses which Austria might suffer from this loss of markets is, of course, more than offset - and will almost certainly continue to be offset for some time to come - by the large-scale assistance extended by the United States continuously since 1945.

Although United States traditions to allow free enterprise to find its own greatest reward and to apply non-discrimination in external economic policy have been at least as strong as in any Western European country, the lesser importance of international trade, and especially the relative unimportance of commmunist markets, to full employment of United States labour, management and capital, have made it much easier for the United States to impose severe export restrictions against communist countries, and to advocate formal sanctions against communist China. With that in mind, we may go on to trace the extremes through which United States policy has passed in the last thirty years.

6. The United States.

After 1918, the prevailing temper in the United States favoured a return to isolation and to pre-war economic practices. President Harding went to the White House at the end of 1920 on the slogan of "Return to Normalcy". At Boston on 14th May, 1920, he had said that "America's present need is not heroics, but healing; not nostrums, but normalcy; not revolution, but restoration; not agitation, but adjustment; not surgery, but serenity; not the dramatic, but the dispassionate; not experiment. but equipoise; not submergence in internationality, but sustainment in triumphant nationality"[138]; and events during the 'twenties seemed to justify this policy. On 22nd October, 1928, President Hoover was able to tell a gathering in New York City that "by adherence to the principles of decentralised self-government, ordered liberty, equal opportunity, and freedom to the individual, our American experiment in human welfare has yielded a degree of well-being unparalleled in all the world"[139].

Within a year, the United States faced economic disaster. By the time of his First Inaugural Address on 4th March, 1933, President Roosevelt was confronted with a situation in which "a host of unemployed citizens face the grim prospect of existence, and an equally great number toil with little return"[140]. Under the impact of the crisis,

---

138 "Speeches and Documents in American History", Vol. IV: 1914-1939, Edited by Robert Birley, London 1942, p. 54.
139 Ibid., p. 89.
140 Ibid., p. 96.

the President was constrained to modify "the pattern of an outworn tradition" by extending government intervention. "Our greatest primary task is to put people to work...It can be accomplished in part by direct recruiting by the government itself, treating the task as we would treat the emergency of a war, but at the same time through this employment, accomplishing greatly needed projects to stimulate and reorganise the use of our national resources".[141] The inspiration for the New Deal was wholly economic, but from it flowed the habit of governmental intervention and control, which made more feasible, in a new international situation and outlook, the policy of "total diplomacy" proclaimed by Dr. Dean Acheson sixteen years later.

However, neither immediately nor at any time during the inter-war period did the United States allot any very active role to economic policy as an instrument of foreign policy. For the most part, she continued to insist that economic policy should follow a non-discriminatory course free from foreign-policy intrusions. For example, when, in 1938, Japan disregarded the "Open Door" in China but hinted that American privileges might be restored if the United States recognised a "new situation" and a "New Order" in Asia, the United States replied in a Note dated 31st December 1938 that:

> "This country's adherence to and its advocacy of the principle of equality of opportunity do not flow solely from a desire to obtain the commercial benefits which naturally result from the carrying out of that principle. They flow from a firm conviction that observance of that principle leads to economic and political stability, which are conductive both to the internal well-being of nations

---

141 Ibid., p. 98.

and to mutually beneficial and peaceful relationships between and among nations; from a firm conviction that failure to observe that principle breeds international friction and ill-will, with consequences injurious to all countries, including in particular those countries which fail to observe it; and from an equally firm conviction that observance of that principle promotes the opening of trade channels, thereby making available the markets, the raw materials, and the manufactured products of the community of nations on a mutually and reciprocally beneficial basis". 142

In this, of course, the policy of non-discrimination was itself, in part, the product of American foreign policy; for non-discrimination harmonised closely with a policy of isolation and neutrality. "Aloofness from the political affairs and controversies of the Old World",[143] and an undeviating "course of neutrality"[143] might have been best safeguarded by complete economic isolation from the rest of the world. Given that economic isolation was impossible or at least highly undesirable, however, the policy harmonising best with neutrality was one of strict non-discrimination, for, if the United States treated all countries alike, there might be less reason for any country or any group of countries to generate political hostility towards her.

Even complete or nearly complete economic isolation was contemplated in the event of actual war between third countries. The Neutrality Act, as amended in 1937, provided that:

"Whenever the President shall have issued a proclamation under the authority of Section I of this Act and he shall thereafter find that the placing of restriction on the shipment of certain articles or materials in addition to arms, ammunition and implements of war from the United States to belligerent States,

---

142 Ibid., p. 273.
143 Broadcast by Senator Borah, 22nd February 1936, Ibid., p. 173.

> or to a State wherein civil strife exists, is necessary to promote the security or preserve the peace of the United States or to protect the lives of citizens of the United States, he shall so proclaim, and it shall thereafter be unlawful for any American vessel to carry such articles or materials to any belligerent State, or to a State wherein civil strife exists, named in such proclamation issued under the authority of Section I of this Act, or to any neutral State for transshipment to, or for the use of, any such belligerent State or any such State wherein civil strife exists".

Elsewhere, the Act made it unlawful, after a proclamation under Section I, "to purchase, sell or exchange bonds, securities or other obligations of the government of any belligerent State, or of any State wherein civil strife exists, named in such proclamation..." The Neutrality Act accepted, as an economic sacrifice in the cause of neutrality, the closure of markets and loss of investment opportunities; but it was essentially negative in conception - economic policy should not be allowed to endanger neutrality. There was also a more positive side to American foreign economic policy, expressed principally through her tariff policy, although this positive element was at all times uncertain, for the most part ineffectual, and based on an inadequate technical understanding of the measures needed to promote conditions of economic stability in which isolation in the midst of a world at peace might be secured.

United States tariff policy has traditionally been one of "pronounced protection for domestic industry and of equality of treatment for foreigners".[144] The equal-treatment principle has a long historical background, linked with isolation, for, under "the first

---

144 Carl Kreider, op. cit., p. 9.

tariff enacted by the Congress of the United States (1789)...all foreign nations were given equality of treatment - largely because of the belief that such a policy was alone consistent with the avoidance of entangling political alliances".[145] After 1918, this principle was continued, and was strengthened, after 1923, by the adoption of the unconditional form of most-favoured-nation treatment in commercial treaties. The unconditional form, by removing the possibility that troublesome distinctions might be drawn between different countries through absence of an adequate quid pro quo, thereby enlarged the area of unqualified equality of treatment.

The Trade Agreements Act of 1934 gave further expression to the principle of equal treatment, but had, in addition, a wider foreign-policy purpose. Tariff reductions under the Act were to "apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly or indirectly", except that "the President may suspend the application to articles the growth, produce or manufacture of any country because of its discriminatory treatment of American commerce or because of other acts or policies which in his opinion tend to defeat the purposes set forth in this section". The purposes of the Act were fundamentally economic.

> "...the act begins with a statement, 'For the purpose of expanding foreign markets for the products of the United States'. The interrelationship of foreign trade and domestic prosperity is then specifically noted in the expression 'as a means of assisting in the present emergency in restoring the American standard of living,

---

145 Ibid., p. 15.

in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public, and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining and commerce'". 146

The wider foreign-policy purpose of the Trade Agreements Act lay in the fact that "the American State Department...constantly advocated the trade agreements programme as a means of promoting world peace through the mutual revival of triangular and multi-angular trade",[147] - in other words, from being a simple trade-policy counterpart to neutrality, equal-treatment was extended to become an instrument both for American neutrality and for universal peace. The United States Government was willing to negotiate tariff agreements not only with the United Kingdom, France, and other countries of similar political complexion, but also with Italy and Germany, provided, of course, the latter countries as well as the former would "promise to refrain from discriminatory treatment against American exports".[148] In fact, Germany was blacklisted by the United States, but because of German discrimination against American imports, not for political reasons. Australia suffered the same withdrawal of most-favoured-nation treatment, for the same general reasons.

The German example illustrates the weakness of the trade agreements programme as a peace-promoting measure. Where there was a marked political incentive for discrimination, the promise of easier entry into the American market was unlikely to induce countries to

---

146 Henry J. Tasca, "The Reciprocal Trade Policy of the United States", Philadelphia 1938, p. 39.
147 Carl Kreider, op. cit., p. 34.
148 Henry J. Tasca, op. cit., p. 286.

discard discriminatory practices. "The American neutrality policy.. [tended to] conflict with the attempts to negotiate trade agreements with nations preparing for the possibility of military conflict".[149] Not only was Germany affected, but also such countries as France, which could not afford a policy of isolation nor the policies of non-discrimination which went with it. Although it was preferable for France and the United Kingdom to be linked even loosely with the United States via common acceptance of most-favoured-nation principles than to have no economic bond at all, those principles themselves operated to prevent the formation of any economic alliance as an answer to the economic and political bloc formed by the Axis Powers.

Apart from equal treatment, the trade agreements programme looked also, and principally, to the negotiated reduction of American tariff barriers. As already noted, "pronounced protection of domestic industry" had always been a prominent feature of United States tariff policy. The United States tariff was raised in 1921 and 1922, and, although the domestic market was booming up till 1929, there was no marked reduction in the tariff during the 'twenties. Coming as they did on top of an already high tariff, the Hawley-Smoot schedules of 1930 closed the American market tightly against foreign goods. Under these circumstances, it was little consolation for foreign countries - especially those with a large debt service - to know that all received equal treatment if none could effectively enter the market. The trade agreements programme, by giving foreign countries an opportunity, through negotiation, to open the United States market, helped to remove

---

149 Ibid., p. 288.

this major point of friction, to enlarge co-operation and to create conditions of economic stability conducive to peace. Its shortcomings were that it came too late, when political discrimination in international trade was already well-established, and it was not sufficiently fortified by policies to stimulate economic activity within the United States itself. In these circumstances, its influence for peace through universal economic co-operation was negligible.

If American tariff policy operated against, or was ineffective in restoring peaceful relationships among nations, the economic and political difficulties which arose from United States foreign investment had their origin "not so much in [United States] investment policy as in the lack of one".[150] Private United States capital poured out, during the 'twenties, to almost every country in the world, not only to the former allied countries, but also to ex-enemies, including especially Germany. Direct United States investment was considerable, but a great deal of investment took the form of purchase of foreign securities and it was principally in this field that instability and unwisdom in American investment were pronounced.

> "Under the high-pressure salesmanship methods by which foreign issues were solicited and sold, our loans proved to be their own undoing. The flotation of one loan frequently came to be regarded as adequate justification for further issues to the same borrower or the same country without adequate regard to the growing burden of indebtedness. In some instances, notably in loans to Germany, new lending was vigorously prosecuted long after warnings from high places were sounded. The very operations that expanded the incomes and consumption of foreign countries and made them increasingly dependent on an unfailing source of exchange thus helped to ensure the inevitability of a change and the probability that it would be disastrously abrupt and complete". 151.

---

150 Department of Commerce, "The United States in the World Economy", Washington 1943, p. 4.
151 Ibid., p. 4.

Although the United States Government did make some foreign loans, especially in the early inter-war years, the great bulk of inter-war foreign investment was private, and government lending was comparatively small in volume. So also were loans having a directly political purpose - the League loans, for example, and the loans to Austria and Germany. Although the United States Government did not always participate in these political loans, private investors in the United States nevertheless often provided a large part of the funds. For example, the United States Government was not a party to the Austrian Government Guaranteed Loan of 1923, but private American investors took up more than £5 million of the loan. This happened with later League loans also.

The preponderance of private capital in foreign investment, the uninformed and unwise investment approach of both borrowers and lenders, and the extreme fluctuations in the level of business activity in the United States resulted, as shown in Table 7, in a highly unstable flow of American funds abroad. Net long-term investment fell from a peak of $1,037 million in 1927 and $847 million in 1928, to $278 million in 1929 and $298 million in 1930. Thereafter, there was a net inflow of long-term capital into the United States, so that, during the 'thirties, not only was there no investment policy, but there was no net foreign investment by the country best able to undertake it. As already noted in the case of Germany, the impact of these changes was serious, both for economic and political stability. The United States Government recognised this, most strigingly when, on 20th June 1931, President Hoover announced thats

"The American government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including obligations of governments held by private parties. Subject to confirmation by Congress, the American government will postpone all payments upon the debts of foreign governments to the American government payable during the fiscal year beginning 1 July next, conditional on a like postponement for one year of all payments on inter-governmental debts owing the important creditor powers". 152

Elaborating on his proposal, the President said that:

"Wise and timely action should contribute to relieve the pressure of these adverse forces in foreign countries and should assist in the re-establishment of confidence, thus forwarding political peace and economic stability in the world.

"...I am suggesting to the American people that they be wise creditors in their own interest and be good neighbours". 153

The Hoover Moratorium explicitly excluded private lending and, in fact, "service was successfully maintained throughout the depression on two-thirds of [United States] total foreign bond holdings". 154 No very positive policy was developed in the later 'thirties to relieve the strains imposed on the world economy by large American capital-import and large debt service. Nevertheless, establishment, for example, of the Export-Import Bank applied the principle of expanding foreign funds by governmental loans so as to rebuild the volume of world trade on a stable basis. Acknowledgment of the need to maintain a high and stable flow of capital overseas was intensified, especially during the war years, and was ultimately written into American post-war policy.

---

152 "Speeches and Documents in American History 1914-1939", op. cit., p. 90.
153 Ibid., p. 92.
154 "The United States in the World Economy", op. cit., p. 19.

Table 7. Foreign Investment of the United States 1919-1939.

(In millions of dollars. Plus sign indicates an inflow of funds into the United States; minus sign, outflow from the United States).

Year	Net Long-term Capital Movement.	Net Short-term Capital Movement.	Total Net Capital Movement.
1919	- 384	-	- 384
1920	- 832	-	- 832
1921	- 592	-	- 592
1922	- 815	-	- 815
1923	- 45	- 33	- 78
1924	- 700	+ 119	- 581
1925	- 570	- 106	- 676
1926	- 726	+ 419	- 307
1927	- 1037	+ 585	- 452
1928	- 847	- 348	- 1195
1929	- 278	- 4	- 282
1930	- 298	- 479	- 777
1931	+ 194	- 637	- 443
1932	+ 225	- 446	- 221
1933	+ 77	- 419	- 342
1934	+ 200	+ 222	+ 422
1935	+ 436	+ 1072	+ 1508
1936	+ 777	+ 431	+ 1208
1937	+ 521	+ 356	+ 877
1938	+ 97	+ 344	+ 441
1939	+ 27	+ 1470	+ 1497

Source: Extracted from United States Department of Commerce Publication, "The United States in the World Economy", Washington 1943, p. 216.

Post-War Experience.

In 1940, Mr. Herbert Feis suggested that "if the future should so develop that the United States has no substantial cause to fear threatening attempts against its secutiry and independence, the aims of economic welfare and general benefit that we have sustained in the past would remain valid and can be retained as dominant in our economic relations with other countries";[155] but he warned that

> "...both this general type of policy and this method of conducting our economic relations will be inadequate to protect our national interests and security if we face a world in which force rules and danger faces us. Then our policy and methods will have to be concentrated on the task of building our own military strength; and far-reaching departures from the past in many respects will be required". 155

Official American thinking during and immediately after the War favoured the maximum non-discrimination in external economic policy, together with the maximum freedom for private initiative, subject to certain safeguards and supports of a governmental and an intergovernmental character. The Mutual Aid Agreements were a concrete expression of this thinking; and UNRRA manifested American readiness to make huge outlays to reconstruct a world in which a high level of non-discriminatory trade could flow between substantially capitalist economies. "Immediately following World War II [the United States], motivated by the hope for a new and peaceful era in international relations, participated wholeheartedly in efforts, beginning with UNRRA, to assist peoples everywhere who suffered from the hardship and devastation of war".[156] For the

---

155 Herbert Feis, "The Changing Pattern of International Economic Affairs", New York 1940, pp. 125-126.

156 Gordon Gray, "Report to the President on Foreign Economic Policies", Washington, November 1950, p. 19.

longer term, the United States, with the United Kingdom, devised the proposals which at Bretton Woods were embodied in the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development. In these proposals the United States made its full share of sacrifices to stabilise international payments, both in terms of dollar contributions and, especially through the "scarce-currency" clause of the Fund Agreement, in terms of policy obligations. Large bilateral loans by the United States Government, especially the loan to Great Britain in 1946, again demonstrated American readiness to make the outlay necessary to secure the type of free trading world they wanted; and their insistence, for example, on the convertibility clause in the Anglo-American Loan Agreement underlined their determination to remove, as soon as possible, any Schachtian methods from the conduct of postwar economic relations. The United States Proposals for Expansion of World Trade and Employment, at length embodied in the Havana Charter for an International Trade Organisation, re-expressed with a wealth of detail and qualification the old American obsession with equal treatment. Finally, throughout the war and into the postwar years, the United States had acknowledged, though with a good deal of caution and reserve, the need to maintain stability in the domestic economy. In principle at least, it was recognised that large-scale, stable, harmonious economic relations with other countries would depend mainly on "the attainment of a more fully and smoothly operating domestic economy, the major determinant of the volume and course of our purchases of foreign goods and services".[157]

---

157 "The United States in the World Economy", op. cit., p. 24.

However, the objectives of the Mutual Aid Agreements, UNRRA, the Fund and Bank, the Anglo-American Loan, and the Trade and Employment proposals, though they differed greatly in their technical approach, in their grand design, and, for some of them, in their outlay of material resources, were in the tradition of the principles of the Cordell Hull trade policies of the 'thirties. They were in harmony with a policy of American neutrality or with a belief in a world of assured peace. But America had discarded neutrality, and she became increasingly sceptical that the future outlook promised peace. More and more, the United States Government felt itself "forced to recognise, as the dominant factor in world affairs, the deterioration of relations between the free world and the Soviet...[and] acted on the principle that this underlying conflict has been political in the broadest sense".[158]

In the critical year of 1947, there were three factors which changed American policy unmistakeably from the first of the alternatives suggested by Mr. Feis to the second. They were:

(i) The habit of direct governmental control of huge capital resources - a habit which had not ended with the war but had extended into the postwar period.[159]

(ii) The continuing high level of employment in the United States and in the rest of the trading world.

(iii) The ever-deepening political conflict with the Soviet and its Eastern European allies.

---

158 "Report to the President on Foreign Economic Policies", op. cit., p. 19.

159 The negotiations for the Anglo-American Loan Agreement of 1946 showed a clearly returning business approach by the United States Government to overseas investment. (See for example Chapter XIV of Mr. R.F. Harrod's "The Life of John Maynard Keynes"). It is interesting to consider what United States policy might have been after 1946, if deterioration in the financial position of European countries had not been coincident with deterioration in political relations between the United States and the Soviet Union.

Even before 1947, the signs of change had begun to appear. Bilateral relief which followed the termination of UNRRA allowed the United States to discriminate against Eastern Europe in favour of the West. In addition, loans which were readily extended to the United Kingdom, France, Italy and other non-communist countries, were withheld from countries of the Soviet bloc. This was the case not only for bilateral loans or grants but also for loans by the International Bank for Reconstruction and Development. In 1948, Professor Dexter Perkins wrote that "the American people...are likely to think of foreign policy in political, rather than in economic, terms"[160]; but he acknowledged that the United States Administration were not. The Truman Doctrine established, he said, "the principle that the United States will aid any state that finds itself threatened by totalitarian intrigue...The Marshall Plan, with its far-reaching proposals for economic assistance to Europe, has reflected the same tendencies on an even more impressive scale. Not vague humanitarianism, but the feeling that security and the preservation of free institutions are at stake provided the motive-power behind the Secretary's programme".[161]

Nevertheless, the first announcement of the Programme, in Mr. Marshall's speech at Harvard on 5th June, 1947, left the foreign-policy element somewhat uncertain. The Programme was to be "directed not against any country or doctrine but against hunger, poverty, desperation and chaos". Elsewhere, in the same speech, however, Mr. Marshall said that

---

160 "The Evolution of American Foreign Policy", New York 1948, pp. 173-174.

161 Ibid., p. 177.

Europe "must have substantial additional help or face economic, social and political deterioration of a very grave character"; that the Programme "should be a joint one, agreed to by a number of, if not all, European nations"; and that "any government which manoeuvres to block the recovery of other countries cannot expect help from us". The subsequent conference among British, French and Soviet Foreign Ministers in Paris suggested that the Programme would be developed on a universal basis, if possible; but, when that conference broke down, the bloc element - the element of economic alliance in the Programme - became unequivocally uppermost. Even if it was not openly, in its initial expression and conception, a bloc programme, its development has been in that form.[162] Aid has been extended broadly in accordance with the principles of the Truman Doctrine. The European Recovery Programme has been a "major segment" of American foreign policy, directed against Soviet communism. This result seems to accord fully with the earlier United States insistence on the termination of UNRRA and on recourse to bilateral, discriminatory relief.

The European Recovery Programme has been only one, although the largest and most spectacular, of the expressions of the United States policy of capital support for friendly countries. Since 1946, grants, loans, and dollar disbursements through the International Bank and the International

---

162 Note Mr. Gordon Gray's comment in his "Report to the President on Foreign Economic Policies" (Washington, November 1950) that: "The economic stagnation which followed the war, and social unrest and disillusion which invited Communist subversion and penetration, threated to undermine the democratic institutions of Western Europe. The European Recovery Programme was devised to forestall this possible disaster, by helping to remove the economic conditions which invited it. It was a deliberate use of our economic resources to carry out a basic objective of our foreign policy in a time of great crisis. This it has succeeded in doing" (pp. 3-4).

Monetary Fund have gone in a flood to the countries of Western Europe, and those countries which are formally or informally allied with them in Asia, Africa and the Americas. In addition, there is now developing the Point Four Programme of Technical Assistance for Underdeveloped Countries, which is to be implemented both bilaterally and through the United Nations and which President Truman "described as an important step towards strengthening freedom and defeating 'Communist imperialism'".[163] The extent and direction of dollar assistance between 1946 and 1950 is shown in Table 8.

Two points especially to be noted from these figures are, first and most obviously that, except for 1946 when United States supplies were still being made available on a non-discriminatory basis through UNRRA and when the Soviet conflict had not completely crystallised, the bulk, and in latter years the entirety of United States capital assistance went to the non-Soviet world. The second point is that, unlike the inter-war period, the vast bulk of United States capital sent overseas has been, not private, but governmental.[164] Private capital and remittances would have met a very small proportion of the reconstruction and recovery needs of foreign countries, and would have made a similarly small contribution to the longer-term development needs of the underdeveloped areas.

---

163 "The Times" London, 6th June, 1950. Mr. Gordon Gray gives the Point Four Programme the same significance in his "Report to the President on Foreign Economic Policies".

164 "In the four years 1946-49, [the United States export] surplus totalled 29 billion dollars, excluding 3 billion dollars of our net receipts from investment income - almost half of total exports. Government grants accounted for about 14 billion dollars of this total and government loans for another 8 billion dollars. Most of the remainder was financed by the liquidation of foreign gold and dollar holdings and by United States private gifts and investment. In 1949, grants alone slightly exceeded our 3 billion dollars net contribution of goods and services..." ("Report to the President on Foreign Economic Policies", op. cit., p. 25).

Table 8. Capital Disbursement by the United States 1946-1950.

(In millions of United States dollars)

	1946	1947	1948	1949	1950
1. To all areas					
(a) By international Bank		300	176	38	56
(b) By International Monetary Fund.		452	203	99	-24
(c) By United States Government.					
(i) Unilateral Transfers	2,288	1,947	4,161	5,304	4,272
(ii) Long and short term loans	2,689	3,895	907	643	246
(d) From Private sources					
(i) Remittances	679	665	652	515	440
(ii) Long and short-term capital	369	756	869	617	330
A. Total	6,025	8,025	6,968	7,215	5,320
2. To E.R.P. countries					
(a) By International Bank		300	176	-5	-14
(b) By International Monetary Fund		431	117	-	-24
(c) By United States Government.					
(i) Unilateral Transfers	468	730	3,151	4,158	3,430
(ii) Long and short term loans	2,100	3,661	953	553	206
(d) From Private Sources					
(i) Remittances	314	364	351	319	266
(ii) Long and short-term loans	177	82	121	-44	32
3. To E.R.P. Dependencies					
(a) By International Bank	-	-	-	-	-
(b) By International Monetary Fund	-	-	-	-	-
(c) By United States Government					
(i) Unilateral transfers	4	-3	-1	-	-
(ii) Long and short term loans	70	-23	-2	1	-
(d) From Private Sources					
(i) Remittances	35	19	10	9	10
(ii) Long and short-term loans	10	52	72	36	12
4. To Latin America					
(a) By International Bank	-	-	-	31	40
(b) By International Monetary Fund	-	31	2	35	-
(c) By United States Government					
(i) Unilateral Transfers	19	47	17	31	28
(ii) Long and short-term loans	45	176	-53	39	-
(d) From Private Sources					
(i) Remittances	42	34	24	16	10
(ii) Long and short-term	- 9	612	330	365	-

(i) Remittances	35	19	10	9	10
(ii) Long and short-term loans	10	52	72	36	12
4. To Latin America					
(a) By International Bank	-	-	-	31	40
(b) By International Monetary Fund	-	31	2	35	-
(c) By United States Government					
(i) Unilateral Transfers	19	47	17	31	28
(ii) Long and short-term loans	45	176	-53	39	-
(d) From Private Sources					
(i) Remittances	42	34	24	16	10
(ii) Long and short-term loans	- 9	612	330	365	-
5. To Canada.					
(a) By International Bank	-	-	-	-	-
(b) By International Monetary Fund	-	-	-	-	-
(c) By United States Government					
(i) Unilateral Transfers	3	34	5	10	12
(ii) Long and short-term loans	- 1	- 12	-	1	-
(d) From Private Sources					
(i) Remittances	8	- 8	4	10	- 2
(ii) Long and short-term capital	30	-170	197	81	122
6. To Asia, Africa and Oceania 2					
(a) By International Bank	-	-	-	12	24
(b) By International Monetary Fund	-	-	73	55	-
(c) By United States Government					
(i) Unilateral transfers	267	561	880	995	708
(ii) Long and short-term loans	225	48	- 18	22	- 18
(d) From Private Source					
(i) Remittances	149	117	180	93	104
(ii) Long and short-term capital	166	141	148	179	164
B. Total of 2,3,4,5, and 6	4,122	7,224	6,742	7,007	5,110
A - B[3]	1,903	801	226	209	210

Source: Extracted from Tables 1 to 6 of "Report to the President on Foreign Economic Policies", op. cit., pp. 105-110.

1. First half of 1950, adjusted to annual rate.
2. Excluding ERP Dependencies. Indonesia and Indo China are included in 1950 only. Includes all foreign countries not shown under separate heading except non-ERP countries in Europe.
3. This covers a wider group than the Soviet bloc, and includes the non-Soviet, non-ERP countries of Spain, Finland, and Cominform-blockaded Yugoslavia.

In these circumstances, the ease with which export of capital can be brought to harmonise with foreign-policy objectives, and the temptation to do so, especially when there is a real external threat to national security, are too obvious to be set aside. "It should be emphasised", said Mr. Gordon Gray, in recommending to the President further capital assistance after ERP, "that the purpose of this continued aid is primarily to enable Western European countries to remain effectively functioning partners while undertaking their full and necessary contribution in the joint effort to build adequate defences for the free world".[165]

For the most part, United States capital-export policy has been anti-communist, but in the case of Yugoslavia - a case which illustrates the fluctuations in capital movement which now tend to follow political changes - United States policy has been more distinctly anti-Soviet. Before 1949, Yugoslavia received no United States capital, except that made available through UNRRA in the early post-war years. After the Cominform conflict, however, the position changed. In October 1949, the International Bank for Reconstruction and Development made her a loan of $2.7 million and, on 7th January, 1951, a technical aid agreement was signed in Belgrade by the Yugoslav Government and representatives of the United Nations Economic Commission for Europe, under which "United Nations experts will install new plant to help to step up production in 18 main brances of Yugoslavia's economy",[166] giving "particular attention ...to the development of her hydro-electric system".[166] More directly than this, Mr. Acheson announced, at the end of August, 1950, the grant

---

165 Ibid., p. 38.
166 "Daily Telegraph", London, 8th January, 1951.

of a loan of $15 million dollars to Yugoslavia by the Export-Import Bank, bringing total United States advances since the Cominform breach to $55 million. Again in November, 1950, the Economic Co-operation Administration announced the diversion of $11,500,000 worth of flour from Italy and Germany to Yugoslavia, to meet the food crisis resulting from drought superimposed on the Cominform blockade.

In commercial as well as investment policy, the United States has applied increasingly severe discrimination against the Soviet bloc.. By normal purchase, by loans, or by outright gift, the United States has been ready to make available its goods and services to Western Europe and associated countries; but purchase of United States exports, even by normal commercial means, has been denied to Eastern Europe, especially since the imposition of the United States security export-licensing system of March 1948.

Before March 1948, the United States had applied export controls to goods in short supply. These were continued after March 1948, although they were relaxed, and lost their importance relative to the security controls, as the general supply position improved. By March 1950, only a very few commodities were still controlled through supply shortage, but these controls were again tightened later as a result of the tremendous leap forward in demand following the outbreak of hostilities in Korea and the intensification of Western rearmament programmes. At the same time as Czechoslovakia objected to United States security restrictions at the Third Session of the GATT Contracting Parties in 1949, she also claimed that allocation of short-supply goods to favour ERP countries conflicted with Article XX, II, of the General Agreement. Article XX, II read:

"Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures.....

II - (a) essential to the acquisition or distribution of products in general or local short supply; Provided that any such measures shall be consistent with any multilateral arrangements directed to an equitable international distribution of such products or, in the absence of such arrangements, with the principle that all contracting parties are entitled to an equitable share of the international supply of such products".

The Czechoslovak Representative said that "the arrangements for distributing products under the U.S. Foreign Assistance Act could not be considered a multilateral arrangement under the terms of GATT", and he "asked for a working party to study this point as well as the use by the U.S. of the so-called national security provisions of the GATT".[167] It would seem that special preference for ERP countries could not be justified on a strict interpretation of Article XX, combined with the general most-favoured-nation requirements of Article I of GATT. However, by 1949, it had become clear that GATT could not and would not be applied without reference to the wider political issues which largely determined the commercial and investment policies of the United States, and other countries, not only of the Western bloc but also of the East. The Contracting Parties declined to set up the working party proposed by Czechoslovakia or to interfere in any way with the system of allocation of goods in short supply being operated by the United States, in close co-operation with the OEEC countries.

---

167 Press Release No. 42 issued by the GATT Contracting Parties on 8th June 1949, p. 1.

So far as the security restrictions proper were concerned, these restrictions had, in the two years up to March 1950, denied more than $150 million worth of goods for which licenses had been sought by Eastern European countries; "but dollar evaluation cannot reflect adequately the value placed on the receipt of such materials in the Soviet Bloc. The value to the Soviets of a specialised steel plant, of highly automatic metal-working machinery developed during the war, specialised steels, valves, precision bearings, electronic and other research equipment, lube oils, and of technical know-how is not accurately reflected in United States standard export prices".[168] In the twelve months after March, 1948, 39 per cent of Soviet bloc export licenses applied for were rejected, and in the next twelve months 31 per cent. As shown in Table 9, United States exports to Eastern Europe as a whole (including Finland and Yugoslavia) had fallen in 1949 to only one-quarter of the 1947 value, and United States exports to the Soviet itself were running at only 5 per cent of their 1947 value. The United States Department of Commerce recognised that "although other factors undoubtedly played a part in the decline of U.S. exports to Eastern Europe since 1948, export-control regulations were probably the prime determinant".[169] The controls have been imposed with the object of not "interfering with trade in items of little or no strategic significance"[170] and the Office of International Trade "has sought to

---

168 United States Department of Commerce, "Foreign Commerce Weekly", 27th March, 1950, p. 40. It is noteworthy that, as in the case of the United Kingdom, these security restrictions have, according to "Foreign Commerce Weekly", been fully accepted and supported by businessmen and exporters in the United States.

169 Ibid., p. 40.

170 Ibid., p. 3.

remove promptly governmental restrictions and other impediments to the freer international flow of trade where there exists no overriding necessity for their continuance"[171]; but even so, and even after the refinement of the original blanket controls first imposed in March 1948, trade with Eastern Europe has declined to such levels that the security restrictions take on the appearance of a near-blockade. The restrictions are given an appearance of added severity because the Soviet bloc countries for their part concentrate their purchases on commodities vital to their industrial economy and their war potential. The trend towards two tightly closed economic blocs is thus hastened from both sides.

Something of the severity of the export restrictions is further shown by the sharp improvement in United States-Yugoslav trade which followed the Cominform breach. In a speech before the Yugoslav People's Assembly on 27th April, 1950, Marshal Tito, in "surveying economic relations with the West"[172] said that:

> "...it had at first been difficult to 'break the wall' which had been formed during the period when Yugoslavia had been leaning on the Soviet Union and the eastern bloc. Today, however, most of the difficulties were over and Yugoslav trade with the west had surpassed in value the country's former trade with Russia and the east. Trade with the United States last year had been up to pre-war level both in exports and imports, and this year exports would exceed the figure of 1,300 m. dinars (over £9 m)"[172]

Table 9 shows that United States exports to Yugoslavia increased two and one-half times in 1949 over 1948, while to the Soviet itself they declined to less than one-quarter of the already very low 1948 figure.

---

171 Ibid., p. 4.
172 "The Times", London 28th April, 1950.

Table 9. Relation of Controlled to Total United States Exports,[1] 1948 and 1949

Year	Total Exports	Controlled Exports	Controlled as a Percentage of Total Exports
	(In millions of United States dollars)		%
1948	12,498	4,687	37.5
1949[2]	11,844	4,157	35.1

United States Exports to Eastern Europe by Country, 1947-49

Country	1947	1948	1949
	(In thousands of United States dollars)		
Czechoslovakia	48,604	20,636	21,588
Hungary	12,730	7,406	5,294
Poland & Danzig	106,158	55,576	23,510
Albania	4,465	344	106
Bulgaria	1,401	2,086	1,373
Rumania	15,075	7,542	3,255
Total	188,433	93,586	55,126
U.S.S.R.	148,950	28,003	6,671
Finland	59,210	36,463	25,844
Yugoslavia	29,573	8,017	20,954
Grand Total[3]	426,166	166,073	108,595

Source: United States Department of Commerce "Foreign Commerce Weekly", 27th March 1950.

1 Figures exclude re-exports, except for last half of 1949.
2 Since controls were extended in early 1950 to all countries except the Western Hemisphere, in order to cover transshipments to the Soviet zone, the percentage of controlled exports should increase in 1950.
3 Totals do not necessarily add, because of rounding.

On the other hand, the success of the Communist revolution in China meant that the same export controls were imposed against her as against Eastern Europe, and these controls were progressively tightened and extended. On 21st September 1950, the United States Department of Commerce

> "...placed a complete ban on the unlicensed export of strategic goods to Hongkong and Portuguese Macao. Officials said the order was designed to stop all leakages of strategic goods to Communist China itself. They believed that part of some shipments to Hongkong and Macao might have been re-exported to China.
>
> "The Department also added other items to its list of goods requiring licenses for export to any country except Canada. The full list was: various types of pneumatic tyres and inner tubes, some iron and steel mill products, electrical machinery and apparatus, locomotives, engines and parts, and track-laying and wheel-type tractors". 173

The United States has sought to induce Western European countries to impose similar restrictions, and has undertaken bilateral discussions and discussions within OEEC to this end. Although a common list of restricted items does not yet seem to have been agreed, it seems probable that some reasonably uniform bloc policy will ultimately be adopted. Any bloc policy of this kind will, it seems, be determined free of any external restraint. Neither at the General Assembly, at Session of the Contracting Parties to GATT nor elsewhere has the United States recognised any right, in principle or practice, for international agencies to restrict a nation's freedom to impose what discriminations it likes to promote its foreign policy and protect its national security.

---

173 "The Times", London, 22nd September, 1950.

At the same time, the old objectives of freely-moving, non-discriminatory trade and payments within the limits of the Western bloc continue to be advocated, giving the impression that there remains a continuity of policy beneath the temporary distortions caused by the Soviet conflict. But even here, United States policy has undergone marked changes. Much of the old hostility to the British preferential tariff system still seems to persist; but there is not the same pressure as in 1946 for convertibility guarantees and non-discrimination, at least until it is very clear that the economies of Western Europe can bear them without political deterioration; and there has been a continuing demand for economic integration in Western Europe. Initially, the latter seemed to contain an element of isolationism - integration within Western Europe offered the best prospects of safe withdrawal of American support within the area. This element seems to have given way completely to the concept of close, continuous American co-operation with an area brought to its maximum strength through integration. A Western European union could well involve a preferential area, discriminating against the United States,[174] but this objection seems to have been lost in the drive for a strong Western European economy and a strong Western European economic and political alliance able to withstand the threat from the east.

There is nothing in this United States policy which brands it as intrinsically immoral, unwise, or war-provocative. The United States is faced with a situation in which the Soviet appears as a powerful well-prepared enemy who is undoubtedly ready to use an active

---

174 The point about M. Briand's proposal for a European Federal Union might be recalled that the Union would protect Europe against American competition.

foreign economic policy in its own armoury. In these circumstances, the United States, with the most powerful economy in the world, has understandably used economic policy as the one instrument above all which it can apply immediately, continuously, and with tremendous effect against its potential enemy. President Truman has said that "we are acting as one member of a whole community of nations dedicated to the concept of the rule of law in the world";[175] and international law, as it stands at the moment, places no restraint on the conduct of foreign economic policies, but rather specifically leaves them free to be formulated on a purely national basis. The United Nations Charter provides for multilateral economic sanctions under Article 41.

> "The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations".

But there is nothing to prevent a country applying economic sanctions unilaterally before any multilateral decision is taken. In effect, the United States had already applied economic sanctions against China, before the Chinese intervention in Korea and before any proposal for economic sanctions had been ventilated within the United Nations. In most international conflicts, it seems probable in present circumstances that, before any decision on economic sanctions is taken by the United Nations, those countries which are ready to apply them either completely or partially, will already have done so or be preparing to do so unilaterally. What

---

175 Speech at Philadelphia, 3rd February 1951, as reported in "The Times", London, 5th February, 1951.

then would a United Nations decision achieve? It might do no more than give the stamp of approval to action already taken or about to be taken unilaterally, perhaps bring in a margin of hesitant states, and perhaps extend mutual support. By and large the current tendency seems to be to make economic sanctions under Article 41 a "rubber-stamp" operation, so long as Article 99 of the I.T.O. Charter remains the effective expression of international thinking on unilateral sanctions.

All this merely illustrates the fundamental change which United States foreign economic policy has undergone over the years between 1939 and 1950. Neutrality, non-discrimination, a minimum of government interference in external economic policy have become part of "the pattern of an outworn tradition". The United States Government continues its direct command of vast capital resources for external use, it directs American exports to its friends and withholds them from its enemies, it is accepting more and more extensive commitments to maintain domestic full employment as an essential foundation for all the other elements of foreign economic policy, and, finally, the principle of a bloc foreign economic policy has been etched firmly and deeply into the practice of American administration. For the moment, the Soviet - with its somewhat changeable allies - is the enemy; but there may be something more permanent in the trend which United States policy is taking away from Anglo-American liberalism and towards German neo-mercantilism. At present, however, that can be no more than conjecture.

Part II - The Australian Experience

Chapter V. Foreign Economic Policy between the Wars

1. Introduction
2. Development of Inter-war Policy
3. Appraisal

.....

1. Introduction

It is against this background of multilateral and Great-Power policies that Australian policy must be set. These policies Australia has some power to influence, but little power to change. While, for example, British and American policies are being formulated, Australian influence might in some cases be significant; but once Britain or the United States have finally determined their policies, Australia's fundamental dependence on their support will make it almost unavoidable for her to bring her own policies into accord with theirs, even at some sacrifice of what she conceives to be her maximum security advantage. Australian policy since 1918 will therefore be seen, after temporary divergences, to align itself ultimately with the broad policy approach of Britain and the United States.

Like every other country however, Australia has its distinctive security problem. "A small population in sparse occupation of a vast territory, relatively close to the crowded millions of Asia"[1] must be conscious of a dangerous and long-continuing insecurity. Australia's

---

1 H.L. Harris, "Australia's National Interests and National Policy", Melbourne 1938, p. 23.

relative isolation from Europe gives her some immunity from direct attack from the historical storm-centres; but it also heightens the danger of aggression originating in Asia or in the islands lying off the Asian coast, for her traditional allies in Europe and America could assist only after some delay and, in any event, have their major preoccupation in other areas. Australia must therefore be prepared to rely to the fullest extent possible on her own resources; but, since these resources are extremely small in relation to the potential threats to her security, only meticulously careful direction of both political and economic policies can give any relatively satisfactory degree of assurance of national security. This suggests that a foreign economic policy might - or should - be applied more intensively and continuously by Australia than by many other countries.

In some respects, Australia's position is analogous to that of France. For both, insecurity must be regarded as a long-term condition, and there are few situations in which their traditional alliances will completely offset their independent weakness. If Australian policy followed that of France it might seek to maintain a congenial political balance by using economic pressure at tactically advantageous moments, but more likely, it might seek especially to create economic alliances which would supplement and intensify political bonds. A further rough analogy might be drawn between Australia's position and that of the Soviet Union, for Australia is a rapidly developing country, whose absolute

power[2] is likely to increase considerably throughout this century. Soviet policy between the wars - when insecurity was coincident with rapid development - sought stable world economic and political conditions, in which Soviet development could be carried forward without interruption. The ruthless intensity of the Soviet policy of economic development has not found a counterpart in Australian policy, but there has been a broad similarity of principle in the link which both have established between development and long-term security.

Within the general context of insecurity, Australia's foreign-policy position is rendered still more complex by the fact that, although she is geographically contiguous to Asia, she is linked racially, culturally, and economically with Europe. Although there has been a developing political and economic contact with Asian countries, this has - except for very recent years - been a slow growth, often requiring special nurture. Australia's racial and cultural affinity with Europe has been expressed most understandably - and also most provocatively from the Asian viewpoint - in the policy of immigration restriction - the so-called "White Australia" policy. This conflict between geography and racial origins presents a problem to Australian diplomacy which can be experienced in equal measure in few other countries.

---

2 Her relative power might also increase, though this is more doubtful. Note the comment in "The Economist" of 17th February 1951 that: "It is for the military expert to decide if Australia will be more secure against attack with a population of 11 million (the 1960 target) compared with its present population of 8 million. But strength is only relative, and while Australia is building up its own population, other countries - particularly those from which attack is feared - will be building up theirs also. It is true that Australia will be stronger economically and militarily if the present expansion continues. It would be rash to assume, however, that Australia's position will necessarily be strengthened vis-a-vis other nations" (page 384).

2. The Development of Inter-war Policy

It has been said that "Australia came out of the first World War with a sense of national unity and individuality, with pride in her achievements and a determination to play her part in the world of nations".[3] For the most part, however, Australia applied no very active or independent foreign policy after the early 'twenties. Only in the closing stages of the war, and immediately afterwards did she assert a strong, independent position in international affairs.

Much of Australia's attention was directed during the war to keeping Japan out of the Pacific islands. After 1914, when Japan had occupied the German islands north of the Equator and Great Britain had induced Australia to accept these wartime occupations, the Australian Government was at least determined that the Equator would form Japan's southern limit. This was one of Prime Minister Hughes' principal interests at the Peace Conference - "In order that Australia shall be safe, it is necessary that the great rampart of islands stretching around the north-east of Australia should be held by us or by some Power in whom we have absolute confidence".[4] Mr. Hughes won New Guinea for Australia, and he won it under a special system of Mandate, which required no "Open Door". Australia wanted no compulsory freedom for the movement of either men or goods into Australia or into the territories close to

---

3 A. Campbell Garnett, "Freedom and Planning in Australia", University of Wisconsin 1949, p. 242.
4 House of Representatives, 10th September 1919, Parliamentary Debates, Volume LXXXIX, p. 12173.

Australia.

> "...I ask my fellow citizens throughout Australia to realise", said Mr. Hughes, "what an open door for men and goods would mean. Our control of trade and navigation would be gone, and within 80 miles of us there would come pouring in those who, when the hour should strike, could pounce on us on the mainland. We fought against the open door...". 5

Moreover, although the Australian Government strongly supported the League, that support was predicated on the assumption that Australian policy would be allowed to go its own way in the area of principal security concern. "While the Monroe doctrine exempts the whole of the two Americas from the jurisdiction of the League of Nations, we will not allow anything relating to our sphere in the Pacific to be regarded as a proper subject for submission to that tribunal".[6]

The first object of the Australian policy towards New Guinea was to keep potential enemies out. After that, however, the second step for foreign policy might have been to make the territories strong, if not by direct fortifications - although even that was quite legitimate for the non-Mandate of Papua - then by agricultural and industrial development. This second step was never effectively attempted by the Australian Government during the inter-war period. Of the first ten years of Australian rule in Mandated New Guinea, Professor W.K. Hancock wrote:

> "In the Mandated Territory...[Australian] administration has not yet reached the standard set by Sir Hubert Murray and his assistants in Papua. The Commonwealth...has been rather stingy, and its administration has continued too long in the improvised pidgin-English style which appeared in its first proclamation". 7

---

5 Ibid., p. 12174.
6 Ibid., p. 12172.
7 W.K. Hancock, "Australia", London 1930, p. 202.

Careful economy in government expenditure, on economic development at least, still ruled Australian policy in the Mandate at the outbreak of the Second World War. Economic development was similarly neglected in Papua, although native administration there, under the competent control of Sir Hubert Murray, had been a copy-book achievement. One writer has summed up the record in Papua by saying:

> "It is true that her resources are undeveloped, owing to Australia's inability to grant opportunity for their development; but at least those resources are unwasted; her potentialities are known; and her people, who constitute her greatest asset, are carefully educated by experience from which the harmful elements have been removed by a wise administration, and have proved their capability in every form of work that opportunity has presented to them". 8

In the Mandated Territory, total government expenditure per annum in the five years ending 1939-40 varied between a minimum of £A425,794 in 1935-36 and a maximum of £A508,613 in 1937-38. "New Works", which presumably indicates the extent of new developmental programmes in the Territory, were at a maximum of £A76,760 in 1935-36, and averaged £A69,079 over the five-year period. During the same period, expenditures in Papua were still more meagre, as shown in the following figures:

	1935-36 £A	1936-37 £A	1937-38 £A	1938-39 £A	1939-40 £A
Total Expenditure	165,821	170,920	183,102	166,331	177,932
Public Works	17,597	23,503	35,828	25,457	26,965

Source: Official Yearbook of the Commonwealth of Australia, No. 34, 1941.

---

8 Lewis Lett, "The Papuan Achievement", Melbourne 1944, p. 199. A summary of pre-war development in Papua and the Mandated Territory is also given in a statement by the Minister for External Territories (the Hon. P.C. Spender) quoted in Chapter VI, p. 473 infra.

While the economic potentialities of the Territories were allowed to lie fallow, so also did their potentiality to absorb migrants. The Australian Government strictly applied the same policy of immigration restriction to the Territories as to Australia itself, but, unlike Australia, the white population of New Guinea remained a handful. The Asian population of the Mandate was 1,830 in 1933 and 2,099 in 1940, while the white population increased from 3,191 in 1933 to 4,608 in 1939. In Papua, the white population, which had been 690 in 1907, had reached 1,488 by 1938 and 1,608 by 1939.

From the viewpoint of foreign policy and defence, New Guinea remained therefore what it had been in 1919 - a "no-man's-land". The Australian Government succeeded in keeping other people out but it did little that was more positive than that. For the aggressor from the north, New Guinea was an almost unoccupied territory which he would have to cross before reaching Australia. For foreign policy, it tended to create an additional liability through the extension of the Australian immigration-restriction policy beyond the limits of Australia itself, without, as in the case of Australia, any attempt to develop and populate the new and empty land. It could, of course, be claimed that New Guinea offered limited scope for profitable economic development. However, if profitable development had been possible, Australia would have gained defence and foreign-policy advantages at no welfare cost. In fact, any rapid development of New Guinea demanded some economic sacrifice for the sake of enhanced national security. Since Australia was unwilling to make this sacrifice, she seems, in the case of New Guinea, to have rejected any effective foreign economic policy or even,

in that limited area, any effective defence economic policy. The time which, as a result, was lost in the inter-war period may have to be made up in the 'fifties when political and defence pressures have intensified.

Although New Guinea was neglected, the decade after 1918 was a period of rapid development for Australia itself. Immigration flourished. Direct assistance to immigrants by the Australian Government, agreements with the United Kingdom, and the generally boom conditions of the Australian economy all helped to bring thousands of new settlers. At the same time, government investment reached new heights.[9] In the ten years after 1918, the total public debt of the Commonwealth and State Governments rose by £281 million (excluding loans related to the war), and by 1927 the total debt, including war debts, had passed the £1,000 million mark. More important than these total figures, the external debt which "at June 30th, 1923, ...was £419.6 m. ...had risen to £570 m. by June 30th, 1928, an increase of £30 m. per annum".[10] In 1921, about 60 per cent of the total public debt was held internally but by 1929 this percentage had fallen to about fifty.

Behind all the programmes for immigration and economic development, there was a broad concern for defence - often identified with foreign policy. But there was no direct governmental attempt to establish heavy defence industries. Public loans were devoted mainly to railways, roads,

---

9 Immigration and government capital expenditure were of course related. The Commonwealth and State Governments undertook additional expenditure in part to settle new migrants successfully.

10 D.B. Copland, "Australia in the World Crisis 1929-1933", Cambridge 1934, p. 15. National income during this period has been estimated at about £550 million in 1922-23, rising to £650 million in 1928-29.

bridges, water-supply and sewerage, harbours, land-settlement, and so on. Much of the money obtained overseas probably could and should have been raised locally; much of the expenditure seems to have been uneconomic; and very little expenditure was made on direct defence projects. Perhaps in the latter, the programmes of economic development could have found some foreign-policy justification - Australia was hurrying along the peaceful exploitation of her large and varied territory. However, the real value of development based on foreign borrowing up to 1929 from any viewpoint - welfare, defence, or foreign policy - should not be exaggerated. In 1928, a Loan Council was formed to control borrowing by the various Governments, and, about the same time, a British Economic Mission was invited to report on the Australian economy. "The Mission" said Professor Copland, "could not escape the conclusion that Australia had mortgaged her future too heavily, but it did not take a grave view of the situation. The Development and Migration Commission, established in 1926 to supervise the expenditure of loans under the '£34,000,000 Agreement' with the British Government, found on close investigation that many forms of capital expenditure were uneconomic. After five years of work it had been able to recommend the expenditure of only £6 m., and its later reports showed that it thought loan expenditure should be curbed".[11]

The Depression brought external borrowing to an end, and it brought immigration to a standstill also.[12] But it gave a new impetus to thinking about commercial policy in which a number of significant changes occurred during the 'thirties.

---

11 Ibid., p. 21.

12 In some years during the 'thirties, there was a net emigration from Australia. Total Australian population reached 5 million in 1918 and 6 million in 1926; but the 7 million mark was not reached until 14 years later in 1940.

In part answer to President Wilson's Fourteen Points, Prime Minister Hughes had made it plain that "we claim the right, and shall insist upon it, to make what tariff distinctions we like".[13] Australia had never been inflexibly committed to most-favoured-nation principles, and since 1908 had extended preferences to the United Kingdom. However, the main purpose of her tariff policy, both before and after 1918, had been to give generous protection to home industries, often without much concern about whether they were ever likely to outgrow the need for protection or not.

Protection was expected to achieve a number of objectives. Firstly, it should help to expand the industrial economy. This in turn should enlarge Australia's capacity to absorb new migrants; and both of these results should strengthen the position of the Australian economy whether in peace or in war. Finally, there was the question of prestige and living standards: protection should raise the status of the Australian people from being mere "'hewers of wood and drawers of water' for the people of more favoured countries".[14] Whatever the particular objective on which emphasis might be placed from time to time, protection became "more than a policy: it has been a faith and a dogma".[15] What relative place did welfare and power occupy in the policy? Professor Hancock has said that:

---

13 Statement made in England in 1918, quoted by Mr. Hughes to the House of Representatives, 10th September 1919, Parliamentary Debates, Volume LXXXIX, p. 12168.
14 "The Australian Tariff", a Report prepared for the Prime Minister by five economists, Melbourne 1929, p. 18.
15 "Australia", op. cit., p. 77.

"It is a policy of power; it professes to be a policy of plenty. It promises to the Australians, not only the industries which are necessary in time of war, but also the enjoyments which are desirable in time of peace". 16

The important thing, however, is that, not only did protection profess to be a policy of plenty, but it was believed to be such by the overwhelming majority of the Australian people. Protection became doubly acceptable because welfare and defence were believed, in this case, not to conflict, but to point in the same direction. At each extension or adjustment of the tariff, defence objectives were mentioned, but they were placed alongside an expectation of substantial welfare benefits. For example, in moving the adoption of the 1921 tariff, the Minister for Trade and Customs (the Hon. Massy Greene) said that the Government believed the new tariff would "prove satidfactory to the manufacturers of the Commonwealth", and that it would "protect industries born during the war,...encourage others that are desirable, and...diversify and extend existing industries". For the Pratten Tariff of 1926, the Minister claimed that the new schedules would "create a great deal of further employment,....protect local industries and [by revising revenue duties] give relief from taxation". In presenting his second tariff in 1928, which increased the rates of duty on twenty-three British and foreign items, Mr. Pratten declared the Government's intention that "our national development shall be assisted", and that, by extending British preferences, "the aggregate British trade with us will..be increased at the expense of foreign trade". In most statements, defence and welfare were so well mixed up that it is impossible to be certain which was uppermost in the

---

16 Ibid., p. 77.

speaker's mind, but, in any event, since both led to protection, it mattered little which received the major emphasis.

If, therefore, protection assisted Australian defence, it may be counted fortunate that accepted welfare policy pointed in the same direction. For Adam Smith, the question was whether to retain the Navigation Acts even though welfare cautioned otherwise; but, for Australian Governments, protection could be lavished on one industry after another in the interests of welfare, with a self-righteous background of appeal to "national development" and the imperatives of defence. The policy of protection therefore built up no clear tradition in Australia for making significant commercial-policy sacrifices in the cause of defence, and absence of this tradition may become more important when the problem extends from using economic policy to promote defence to using economic policy to assist foreign policy. To take a concrete example, which is touched on subsequently,[17] let us suppose that a pre-war Australian Government had considered it desirable, for defence reasons, to establish an aluminium industry in Australia. A policy of protection for that industry might have expected widespread acceptance, labour hoping for enlarged employment opportunities and mangement for a new field of enterprise. Suppose instead, however, that, under a foreign economic policy of close economic co-operation and industrial co-ordination with New Zealand, the Australian Government agreed that an aluminium industry should be established in New Zealand to meet the needs of both countries. Compensating advantages might be given Australian industry in the New Zealand market, but the arrangement would be more complex than the simple

---

17 See Chapter VI.

gain expected from protection for defence, and might involve some real or imagined welfare loss. In the inter-war period, Australian foreign economic policy had not developed to the point where this type of dilemma occurred, but it has begun to emerge more clearly since 1945.

Beyond protection, Australian commercial policy in the inter-war period was often frankly discriminatory, and here it sometimes appeared to go beyond defence to link with foreign policy. Discrimination was expressed principally through Imperial preferences, which had a long history in Australian thinking. Thirty years before the Ottawa Conference, it had been "part of the faith of...Alfred Deakin...that Imperial preference was the road to imperial unity".[18] The Lyne Tariff of 1908 first wrote British preferences on to the Australian statute books. By 1929, "the average margin of the preferences granted by Australia upon goods of British origin was 15 per cent., and they extended over the whole tariff schedule".[19] Australia's task after 1918 was to obtain reciprocity from the United Kingdom. When Prime Minister Bruce raised his cry for "Men, money, and markets", he had especially in mind United Kingdom markets secured through reciprocal preferences. As already noted, the Australian fight was unsuccessful until 1932, and, it must also be recorded, the foreign-policy element in the struggle for reciprocity before 1932, as distinct from the welfare element, was of doubtful importance. One authoritative report commented in 1929 that:

---

18 W.K. Hancock, "Survey of British Commonwealth Affairs", Volume II, p. 220.

19 Mr. Henry Gullett, 13th October 1932, Parliamentary Debates, Volume 135, p.1140.

"The policy of preferential trade within the Empire has received much support in recent years in both Great Britain and the Dominions on the rather vague assumption that it will stimulate trade within the Empire, and thus promote its economic development. Its association with Imperial sentiment has given it a wide popular appeal, and it has had much influence with tariff makers in all parts of the Empire. Advocacy of preference in both Great Britain and the Dominions is, however, most active among those who favour the policy of protection. It is in reality a form of protection, applied by reciprocity between different autonomous customs areas. It presupposes the existence of duties upon foreign goods, and where revenue or protective duties are levied upon British goods the duties upon foreign goods are levied at higher rates. If there were no conflict of interest between Dominion and British tariff policies the political advantages of such a system might be considerable. But the young industries of the Dominions require protection against imports of manufactures from Great Britain, whilst the need for cheap raw materials and foodstuffs in Great Britain weighs heavily against the taxation of foreign supplies of these goods. The Dominions may find it expedient to grant British preference as part of a general protectionist policy; Great Britain cannot reciprocate by taxing foreign supplies of raw materials and foodstuffs. There is, therefore, no common basis for action, and the costs and benefits of a general system of preference would weigh unevenly on the different parts of the Empire". 20

A "common basis for action" did however appear three years later when the Depression had forced the United Kingdom into a policy of protection. On the eve of his departure for Ottawa, the Leader of the Australian Delegation (Mr. S.M. Bruce) said that "my one aim will be to weld more closely together the British Commonwealth of Nations, so that it may become the great world force which it ought to be".[21] After the Conference, Prime Minister Lyons asserted that previously "it had never been possible to unravel the tangle of all the conflicting trade policies and rewind the threads so as to strengthen them all into a cord that would bind the whole Empire closer together".[22] Other statements of this

---

20 "The Australian Tariff", op. cit., p. 208.
21 Parliamentary Debates, 24th May 1932, Volume 134, p. 1306.
22 Ibid., 31st August 1932, Volume 135, p. 26.

general nature, stressing the Imperial, political element in Ottawa, were made from time to time both inside and outside the Federal Parliament.

The Labour Opposition, however, made no show of sharing this view. Before the Conference, the whole of the Labour emphasis was on the economic benefits which Ottawa might bestow, and the dangers to be avoided. Former Prime Minister Scullin said that "we expect our Ministers not to give away the protectionist policy of Australia, nor allow the safeguards that apply to our own Australian industries to be weakened".[23] Mr. E.J. Ward, one of the more militant Labour Members, declared more strongly that, "if the conference is to be utilised merely to enable the British delegates to brow-beat the Commonwealth into the reduction of tariff duties, the Government should not inspire our wheat-producers with hopes that are doomed to disappointment".[24] After the Conference, Labour directly contested the thesis that the Agreements would promote Imperial unity. Mr. Scullin found "some articles...repugnant to those who stand for...Australian self-government",[25] and he deprecated "a half-and-half protectionist policy";[25] but he also insisted that "the attempt to impose cast-iron conditions on the people of Australia or on any people inside the British Commonwealth of Nations will endanger the unity and goodwill now existing",[26] and that "the ties of kinship...will not be strengthened by sordid bargaining or the making of binding agreements".[27] The Country Party voted for the Agreement

---

23 Ibid., 24th May 1932, Volume 134, p. 1305.
24 Ibid., 24th May 1932, Volume 134, p. 1267.
25 Ibid., 3rd November 1932, Volume 136, p. 1846.
26 Ibid., p. 1851.
27 Ibid., p. 1853.

but, before Ottawa, its Leader (Dr. Earle Page) had insisted that there be no "auction sale of preferences between one part of the Empire and another".[28] Afterwards, his support of the Agreement with the United Kingdom was tempered, inter alia, by a thesis similar to Labour's that, "when, in return for all these favours, the father asks his son to buy some more of the goods the father manufactures, the son tries to force from him the last farthing on the bargain, we should have a parallel for what Australia is doing in her relations with Great Britain".[29]

In practice, however, the difference between the Government and the Labour Opposition was more apparent than real. Government spokesmen often referred to the political unity of the Empire; but, for them as for Labour, Ottawa was essentially a welfare experiment. The Governor-General's Speech to Parliament on 18th February 1932 had announced that "a feeling is abroad that Australia is about to be presented with the greatest opportunity for trade development in her history",[30] and this expressed the essence of the Government's hopes for Ottawa throughout. Policy statements, having acknowledged the goal of Empire unity more or less as a pleasing preliminary, then proceeded to a careful, detailed appraisal of the welfare issues involved. On his return from Ottawa, the Minister for Trade and Customs (Mr. Henry Gullett) summed up the Government attitude by saying that

---

28 Ibid., 18th February 1932, Volume 133, p. 100.
29 Ibid., 8th November 1932, Volume 136, p. 2052.
30 Ibid., 18th February 1932, Volume 133, p.81.

> "...the Australian delegation...aimed at something nearer and more definite than a general benefit either to Australia or to the United Kingdom. From the beginning of the preparation for Ottawa until the conference closed we worked for specific benefits for our primary industries". 31

Ottawa raised the tariff on more than 400 items, and Mr. Gullett claimed - "almost exultingly", said the Leader of the Country Party - that the Agreement with the United Kingdom "does not reduce the protective level of our Australian tariff. It does not call upon the Australian Government to reduce that level. On the contrary, although it does not reduce the protective level against British imports, it very generally increases the protective level against foreign imports".[32]

Outside Parliament also, in the long debate which subsequently went on throughout Australia on the merits of Ottawa, the issue of whether or not it strengthened political bonds within the Empire or whether it was an asset from a broader foreign-policy viewpoint, was largely an aside. The real issue was whether, as Prime Minister Lyons had claimed, the Ottawa Agreements had in fact conferred "great benefits...on Australian primary industry".[33] These were years of intense depression, of long relief and sustenance queues, of groups of idle men at street corners and in city parks, and of travelling unemployed in country areas; it was no time for welfare sacrifices even in the cause of Imperial unity. Whatever less material sentiments were expressed from time to time, Australians as a whole supported Ottawa as "a measure of self-defence... against world-wide deflation".[34] Nevertheless, within a few years the

---

31 Ibid., 13th October 1932, Volume 135, p. 1166.
32 Ibid., p. 1166.
33 Statement by the Rt. Hon. J.A. Lyons, 14th January 1933, printed in D.B. Copland and C.V. Janes, "Australian Trade Policy, A Book of Documents 1932-1937", Sydney 1937, p. 87.
34 "The British Commonwealth and the Future", op. cit., p. 140.

political implications of Ottawa assumed an importance for Australian foreign policy. Of the political arguments against Ottawa, note has already been taken of the assertion that "the ties of kinship....will not be strengthened by sordid bargaining". An extension of this argument - used by the Bank of New South Wales[35] - was that Empire bonds would be weakened by the disappointments which would follow from the probable failure of Ottawa as a welfare experiment. They took Alfred Marshall's argument of 1908 that

> "There is danger in the fact that in these schemes /for Imperial preference/ the gain which either side is invited to expect is greater than the loss which she is to incur; and yet, as the scheme includes differential duties which are essentially wasteful, the aggregate material gain must in my belief be less than the aggregate material loss. The schemes would be less dangerous if they started with the frank statement, 'Imperial unity is an ideal worth much material loss: let us consider how best to share this loss among us'. As it is, the schemes appear to me likely to breed more of disappointment and friction between England and her colonies than of goodwill and the true spirit of Imperial unity. And, if approached in a spirit of greed rather than of self-sacrifice, they are likely to rouse animosity in other lands, and to postpone the day at which it may be possible to work towards a federated Anglo-Saxondom, which appears to be even a higher ideal than Imperial unity".

This latter contention that Imperial preference might "rouse animosity in other lands" became sharply relevant to Australian foreign and commercial policy when the Lyons Government launched its Trade Diversion Policy against Japan and the United States in May 1936. Before dealing with Trade Diversion, it is necessary to sketch in a little of the background of Australia's political and trade relations with Japan.

"Australians", wrote one commentator in 1940, "have always felt themselves threatened by a menace of some sort. In the early days it

---

35 See Bank of New South Wales Circular, dated 2nd November 1932, printed in Copland and Janes, op. cit., pp. 130-138.

was the French, and later on it was, at various times, the Russians, the French again, the Germans, and...in the later 'nineties the Japanese".[36] At Versailles, Mr. Hughes had succeeded in keeping Japan north of the Equator and in keeping Japanese immigrants out of the Australian Mandate; but security demanded more than that. The Anglo-Japanese Alliance had put Japan on Australia's side in the First World War and Mr. Hughes wanted a continuing alliance as security against any future Japanese attack. Before he went to the Imperial Conference of 1921, he wanted the Anglo-Japanese Alliance continued, if possible in a form suitable not only to Britain and Japan, but also to the United States; but he wanted no less. "No man can deny", he told the House of Representatives, "that it is a thing more precious than rubies that we should have an alliance with the greatest Power in the East".[37] However, Mr. Hughes failed. The Alliance was broken up and replaced by the Four-Power Pact, "with its nebulous terms and its lack of sanctions".[38] After 1921, Australia took little active part in promoting friendly political relations with Japan and, what active interest she did show in meeting the potential Japanese threat, was concentrated on such defence projects as the fortification of Singapore. During the Manchurian crisis of 1931, the Australian position was one of "watchful waiting", with the

---

36 Jack Shepherd, "Australia's Interests and Policies in the Far East", New York 1940, p. 7.
37 Parliamentary Debates, 7th April 1921, Volume XCIV, p. 7267.
38 S.H. Roberts, "History of the Contacts between the Orient and Australia", in I. Clunies Ross (Ed.) "Australia and the Far East Diplomatic and Trade Relations", Sydney 1936, p. 35.

vague hope in the minds of many Australians that Japan might be preoccupied for such a long time with her adventures on the Asian mainland that Australia would have little to fear from her. In any event, resistance against Japanese aggression involving, for example, "the imposition of sanctions against Japan would certainly have involved greatsacrifice on Australia's part, since it would have meant the cessation of wool and wheat exports to Japan at a time when those exports were helping Australia along the road to economic recovery".[39]

Although direct political relations with Japan were meagre, Australian trade with Japan expanded to a remarkable extent, especially after 1929. Japan took large quantities of Australian wool and wheat and, in 1932, Mr. E.J. Ward reminded the House of Representatives that "but for the market that was found in the East last year, an enormous surplus of wheat would have been left on our hands".[40]

However, although Australia had a large positive balance with Japan, the flow of trade was by no means one-way, and it was here that Australian misgivings entered. Australia had always shown some tendency to resist, not only a flood of Asian migrants, but also any large flow of Asian goods, which might slow the upward trend in Australian living standards by retarding economic development and endanger Australian security by retarding the establishment of industries essential to a war economy. As a consequence, "supporters of tariff protection and a 'White Australia', who were dominant in the first Federal Parliament,

---

39 Jack Shepherd, op. cit., p. 36.
40 Parliamentary Debates, 24th May 1932, Volume 134, p. 1267.

wrote onto the statute book legislation designed to guard the country against invasion either by Oriental immigrants or Oriental goods".[41] This attitude tended to override recognition of the value of the Japanese market and the desirability of maintaining cordial political relations through mutually beneficial commercial contact. During the depression years of the 'thirties, Australian stores bulged with Japanese textiles, crockery, glass-ware, toys, and other light manufactures. Since they were cheap and since the terms of trade had turned severely against Australia since 1929, these imports were in many respects a boon, and the Australian public bought them in increasing quantities. Nevertheless, the people themselves bought with a feeling of resentment against the Japanese, often expressed in attacks on the methods of "sweated labour" which they allegedly employed. The feeling was always present that the Japanese were unfairly undercutting and destroying firstly Australian industry and secondly that of Great Britain. People noted with a sense of alarm that "whereas in 1913 Japan supplied a little more than 2 per cent. of Australian imports of apparel, textiles and manufactured fibres, and Great Britain about 61 per cent., in 1934-35 Japan's portion had risen to more than 18 per cent. and Great Britain's had been reduced to 57 per cent.".[42] So far as Australian industry was concerned, the Melbourne "Age" of 11th September 1933 had declared that "the standard of living of the workers, the reasonable profits of manufacturers, the opportunities for the

---

41 Jack Shepherd, op. cit., p. 184.
42 H.L. Harris, op. cit., p. 101.

unemployed, the prospects of young people ready to enter the economic field - all are being placed in greater jeopardy owing to the unfair competitive liberty being allowed to a foreign country ...[which uses] mean wages, serf conditions, a seven-day week, child labour".[43]

Sir Henry Gullett was therefore able to win a lot of popular and often uninformed support when, on 22nd May 1936, he announced "a series of steps intended to bring about a diversion of carefully selected portions of our overseas trade...[in order] to widen and strengthen Australian secondary industries...to draw our supplies from countries which are already great customers of ours...to increase our export trade... to place our overseas financial affairs in a sound and enduring position... [and] to maintain the Australian standard of living, and keep the way clear for its steady advancement".[44] The two countries principally hit were the United States and Japan. Against Japan, the policy meant a tremendous increase in the rate of duty on cottons and artifical silk piece goods, imposed because the Japanese "low prices necessitate some action to preserve a reasonable proportion of the trade for the United Kingdom".[45] For example, prior to Trade Diversion, the duties on artificial silk piece goods were 20 per cent. British and 40 per cent. general tariff, with a primage duty of 10 per cent. in both cases. After 22nd May, the

---

43 A.C. Pearson in "Press, Radio and World Affairs", Ed. by W. MacMahon Ball, Melbourne 1938, p. 37.

44 Parliamentary Debates, Vol. 150, p. 2211. It should also be noted that Trade Diversion was also alleged to assist immigration and to make "a significant indirect contribution to defence". These objectives should not be ignored and no doubt had some influence, but were - except for the proposals to establish a motor-vehicle industry in Australia - probably no more than an imprecise, general background to the policy, as they were to most of Australian commercial policy between the wars.

45 Ibid., p. 2214.

ad valorem duties were replaced by specific duties of 1½d. per sq. yard British, 8d intermediate (most-favoured-nation) tariff, and 9d. general tariff, with abolition of primage for British imports and reduction from 10 to 5 per cent for foreign imports. These rates may be compared with an average f.o.b. value in February 1936 of 14d per sq. yard for British artificial silk and 4¾ per sq. yard for Japanese.

The detailed story of Trade Diversion has been sufficiently told elsewhere.[46] The muddled attempt to dictate the terms on which Japanese-Australian trade should be conducted was a humiliating failure for the Lyons Government, and resulted in a severe loss of export markets in Japan, especially for wool, which was never recovered in the inter-war period. Sir Henry Gullett, who, in defending the authority of the Tariff Board in 1932, had said that "for a Customs Minister or any number of Ministers to engage hurriedly in tariff revision...would be political madness",[47] had tabled his Trade Diversion proposals before Parliament without reference to the Tariff Board, and, it also seems, without any pressure from the British Government or consultation with it. Trade Diversion was intended to strike at "bad customer" countries, but Japan was Australia's second largest customer which, as the Leader of the Opposition (Mr. John Curtin) pointed out, had provided a major part of Australia's positive trade balance since 1931-32. The figures which he used were as follows:

---

46 See especially Chapter III of Jack Shepherd's "Australia's Interests and Policies in the Far East".

47 Parliamentary Debates, 13th October 1932, Volume 135, p. 1144. It might be noted that some feeling still persists that Trade Diversion was inspired, at least in part, by direct pressure from the British Government, but there does not seem to be any clear evidence to support this view.

Year	Excess Exports	
	All Countries	Over Imports from Japan
	Million £A	Million £A
1931-32	31.1	8.6
1932-33	20.9	7.0
1933-34	30.5	9.3
1934-35	9.4	6.3
1935-36	13.8	11.4

Source: Parliamentary Debates, Vol. 152, p. 2195.

Sir Henry Gullett did not face the issue of discrimination squarely and consistently. On 22nd May 1936, he said that he wished "to dissipate any apprehension...that the duties...will in any way be discriminatory. They will apply equally to all foreign countries".[48] However, on 24th November, he said that:

> "...the Leader of the Opposition charges the Government...with discriminating among countries which are more or less substantial exporters to the Commonwealth. He appears strongly to favour the alternative course of adopting tariff restrictions against certain items of import irrespective of country of origin. There we reach the fundamental difference between the policy of the Government and the policy of the Opposition".[49]

In any case, so far as Japan was concerned, the formal point was academic for, as the Minister pointed out in the case of artificial silk goods, "imports, other than those from Japan and the United Kingdom, were nominal in quantity".[50] Trade Diversion, especially in so far as it was

48 Ibid., Volume 150, p. 2216.
49 Ibid., Volume 152, p. 2204.
50 Ibid., 22nd May 1936, Volume 150, p. 2215.

directed against Japan, arose directly from Ottawa and was largely inspired by the negotiations due to take place in 1937 on extension of the 1932 Agreement with the United Kingdom. Majority opinion in Australia had firmly crystallised into the view that Ottawa had brought real welfare benefits, and, in view of the doubts that were being expressed in Great Britain, the Australian Government felt some need to give Britain concrete assurances that the Australian market would be preserved for her. In return, Australia expected a continuation or extension of Australian preferences in the British market.

What were the political implications of Trade Diversion? Sir Henry Gullett claimed that it had none - it was a simple trade restriction policy against "bad customers". Trade was diverted not only to the United Kingdom - an undoubted ally - but also, as Sir Henry claimed, "in a less, but still material, degree to Belgium, Germany, and our other best-customer foreign countries".[51] Still, there were some doubts. In a broadcast on 25th June 1936, the Prime Minister inferred that the people and newspapers of Australia had rightly "sensed that there is something more behind this action of ours than the consideration of our trade with the United Kingdom, and the degree of our dependence upon the United Kingdom markets to consume our exports of station and farm and orchard produce".[52] On the other hand, when the Leader of the Opposition suggested that this could "give rise to the most sinister speculations",[53] Sir Henry Gullett

---

51 Ibid., 24th November 1936, Volume 152, p. 2207.
52 Quoted from Parliamentary Debates, Vol. 152, p. 2200.
53 Parliamentary Debates, 24th November 1936, Vol. 152, p. 2200.

claimed he was "talking nonsense".[53] Sir Henry was probably right. The Prime Minister's hint was probably no more than a platform appeal to uninformed prejudice among the Australian public, in order to gain support for a policy which had transparent weaknesses and which endangered Australia's political and trade relations in the Pacific. The truth was almost certainly that if the economic consequences of Trade Diversion were ill-considered, the political consequences were not considered at all. The Opposition pointed this out. On 24th November 1936, Mr. Curtin said that the new tariff

> "...involves Australia's relations with the United Kingdom, the United States of America, and Japan; and we have to consider it at a time when the world is trembling in an atmosphere of mistrust. At best, the international situation at the moment gives cause for grave disquietude...Australia has no reason to fear either the United States of America or Japan, but as those two countries play so important a part in international relations in the Pacific, Australia should endeavour, in the most genuine way, to maintain friendly relations with them, and, indeed, with all countries which border that ocean.
>
> "The Commonwealth Government has failed to take a broad national view of the situation. At all times its policy is dominated by sectional interests, and for that reason it has failed in this, as well as in other matters, to place Australia first". [54]

In a later part of the same speech, he declared that

> "...the Government has taken the course of imposing discriminatory restrictions, with no thought of the economic repercussions which must follow such action, or of the antagonism that might be engendered. I look at this matter from the viewpoint of Australia, its trade, its international relationships and the overwhelming desirability of being on friendly relations with the countries that border the Pacific Ocean. We are a British community, and

---

54 Ibid., Vol. 152, pp. 2193-2194. In earlier years, Labour had opposed import of cheap Eastern goods on the grounds that they placed a brake on Australian industrialisation and reduced employment opportunities. Now, however, Labour recognised that the goods concerned were not competitive with Australian industry in the main, and that they provided cheap supplies for the working class whose purchasing power had fallen to low levels during the Depression.

> we have given ample proof of our kinship with the United Kingdom. The preferences given in our tariff to Great Britain are understood. They cause no turmoil. But preference is one thing, and discrimination against a particular country or countries is another. We must live as realists, and keep our minds clear regarding the political facts of the Pacific, in which we are vitally involved. We cannot, and dare not, divorce our trading policy from the factual realities of our geographical position". 55

Mr. E.J. Ward said more directly that "this country may, as the result of disputes of this kind, become involved in armed conflict",[56] and that "Australian interests are being sacrificed on the altar of imperialism".[56]

It is doubtful that Trade Diverson by itself had any marked effect on Japan's political ambitions. However, assuming that it was still true that it was "more precious than rubies that we should have an alliance with the greatest Power in the East",[57] Trade Diversion certainly did not assist Australia's foreign policy. There was at least some element of truth in the contention that it had "immeasurably strengthened the War Party in Tokyo",[58] for it gave support to Japan's claim for an economic domain in which she would have some assurance of essential markets and supplies. Trade Diversion would have had some logic for foreign policy if it had been deliberately aimed against Japan as a proven enemy - if, in other words, it had been not simply a token of the Government's "firm resolve to adhere... - above and beyond all material considerations - to

---

55 Ibid., Vol. 152, pp. 2202-2203.

56 Ibid., Volume 152, p. 2407.

57 As late as the 9th May 1939, Sir Henry Gullett (then Minister for External Affairs) looked forward "to a nearer and more auspicious relationship with the great Japanese people than that which prevails today". See Parliamentary Debates, Vol. 159, p. 197.

58 Statement by the Vice-Chairman of the Australian Wool-Growers' Council, 17th July 1936, printed in Copland and Janes, op. cit., p. 297.

the Empire bond",[59] but to adhere to that bond against a Japanese attack which was likely and imminent. But it was not based on this reasoning. It might even have been justified if Trade Diversion had been necessary to ensure the continuing friendship of Great Britain by modifying Japanese competition in the Australian market. One speaker expressed this view by saying that:

> "If Australia does not stand with Britain she will be an easy prey for any nation that likes to take possession of her. The Empire takes nearly 70 per cent of our exports, and provides a genuine and permanent market. I have nothing to say against most Japanese, but they bought our wool to please themselves, not to please us.
>
> "The producers of Australia have to decide whether they will allow an Eastern country to penetrate this country - peacefully perhaps - and get possession of our principal markets". [60]

On the last point, Professor Hancock later reminded "the two Dominions of the southern Pacific" that "had they been willing to admit more goods from some of the countries whose men they excluded, they might have gone far to soften the rigours of the exclusion".[61] On the first point, United Kingdom-Australian friendship was not really at stake. That friendship was based on much more secure foundations than mutual trade benefits, and, in any case, the evidence is that Trade Diversion was not undertaken at the instigation of the United Kingdom or after consultation with the United Kingdom. If anything, it seems that the United Kingdom Government heard of it with misgiving. As a final point, Trade Diversion might have been justified in foreign policy if

---

59 Broadcast by the Rt. Hon. J.A. Lyons, 25th June 1936, Ibid., p. 272.
60 Sir Arthur Trethowan, 7th August 1936, printed in Copland and Janes, op. cit., p. 297.
61 "Survey of British Commonwealth Affairs", op. cit., Vol.II, p. 177.

Australian security was believed to be guaranteed by the British bond alone, that is, so long as Australia had United Kingdom friendship, she could afford to draw the open hostility of even so close and powerful a neighbour as Japan. Australian foreign policy had, however, never been based on this reasoning, as the Australian attitude to the Anglo-Japanese Alliance clearly revealed. And this introduces the further significant point that Trade Diversion was aimed not only at Japan but also at the United States, Australia's likely ally if Japan turned to aggression in the south.

The commercial case against the United States was much stronger than that against Japan. The United States was certainly a "bad customer", if we mean by that that Australia ran a persistent negative balance with her. Moreover, the United States had maintained a high tariff against Australian exports, including wool. On 12th November 1936, the Minister for Trade Treaties said that proposals for a trade agreement with the United States

> "...which were first submitted to the Government of the United States of America in June, 1934, were withdrawn. In July, 1935, when in Washington, the Prime Minister stressed the desire of the Commonwealth Government to engage in negotiations. A subsequent approach in March, 1936, took the form of an enquiry as to the willingness of the Government of the United States of America to enter into negotiations. In view of the negative reply, proposals were not submitted". 62

The Minister went on to say that "the rejection of the invitations to negotiate was one of the factors"[62] which induced the Government to

---

62 Parliamentary Debates, Volume 152, p. 1723.

apply the Trade Diversion policy against the United States. Trade Diversion imposed a licensing system on a wide range of United States exports and increased the rates of duties on a number of items because, as the Minister said, "if we did not take some steps to adjust this rapidly-grown adverse trade balance with the United States of America, our whole overseas balance would be in extreme danger".[63] Those measures were expected "to curtail imports from the United States of America by an estimated amount of £2,300,000 sterling,...[leaving] to that country...an estimated favourable balance of not less than £7,500,000 sterling".[63] In addition, it was expected that protection and subsidies for production of motor chassis in Australia would ultimately save £4,000,000 sterling a year. As a result of the Australian action, the United States withdrew most-favoured-nation treatment from Australian goods on 1st August 1936 and restored it only on 1st February 1938, after the Australian Government had discontinued the licensing system. These two-way restrictions affected the volume of trade between the two countries uncertainly, but no doubt resulted in some reduction from the levels it would otherwise have reached.

---

63 Ibid., Volume 152, p. 2206.

Table 10. Australian Trade with the United States. 1934-35 to 1938-39

	1934-35	1935-36	1936-37	1937-38	1938-39
Australian Exports to United States	2,203,382	4,492,298	8,748,082	2,709,254	2,891,230
As % of Total Exports	2.66	4.51	7.36	2.39	2.95
Australian Imports from United States	11,041,365	13,901,705	12,959,149	17,758,684	14,647,305
As % of Total Imports	15.64	17.05	14.64	16.26	15.09

Source: Official Yearbook of the Commonwealth of Australia, No. 34, 1941.

All value figures are in £ sterling.

The main political objection to the policy was one of principle - that it engendered feeling against Australia at a time when a close political and economic alliance with the United States might have been expected as one of the first objectives of Australian foreign policy. A declaration from the Labour side that the Australian Parliament "should... in particular endeavour to maintain friendly relations with the United States of America"[64] was echoed by some of the Government's own supporters.

---

64 E.J. Ward, 26th November 1936, Parliamentary Debates, Vol. 152, p. 2406.

On 12th May 1936, Sir Donald Cameron had said that "it would be wise for Australia to avoid quarrelling with that country on the ground of ill-balanced trade...the goodwill and friendship of the United States of America should be welcomed and courted....let us not quarrel over trifles - indeed, let us not quarrel at all if it can be avoided - with a nation whose friendship should now be considered of great value and may be regarded as potentially of immense importance".[65] On 25th November, Mr. E.J. Harrison expressed his support for the Government's action against Japan, but said that

> "...it is significant that at this juncture another head has appeared in the Government's trading sphere, and we have cracked that; we have acted similarly in respect of another country which is regarded as one of the powers in the Pacific, a country to which we would look for aid in time of national danger. I mean that we have cut completely across the United States of America in this matter". [66]

Outside Parliament, the same view was expressed that everything possible should be done to promote cordial relations with the United States and to avoid commercial or other policies which might create points of friction.

This view probably had some influence on the Government's decision to discontinue the licensing system for United States exports early in 1938. Later in the same year, negotiations for an Anglo-American Trade Agreement entered their final stage. These negotiations received the blessing of the Australian Government, even though they would certainly involve some modification of Imperial Preferences. This

---

65 Parliamentary Debates, Vol. 150, pp. 1489-1490.
66 Ibid., Vol. 152, p. 2278.

attitude seems to have had its origin largely in foreign policy - anything which would improve relations between the two great English-speaking democracies would mean a security gain for Australia. Although commercial anxieties persisted, these were - up to a point - set on one side.

> "The proposal for a trade agreement between the United States and the United Kingdom received a hearty welcome in Australia. Primary producers were a little fearful lest any tampering with the terms of the Ottawa Agreement in American interests might imperil their export markets for butter and meat, but the great majority of those who thought about the matter at all would have agreed with the Prime Minister that such an agreement would go far to improve international relations generally and should be heartily welcomed". 67

However, the Australian Government was apparently careful not to concede too much for the sake of the Agreement. When the Minister for Commerce (Sir Earle Page) told the House of Representatives on 18th November 1938 that the Government was "very gratified at the successful conclusion of the lengthy trade negotiations between the United Kingdom and the United States", 68 he underlined the Government's belief that "the changes of preferences agreed to...will not adversely affect the industries concerned". 68

In these later inter-war years, Australian representation in the United States was slowly improved. There had been an Australian Commissioner-General in the United States since 1918. In July 1938, this representative was re-styled the Australian Government Trade Commissioner. At diplomatic level, an Australian Counsellor had been

---

67 H.L. Harris, op. cit., p. 103.
68 Parliamentary Debates, Vol. 158, pp. 1713-1714.

appointed to the British Embassy in Washington in 1937. On 8th January 1940, the appointment of an Australian Minister to Washington was announced - the first independent diplomatic appointment by the Australian Government in a foreign country. On 18th August of the same year, Sir John Latham was appointed Australian Minister to Tokyo. In this way, the two victims of Trade Diversion were recognised as the two countries with whom direct, continuing diplomatic contact was most necessary: they were the countries upon whose policies in the Pacific Australian security would principally depend.

Apart from the gradual development of diplomatic representation, there was relatively little Australian activity, at the political level, to devise arrangements in the Pacific which might safeguard Australian security. However, note should be taken of the Australian proposal, put forward at the League in 1936 and at the British Commonwealth Conference in 1937, for a Pacific Pact of Non-aggression. Both the United States and Japan, although not Members of the League, would, the Australian Government seems to have hoped, have become signatories of the Pact. The proposal was abortive, but it is significant that it was initially put forward when the Trade Diversion folly was at its height, though the Australian Government continued to advocate it when steps had been taken to modify the Trade Diversion policy. At this distance, it seems incredible that the conflict between a provocative commercial policy and a plea for a political pact of non-aggression should not have presented itself more clearly to the Australian Government.

Trade Diversion seems to have involved for Australia, from both the commercial and the foreign-policy viewpoint a clear net loss. However, on the credit side may be set the stimulus which it gave to thinking about the need for a carefully reasoned Australian foreign economic policy. At the time of Trade Diversion it was felt "in many quarters [that] the effort to adjust the course of trade by political action was in itself...bad".[69] This implied, among other things, that any foreign economic policy was "bad", unless perhaps it were a policy of universal economic appeasement. However, Trade Diversion seemed to introduce something more into Australian thinking than that. It seemed to some extent to mark the beginning of a mature conception of foreign economic policy in the Pacific, and to crystallise some fundamental problems and objectives in Australia's relations with Pacific countries. At the unofficial British Commonwealth Relations Conference held in Sydney in 1938, the shortcomings of Ottawa for foreign policy were recognised. An Australian delegate said that:

> "The primary-producing Dominions must be prepared to recognise the necessity of the United Kingdom buying some of its dairy products in Denmark, as otherwise Denmark must go completely into the fascist orbit...The same thing applies to some extent to meat from the Argentine. It is a shorter sea route. But, again, the recognition of that fact should not preclude a rationalisation of the trade with a preference which may not bring so much benefit to the Argentine as it does to the Dominions, but which may bring to both a price benefit". [70]

---

69 Jack Shepherd, op. cit., p. 56.

70 "The British Commonwealth and the Future", op. cit., p. 168.

The Government itself recognised that a closer link would have to be established in the future between foreign policy and commercial policy, and, to this end, announced early in 1937 that future trade policy would be decided with the advice and assistance, not only of the Departments of Customs and Commerce, but also of the Department of External Affairs.

With the countries of Asia and the Pacific, other than Japan, Australian trade expanded during the inter-war period, though slowly and unevenly, and the percentage of total Australian trade directed to these countries was little more in 1938-39 than it had been in 1920-21. Detailed figures are given in Table 11. It will be noted that about five or six per cent of total Australian exports were directed to the seven areas specified, and that about twelve per cent.of Australian imports came from those areas. This was substantial as a total and it would be wrong to discount the trade contact which it represents. But the percentage for each individual country was low, and even the total could not approach comparison with Australian trade with the United Kingdom, and - though to a much less extent - with Continental Europe. The percentage of Australian exports taken by France alone or by Belgium in the last five inter-war years was comparable with the percentage for all seven Asian and Pacific areas listed in Table 11. From the import side, the picture was a good deal different, though even here the great bulk of Australia's supplies were drawn from the United Kingdom, the United States, Canada, Germany, and Japan. Only the Netherlands East Indies and India supplied a fairly large and important - though relatively static - percentage of Australia's import needs.

Table 11. **Australian Trade with Asian and Pacific Countries, excluding Japan.**

(In percentages of total Australian exports and imports).

1. **Exports**

	1920-21 %	1928-29 %	1934-35 %	1935-36 %	1936-37 %	1937-38 %	1938-39 %
Ceylon	0.22	0.42	0.63	0.78	0.62	0.61	1.08
India	1.66	6.13	0.76	0.78	0.73	0.78	1.60
Malaya (Br.)	1.61	1.37	1.27	1.02	1.16	1.46	1.56
China	0.25	0.77	2.38	0.98	0.57	0.44	2.46
Netherlands East Indies	1.94	1.43	1.14	1.02	0.94	1.03	1.12
Pacific Islands (Foreign)	0.57	0.35	0.33	0.30	0.30	0.33	0.31
Philippines	0.32	0.30	0.31	0.45	0.45	0.44	0.41
Total	6.57	10.77	6.82	5.33	4.77	5.09	8.54

2. **Imports**

Ceylon	0.51	1.37	1.13	1.18	1.14	0.81	0.87
India	4.46	4.22	3.60	3.35	3.36	2.82	2.96
Malaya (Br.)	0.17	0.79	0.80	0.60	0.96	0.94	0.93
China	0.63	0.44	0.52	0.81	0.77	0.55	0.48
Netherlands East Indies	5.37	4.96	6.22	6.04	6.98	6.90	7.33
Pacific Islands (Foreign)	0.09	0.15	0.03	0.04	0.08	0.04	0.05
Philippines	0.13	0.11	0.11	0.12	0.12	0.11	0.12
Total	11.36	12.04	12.41	12.14	13.41	12.17	12.74

Source: Official Yearbooks of the Commonwealth of Australia.

The Australian Government gave only limited assistance to Eastern trade. Trade Diversion itself had illustrated the Government's willingness to risk a large Asian market for the sake of greater trade with the United Kingdom. At Ottawa, an agreement was concluded with the small Pacific territory of Fiji (through the United Kingdom), but none was concluded with India. On his return from Ottawa, Mr. Gullett said that:

> "A matter of particular regret was that the negotiations with the representatives of the dominion of India, although carried on in an excellent atmosphere, could not be brought to the decisive stage...The Government will spare no effort to secure a preferential arrangement with India which would justify our exporters in a sustained effort to win a profitable place in that market". 71

India had already moved a long way along the road to political independence, and Ottawa would have had a much clearer foreign-policy element if Australia had sought to use mutual economic advantage, not so much to maintain the already secure political bond with the United Kingdom, as to strengthen the political bond with India where the Commonwealth link was still to some degree imposed and, in the long-term, uncertain. However, Australia concluded no trade or preferential agreement with India after Ottawa. Sir John Latham's Goodwill Mission of 1934 called at Malaya but not at Delhi; and Sir Henry Gullett's trade mission and negotiations of 1935-36 were, except for Japan, with European countries. In July 1934, the Minister for Commerce (the Hon. F.H. Stewart) said that "the Government is naturally desirous of coming to an agreement with [India], but, owing to the pressure of other negotiations which have precedence, nothing has yet been done".[72] These "other negotiations" were, except

---

71 Parliamentary Debates, 13th October 1932, Volume 135, p. 1162.
72 Parliamentary Debates, 26th July 1934, Vol. 144, p. 766.

for Japan, with European countries such as Czechoslovakia, Belgium, and Italy. On 13th March 1936, Sir Henry Gullett admitted that "negotiations have not yet been initiated with India",[73] but he claimed that "the whole subject will come up again for consideration as the result of the recent visit of the trade mission to India".[73] This trade mission, comprising one representative from primary industry, one from secondary industry, and the head of the Eastern Trade Section of the Department of Commerce, visited India, Burma and Ceylon between October 1935 and January 1936, and presented a very detailed Report[74] on trade prospects and problems in the three countries. The Mission's interests and responsibilities were wholly commercial and its Report did not touch on political issues. The Report noted that "Australia has had no trade agreement with India and, consequently, goods imported from Australia into India are accorded no preferences whatever, that is to say, they are placed on an equal footing with goods imported from foreign countries"; but the Report did not explicitly recommend the conclusion of a preferential agreement. Except for such assistance as that given by appointment of a Trade Commissioner, Australian trade with the Indian sub-continent was subsequently developed on private initiative, without any special support from Government policy.

Much the same was true of the other countries of Asia and the Pacific. In 1931-32, Mr. H.W. Gepp, Consultant on Development to the Commonwealth Government, went on a semi-private mission to China and

---

73 Ibid., Vol. 149, p. 134.
74 See Parliamentary Papers, General, Session 1934-35-36-37, Volume III, pp. 2127-2299.

Japan and reported,[75] in some detail, to the Australian Government in June 1932. He took an optimistic view of possible trade development in the Far East, and recommended, inter alia, that Commercial Counsellors be appointed in the region. In the following year, the Commonwealth Government called a conference with State Governments and the Consul-Generals of Japan, China, and the Netherlands, and subsequently Advisory Committees on Eastern Trade were set up by the Commonwealth and the State Governments. In 1934, the Government sent Sir John Latham on a Goodwill Mission - called the Australian Eastern Mission - to the Netherlands East Indies, Malaya, French Indo-China, Japan, and the Phillipines. The Mission's purpose was "not to conduct any specific negotiations, not to make any commercial arrangements, but simply to convey assurances of goodwill, exchange courtesies, impart information, remove misconceptions, and generally help to a better understanding between Australia and her neighbours in the [Asian and Pacific] region".[76] The Mission's Report,[77] consisting largely of a catalogue of receptions, dinners, interviews and so on, was a remarkably immature document, with little attempt at any effective analysis of the problems facing Australia in her political and economic relations with the countries of Asia and the Pacific. Sir John Latham's statement[78] on the Report to the House of Representatives was a good deal better, though even here he showed little understanding of the relationship between Australian economic and foreign policy in the region. At some points, he

---

75 See Parliamentary Papers, General, Session 1932-33-34, Vol. IV., pp. 2343-2388.
76 Sir Robert Garran, "Diplomatic Relations in the Pacific", in "Australia and the Far East, Diplomatic and Trade Relations", op. cit., p.95.
77 See Parliamentary Papers, General, Session 1932-33-34, Vol. IV, pp. 437-463.
78 Parliamentary Debates, 6th July 1934, Vol. 144, pp. 327-338.

tended to disclaim, as Minister for External Affairs, any active interest in economic policy.

> "...the attitude which I adopted with respect to trade questions - and all the nations which we visited were, as I have said in the report, avid for increased trade - was that this mission was concerned with international relations generally. I was not the Minister dealing with trade, customs, or commerce. I had nothing to do with them".

At other points, he seemed to suggest that political goodwill should be fostered in order to expand trade, that is he seemed to contemplate not an active foreign economic policy but the reverse approach in which foreign policy would assist the objectives of trade. In his Report he said that "in these days of diminished trade and commerce, the economic motive is so dominant and so naturally important in individual and national relations, that it sometimes threatens to become the only motive of mankind"; and, thinking of this motive in Australian policy, he said in his statement to the House that "I am sure that we shall find that our trading relations are better with a country with which we are friendly than if our relations are of a distant or hostile character". Finally, he did touch very briefly on the significance of economic relations to foreign policy.

> "I found other statements concerning tariff matters which tended to affect international relations. For example, a friendly article in a leading Japanese newspaper stated that the Australian tariff conspicuously discriminated against Japanese goods...I explained that...Japan was on the same footing as other countries outside the British Empire. I made it clear that there was no discrimination, much less conspicuous discrimination, against Japanese goods".

Sir John recommended against any diplomatic representation in Japan or elsewhere in Asia or the Pacific, on the grounds that "the less diplomacy a country has the better are its chances of happiness".

He was also concerned that diplomatic representation in one country "would mean the establishment of a diplomatic branch of our public service", and might mean sending representatives "to other capital cities". He was, however, quite ready to recommend the appointment of Trade Commissioners in Asian and Pacific countries, "to watch our trade interests".

It is indicative of Parliamentary lack of interest in foreign policy at this time that the motion for the printing of the Mission's Report was agreed without any statement from either side of the House, except by Sir John Latham himself. Shortly after the Mission's return, Australia's trade representation, which had previously been limited to the United Kingdom, the United States, Canada, and New Zealand, was extended by the appointment, under the Trade Commissioner Act of 1933, of Trade Commissioners to Japan, China, the Netherlands East Indies, and India. In the later inter-war years, therefore, although there was no direct diplomatic contact with any of these countries until the appointment of a Minister to Japan, direct representation had began in the trade field,[79] and the Government appeared to be seeking expansion of trade with the East, though it still seemed for commercial reasons alone, rather than for any deeper foreign-policy reasons.

---

79 The Report of the Department of External Affairs for 1937 noted a development in the status of Australian representation beyond that of Trade Commissioner. "It has been found that, particularly in foreign countries, a representative of a Government is not looked upon in the narrow light, purely as a 'Trade Commissioner', but rather as a representative of his country generally, thus connoting an added sense of responsibility and representation. The Commonwealth Government has, therefore, decided to alter the designation of certain of its overseas representatives from 'Trade Commissioner' to 'Government Commissioner'. The first two offices so to be renamed are in Tokio and Batavia" (Parliamentary Papers, General, Session 1937-38-39-40, Vol. III, p. 1493).

In the inter-war period, Australian economic policy in Asia and the Far East was expressed almost solely through commercial policy. From the beginning of the Depression, the Australian Government had ceased to be an importer of overseas capital, but it was in no position to make capital available to overseas countries, whether in Asia and the Far East or elsewhere. Australia's sterling balances - which determined her external financial strength - were never so large after 1929 that serious balance-of-payments difficulties might not suddenly intrude, and service of existing foreign debts provided sufficient concern, without embarking on programmes of foreign lending, even if this had been considered desirable for political reasons. Private Australian interests had invested some capital in gold, tin, and rubber enterprises in South-east Asia and the Pacific Islands, but the amounts were relatively small. Any governmental plans for assisting the economic development of South-east Asia, especially as a foreign-policy project, did not emerge until the end of the Second World War.

So far we have referred only in passing to Australia's membership of the League. Australia had had independent representation at the League and the International Labour Organisation from their inception, and, through these organisations, accepted some elements of a foreign economic policy. In dealing with Australian policy within the League, we shall take first Australian participation in the League policy of economic sanctions. From that point, it seems useful to diverge from sanctions undertaken strictly within the League to consider the Australian attitude to unilateral sanctions against Japan. After that digression, we shall return again to Australian policy within the League,

this time in the general field of commercial and other economic relations.

When he returned from Versailles, Prime Minister Hughes said that "the League of Nations is truly a charter of liberty - a charter of civilisation - of not less value to the world than was Magna Charta to the men of our race; not less great than the setting up of the rule of law for the rule of force among our own ancestors in the old days of tribal struggle and barbaric strife".[80] But in Australia as in other countries, there were many occasions in later years when both people and Parliament doubted the value of continued membership. When Mr. E.J. Ward asked in 1932 whether Australia was "compelled to have representation"[81] at the League, the Prime Minister replied that "admittedly, the advantage we gain from our representation is not commensurate with the amount we contribute".[81] Nevertheless, it was true to say of the whole inter-war period, as the Minister for External Affairs said of sanctions against Italy in 1936, that Australia had "to the full extent of [its] obligations, adhered to the principle of collective security within the framework and in the spirit of the Covenant of the League.[82]

During the Italo-Abyssinian War, Australia implemented the decision to apply sanctions against Italy and, as a result, Australian exports to Italy, which had been £Stg. 419,947 in the period from 1st November 1934 to 31st March 1935, fell to £Stg. 68,937 in the equivalent five months of

---

80 Parliamentary Debates, 10th September 1919, Volume LXXXIX, p. 12171.
81 Ibid., 21st October 1932, Volume 136, p. 1517.
Australia's contribution to the League in 1931-32 was £Stg. 42,656 and in 1932-33, £Stg. 50,323. The cost of sending representatives to League meetings was, of course, additional.
82 Ibid., 24th April 1936, Volume 150, p. 900.

1935-36. In May 1936, the Australian Government was not prepared to "admit that sanctions are a complete failure",[83] and, despite some questionings by the Labour Opposition, maintained them until discontinued by League decision. This loyalty to the League may have been influenced by three factors, firstly that, although trade with Italy fell away sharply for a number of months, Australian export trade as a whole showed a marked expansion in 1935-36 as compared with the previous year; secondly, that exports to Italy itself over the full twelve months of 1935-36 showed a drop of only about £A300,000 below the level in 1934-35; and, thirdly, that trade with Italy had in any case already fallen to low levels as a result of the restrictionist and discriminatory policies of the Fascist Government.[84] While bearing these factors in mind, it is nevertheless true that, in the case of the Italo-Abyssinian conflict, the Australian Government accepted the direct use of the economic weapon in foreign policy, within a multilateral organisation; but, along with other governments, it recognised the inadequacy of this weapon. On 20th April 1936, Mr. S.M. Bruce, at that time President of the League Council, suggested to the Council that

> "...we must face the weaknesses, difficulties, and dangers that this first effort has shown to exist in the machinery provided in the Covenant. In face of the experience of the last six months, it is clear that the whole system we have established for collective security, the maintenance of peace and the rule of law in international affairs must be re-examined".[85]

The Australian Government explicitly supported this view.

---

83 Ibid., Prime Minister, 12th May 1936, Vol. 150, p. 1521.

84 In a speech on Trade Diversion on 24th November 1936, Sir Henry Gullett said that "Italy was the first Australian 'good customer' country to adopt a closed economy, with the result that our exports to that country fell from £4,600,000 in 1933-34 to £996,000 in the following year" (Parliamentary Debates, Vol. 152, p. 2204). Australia had undertaken negotiations with Italy for conclusion of a trade agreement, but these negotiations were discontinued when the Italian attack was launched on Abyssinia.

85 See Parliamentary Debates, Volume 150, p. 901.

At about the same time as Australia was imposing sanctions against Italy, some people in Australia were already asking whether some unilateral "sanctions" should not be imposed against Japan. Although the Labour Opposition opposed Trade Diversion on the grounds that it would offend Japan, a senior Labour Senator (Senator J.S. Collings) asked on 23rd April 1936 "what steps, if any, were taken to prevent the sale to Japan"[86] of large quantities of iron ore from Yampi Sound. The Minister for External Affairs (Senator Sir George Pearce) replied that:

> "The sale of iron ore to Japan or any other nation is just as unrestricted as is the sale of wool, wheat, beef, mutton or any other commodity. In any case, it would serve no object, and it would not be desirable, to prevent a foreign country from obtaining iron ore from this source. As the iron ore deposits of the world are so extensive, there are many other sources of supply outside Australia which are available to such countries". 86

However, from 1st July 1938, after Japan had been allowed to invest in the Yampi deposits, the Government suddenly reversed its policy and applied a general embargo on the export of iron ore from Yampi Sound; but it allowed exports of pig iron, and scrap iron and steel, to continue freely. When the League decided in 1938 that individual countries should themselves determine whether or not to apply sanctions against Japan, the Australian Government took no action to apply sanctions. Between 1932-3 and 1936-7, exports of iron ore to Japan averaged 159,199 tons per annum, being at a maximum of 291,961 tons in 1935-6. Over the same period, exports of iron or steel scrap averaged 43,768 tons per annum and were

---

86 Ibid., Volume 150, p. 864.

at a maximum of 66,795 tons in 1936-7. For both categories, Japan was easily Australia's largest market. Only in 1934-5, over this five-year period, did Japan import quantities of Australian pig iron. The amount in that year was 20,777 tons.

Between January and May 1938, Sydney waterside workers refused to load tin scrap for Japan, a boycott which was broken by the Commonwealth Government invoking the Transport Workers Act against illegal strikes. In November 1938, the Port Kembla waterside workers refused to load 24,000 tons of pig iron ordered by Japan from Broken Hill Proprietary Limited. Their immediate objection was that this pig iron would be used in the Japanese attack against China, and perhaps ultimately against Australia - "the waterside workers are doing what they believe is right in the interests of their class and the country, by refusing to ship to Japan material which they believe can be used against this country or against the people of China".[87] In his response to the waterside workers, the Attorney-General (the Rt. Hon. R.G. Menzies) insisted on the constitutional point that the Government, and not any section of the community acting independently, must determine Australian commercial and foreign policy; and he then put the case against limited, unilateral sanctions by Australia against Japan. Mr. Menzies said:

> "....Is it suggested that our country, the country which is most closely associated in a geographical sense with Japan - we alone of all the countries among the League of Nations should impose sanctions on Japan? If it is, then internationally we are a very courageous nation and it is to be hoped that our capacity for enforcing sanctions is as great as our will.....

---

87 Speech by Mr. M. McC. Blackburn (Independent Labour), 8th December 1938, Parliamentary Debates, Volume 158, p. 2995.

> "....[To stop exports of pig iron only] is a very limited outlook on the problem of war. ...if we are going, in our limited way in Australia, to take steps to prevent [Japan] from carrying on a war against China, then we will have to prevent them from getting not only Australian pig iron, but from getting Australian wool - Australian wheat - all those raw materials which we, up to the present time, export to Japan.
>
> "....it is a very good thing - an entirely good thing, to be in favour of peace, but it is not a very sensible thing to say that we are in favour of peace and then follow up a line of policy that must do more to provoke war than any other policy we could imagine.
>
> "....I know that if [a Labour Government decided on a policy of thoroughgoing sanctions], the defence bill we are going to introduce this week would be a flea-bite compared with the one they would have to introduce...". 88

This was a mature approach to the difficulties and dangers of economic sanctions, although it did not satisfy the strong anti-Japanese emotions of the waterside workers.

However, the Government's policy did not seem to be entirely logical. An embargo had already been placed on export of iron ore from Yampi Sound, and this was resented by the Japanese Government much more than any action by the waterside workers. It was a general embargo, but Japan was the only significant export market affected, and it is difficult to believe that anxiety about Japan's political ambitions had no influence on the decision to apply the embargo. However, the distinction between the embargo on iron ore and free export of pig iron was justified on welfare and conservation grounds. "There has been no inconsistency", said Mr. Lyons, "because pig iron differs from iron ore in that it has passed through a process of manufacture which has provided

---

88 Parliamentary Debates, 8th December 1938, Vol. 158, p. 3000.

employment for Australians".[89] Elsewhere he said that recent surveys had shown Australian iron-ore reserves to be relatively small. If welfare and conservation were the principal or the only grounds for the sudden and complete embargo, then welfare and conservation objectives were allowed ruthlessly to override foreign policy and to create resentment in Japan which the Government had elsewhere shown itself anxious to avoid. If welfare and conservation were not the real reasons for the embargo, then there was an apparent inconsistency between export policy for iron ore and that for pig iron. However, so far as export of pig iron was concerned, it must be noted that the attitude of the Australian Government was somewhat similar to the later United Kingdom attitude to List II goods in its policy of export restrictions against Eastern Europe after 1949. "The amount of business involved at present", said the Attorney-General, "is of relatively small proportions...If, however, it threatened to assume large proportions, the Government would reconsider the whole situation".[90] Here, one reasonable inference seemed

---

89 Ibid., Statement by the Prime Minister, 18th November 1938, Volume 158, p. 1717. It should be noted that Mr. Jack Shepherd considered that the iron-ore embargo was decided entirely on welfare and conservation grounds and that it was "certainly not anti-Japanese in intention" (op. cit., p. 97). However, Japan had hoped to get about 10% of her total ore requirements from Yampi Sound, had invested heavily there, and deeply resented the embargo. Moreover, Australia would have benefited commercially from large exports of ore, and it was by no means certain that Australian ore resources were insufficient to meet domestic needs for a long time ahead. At the time of applying the embargo, the Prime Minister admitted that known resources were 250 million tons and Australian annual requirements about 2 million tons, although this might be doubled or trebled under the expanded defence programme then under way. Japan hoped to take out about 15 million tons, at a rate of 1 million tons a year. Although, as these figures indicate the conservation argument should not be entirely set aside, it seems unlikely that the prospect of direct, large-scale exploitation of Australia's natural resources by a country which was widely regarded as the most likely future enemy did not have some significant influence on the embargo policy.

90 Ibid., 18th November 1938, Vol. 158, p. 1755.

to be, not that the Government rejected the possibility of sanctions, but that sanctions were unnecessary unless operations were on a large scale. Elsewhere, however, the need to keep pig-iron exports at a low level was justified on the grounds of the needs of Australian industry, especially as the defence programme got under way. If therefore welfare and conservation were the whole of the reason for applying the iron-ore embargo, that embargo and the attitude of the Government towards the waterside workers could be shown to have a rough consistency. However, whether sanctions were intended or not, the Australian policy on export of iron ore showed little delicacy or diplomacy and the sharp reversal of policy from free export to complete embargo succeeded in creating in Japan the feeling that sanctions had in fact, if not in law, been applied.

After the outbreak of war in Europe, the Australian Government continued its formal refusal to apply sanctions against Japan. Since Britain and her allies were hard-pressed in the war against Germany and Italy, it was wise not to risk provoking further Japanese aggression in the Far East. However, despite the need for larger forces in Europe and the Middle East, the Australian Government considered the Japanese threat sufficiently grave to send the Eighth Australian Division to Singapore. Was it logical to continue to supply Japan with goods which might shortly be used, directly or indirectly, against Australian troops already in position to meet an expected Japanese attack? Probably it was, so long as there was some doubt that Japan would in fact launch any attack, or so long as there was a military advantage in postponing the outbreak of hostilities, and so long as application of sanctions, especially if applied not only by Australia but by Britain, the United

States, and other countries, would be likely to force Japan into a desperate bid for quick victory in the area of essential supplies. However, by July 1941, it seems that the point was reached at which Australia, along with other countries, considered that the security dangers involved in continued Japanese encroachments and the likelihood and imminence of a Japanese attack against Britain, the United States and other countries were such that the continued provision of essential supplies to Japan could not bring a sufficient offsetting military or political advantage. On the other hand, although sanctions might give further provocation to aggression, it was at least possible that they might, on the contrary, have a preventive effect. As a result, on 26th July, the Australian Government, acting in concert with Britain, the United States, and other countries, applied full-scale sanctions against Japan and froze Japanese assets in Australia under exchange control regulations. What does this Japanese experience suggest for policies of sanctions in general? It suggests, at first sight, that economic sanctions might be a last attempt at preventive action short of war or a last act before an imminent and inevitable declaration of war. But, secondly, there is the underlying feature that refusal to apply sanctions before the point of inevitability and imminence of war is reached, may be a reflection of military weakness. Refusal to take earlier preventive action may not be a policy of choice - or at least not of completely free choice - but may be partly enforced by the need to avoid provocation and to gain time for more effective military resistance. Behind this again may be the question of whether more would be gained in terms of defence potential by continued economic exchanges than would be gained by the

potential enemy. And added to this as well may be the question of welfare losses, irrespective of the net gain or loss in defence potential. If Australia had acted in unison with Japan's other major trading partners after 1939, she would probably have gained rather than lost in net defence potential and would have suffered no immediate commercial or other welfare losses by applying sanctions. The issue had therefore to be decided on a judgment of the imminence and inevitability of armed conflict, and of the possible preventive effect of sanctions and an assessment of immediate relative military strength. But, in most cases, all four factors mentioned will influence a decision to apply sanctions in one form or other ranging from prohibition of arms and direct military supplies to complete economic blockade. First - and from the military and foreign-policy viewpoint least important - is the question of welfare loss, second is the estimated net gain or loss in defence potential, third is the degree to which immediate relative military strength permits provocation, and, finally, is the judgment on the preventive effect of sanctions and on the imminence and inevitability of armed conflict. The relative importance of these four factors will vary with time and the country or countries against which sanctions may be proposed. But, in most cases, each will have some relevance - for China in 1951, as for Japan ten years ago.

To return from unilateral sanctions to the League, Australian Governments often gave very limited support to the economic objectives which the League sought to accomplish. During the period when the League's major concern was the reduction of tariffs and the removal of discriminations, Prime Minister Hughes' statement that "we claim the

right, and shall insist upon it, to make what tariff distinctions we like", and, it must be added, to have as high a tariff as we like, continued to rule Australian policy. The early economic work of the League touched Australia little. At the Ninth Assembly in 1928, the Australian Representative said that:

> "Up to 1927, very little of the work done at Geneva in [the economic] field could be said to have intimately concerned Australia. In 1927, however, the World Economic Conference gave a new impetus and a new direction to the economic work of the League. The position now is that... Australia is forced to study the activities which the Financial and Economic Organisation has already undertaken, or is about to undertake...". 91

At the Seventh Assembly in 1926, the Australian Representative had shown a certain nervousness about the World Economic Conference, and had insisted that the League "confine itself to the legitimate functions which it has under the Covenant", and avoid "domestic questions which were not truly international in character".[92] This nervousness turned into outright opposition, at the Ninth Assembly, to any League attempt to tamper with Australian sovereignty over her own tariff. "It was inconceivable", said the Australian Representative, "that the League should make any direct representation to nations on the subject of the level or the nature of their tariffs".[93] Much the same view was expressed at the Tenth Assembly in 1929:

> "The younger overseas countries, now in process of developing their industries, must retain their freedom of action to adjust their tariffs so as to enable them to carry on the forward movement of their industrial development". 94

---

91 Quoted from C.A.W. Manning, "The Policies of the British Dominions in the League of Nations", London 1932, p. 75.
92 Ibid., p. 76.
93 Ibid., p. 76.
94. Ibid., p. 82.

At the World Monetary and Economic Conference of 1933, Australia had little that was new or constructive to propose.[95] The Australian Delegation resisted government intervention though it "would sink its objection to such intervention should necessity demand it in any case"; it opposed restriction of production for raw materials and foodstuffs, insisting that on the contrary production should be expanded and the general price level raised, but it seems to have had no very clear ideas on how those most desirable objectives might be achieved; and it joined with other Commonwealth Delegations in re-affirming certain policies agreed at Ottawa, including the ultimate "restoration of a satisfactory international gold standard". At the end of the Conference, the Delegation showed a mood of restrained optimism for the future, suggesting that "though the Conference failed to establish agreements on the measures necessary for reconstruction, it may have facilitated the growth of co-operation by affording the opportunity for Delegations to acquire a fuller appreciation of each other's viewpoint, and, through its own organisation, have laid the foundations of machinery to serve this end".

These hopes were largely disappointed. But, after 1933, Australian policy as expressed within the League seems to have become more energetic and more constructive. This policy was, of course, guided largely by considerations of welfare, but there was some growing recognition that, among the many advantages which prosperous and stable world economic conditions would bring, greater international harmony at

---

95 See the Report of the Australian Delegation, Parliamentary Papers, General, Session 1932-33-34, Vol. IV, pp. 355-435.

the political level might be included. During 1935, Australia proposed that the League consider problems of nutrition, and the studies carried on by the League in this field into the war years received continuing Australian support. In a wider field, she later gave strong support to League efforts to secure a more adequate treatment of economic problems and to set up suitable machinery for this purpose. In August 1950, the Australian Minister for External Affairs (the Hon. P.C. Spender) reminded the United Nations Economic and Social Council that:

> "His country had always been much interested in all economic and social matters, both in the domestic and in the international sphere. Indeed, it was Australia which in 1938 had proposed to the League of Nations the establishment of an Economic and Social Council". 96

The Australian Delegate to the League (Mr. S.M. Bruce) was chairman of the Committee which in 1939 proposed that a Central Committee for Economic and Social Questions, composed of representatives of 24 States, be established. The Australian Government supported a subsequent League Resolution of 15th December 1939 to the effect, inter alia, "that the present condition of the world renders it all the more necessary that the economic and social work of the League...should continue on as broad a basis as possible", and that the League Bureau should "take the most appropriate steps for setting up the Central Committee...to unify the economic and social work of the League and perform the other functions indicated" in the report of the Bruce Committee. Australia accepted membership of the Organising Committee established to prepare the way for the Central Committee.

---

96 Official Records of the Economic and Social Council, Eleventh Session, Summary Record of the 414th Meeting of the Council, Document E/SR.414.

the political level might be included. During 1935, Australia proposed that the League consider problems of nutrition, and the studies carried on by the League in this field into the war years received continuing Australian support. In a wider field, she later gave strong support to League efforts to secure a more adequate treatment of economic problems and to set up suitable machinery for this purpose. In August 1950, the Australian Minister for External Affairs (the Hon. P.C. Spender) reminded the United Nations Economic and Social Council that:

> "His country had always been much interested in all economic and social matters, both in the domestic and in the international sphere. Indeed, it was Australia which in 1938 had proposed to the League of Nations the establishment of an Economic and Social Council". 96

The Australian Delegate to the League (Mr. S.M. Bruce) was chairman of the Committee which in 1939 proposed that a Central Committee for Economic and Social Questions, composed of representatives of 24 States, be established. The Australian Government supported a subsequent League Resolution of 15th December 1939 to the effect, inter alia, "that the present condition of the world renders it all the more necessary that the economic and social work of the League...should continue on as broad a basis as possible", and that the League Bureau should "take the most appropriate steps for setting up the Central Committee...to unify the economic and social work of the League and perform the other functions indicated" in the report of the Bruce Committee. Australia accepted membership of the Organising Committee established to prepare the way for the Central Committee.

---

96 Official Records of the Economic and Social Council, Eleventh Session, Summary Record of the 414th Meeting of the Council, Document E/SR.414.

In these later years, Australian policy might have helped in some degree to swing the emphasis in League discussions away from treatment of tariff and related problems towards some effective treatment of the more fundamental problems of prosperity and depression. In a speech before the Second Committee of the League on 26th September 1937, Mr. Bruce said that "the Australian delegation desired to submit to the Second Committee its proposals for inquiry into ways and means of raising the standards of living; into practical measures for mitigating the effects of economic depression; into the agricultural structure of Central and Eastern Europe; and, finally, any economic or financial trends that may appear likely in the future to exercise influence on the monetary systems in different parts of the world".[97] This approach yielded no concrete results before 1939 but, for example, through the work of the Delegation on Economic Depressions, it helped to clear the way for the United Nations.

In the later years of the League, Australia's willingness to accept policy sacrifices, in the cause of world economic welfare or world peace, was never put to the test. However, it is probable that, as in the years before 1929, national economic welfare, rather than any desire - selfish or altruistic - for a wider welfare or for world peace, ultimately determined the Australian attitude to proposals for economic co-operation emanating from the League or elsewhere; and that the support often expressed in Australia "for the adoption of a policy of economic appeasement as a means of bringing about world peace"[98] might

---

97 Report of the Australian Delegation to the Eighteenth Assembly of the League of Nations, Parliamentary Papers, General, Session 1937-38-39-40, Vol. III, p. 18.

98 D.A.S. Campbell, "A Foreign Policy for Australia", in "Australia's Foreign Policy", ed. by W.G.K. Duncan, Sydney 1938, p. 172.

have withered and died if substantial welfare sacrifices had been involved. The Trade Diversion policy, and even the careful welfare attitude to the Anglo-American Trade Agreement suggested that any welfare risks or sacrifices in the cause of international harmony or even economic alliance would be stoutly resisted. Where Australian welfare and world peace pointed in the same direction, of course, the strong support of the Australian Government might be taken as assured. In saying this, it should be made clear that Australia deserved no special moral condemnation for her attitude, Most - if not all - other countries adopted much the same attitude to international harmony.

> "It may be that there are instances, either in League history or elsewhere, of states having in the economic domain deliberately taken action contrary to their own clearly conceived commercial interests. It is true that the Covenant imposes no obligation on member states to show such altruism; but I do not claim that it has never happened. All I would say is that, if the British Dominions are to be penalised for having sometimes looked at a Geneva proposal in the light of its possible effects upon their own material position, then, let that nation which is in this respect without sin throw the first stone". 99

But, if the Australian attitude deserved no special moral condemnation, it might still have been shortsighted, for Australia could ill-afford further to jeopardise her already exposed security position by presenting countries like Japan with some pretext, real or spurious, for embarking on aggression. If, on the other hand, a policy of aggression were so firmly established in Japan that economic appeasement could serve no other purpose than perhaps to weaken Australia's security position still further, then the appropriate policy might have been actively to seek out

---

99 C.A.W. Manning, "The Policies of the British Dominions in the League of Nations", op. cit., p. 72.

political and economic alliances, especially with the United States, and this, in its turn, might have involved economic sacrifices of the same order of magnitude as economic appeasement.

One final point is that Australian economic policy within the League was, for the most part, general or functional - it was intended to apply to economic co-operation in the world as a whole, rather than to any specific region. Any action to raise standards of nutrition or living standards generally, or to mitigate the impact of depressions would have benefited the countries of Asia and the Pacific, as well as the countries of Europe and America; but Australian policy does not seem to have been more preoccupied with the welfare of her neighbours than with that of countries more remote. In fact, the contrary was rather the case. The Australian proposal of 1936 and 1937 for a Pacific Pact of Non-aggression does not seem to have been accompanied by any attempt to formulate any foreign economic policy for the area which might have helped to provide a sound economic basis for the security system which it was proposed to establish. This shortcoming should not, of course, be pressed too far, for, if a solution were found to the problem of economic depressions, for example, the more immediate problems of fluctuating markets would disappear, and the way would then be open for embarking on new tasks, for example, of stable economic development in Asia and the Far East as well as in other areas. However, it is very doubtful that inter-war Australian policy was reasoned in this way. Security demanded special attention to Asia and the Far East and brought forth the proposal for a Pacific Pact. Welfare was more concerned with conditions in Europe and North America, which determined the state of

Australian markets, and thus the level of business activity and employment in Australia itself. Although welfare and security were vaguely linked in Australian policy, the link was uncertain and resulted in a dual direction for Australian policy. In practice, Australian economic policy was determined primarily by welfare considerations, and therefore was preoccupied mainly with Europe and North America. Foreign policy, in so far as it was actively implemented, was left to seek security in Asia and the Far East by directly political means, assisted by any indirect benefits which efforts to improve economic conditions in the Western world might bring.

3. Appraisal

It is broadly true to say that, in the inter-war period, Australia had no very active or positive foreign economic policy. Even foreign policy in its more traditional form had received little independent development by Australian Governments. The Department of External Affairs was small and ineffective; for most of the period there was no diplomatic representation abroad except in the United Kingdom and at the League; Parliamentary debates on foreign affairs were infrequent, brief and often ill-informed.[100] Outside Parliament there was a growing public interest in international affairs, but, before 1939, this seems to have had comparatively little influence on the development of an active, independent foreign policy by the Australian Government.

Between the wars, Australian economists were concerned with "the promotion of 'general prosperity' and...the avoidance or mitigation of depressions":[101] Australian economic policy - including external economic policy - was directed to "assistance to, or protection of, sectional interests that were in a position to apply political pressure".[101] There was a general concern about defence but, even here, Australian economic policy was uncertain and immature.

---

100 "In the ten years after the signing of the Peace Treaty", said Sir Frederic Eggleston in 1938, "there was hardly a single first-class debate in the Commonwealth Parliament on foreign affairs" ("Australia's Foreign Policy", op. cit., p. 65).

"Although considerations of defense entered into discussions of transport policy from time to time, and were rather more influential in the field of trade and tariff policy, Australia as a nation was singularly innocent of war economics.....Governments, in the between-war period, learned to use economists as advisers on many aspects of policy; but apparently neither the few professional soldiers nor the officials concerned with defense policy considered that economic analysis could play an important part in preparedness....it must be conceded that few Australian economists had applied themselves to defence problems before the war; and little attempt had been made to prepare the minds of the public, the politicians, or the civil service for the economic changes that war would bring". 101

Beyond defence, the more complex formulation and implementation of a foreign economic policy was never really attempted. The concept of an economic alliance, for example, was never properly understood by inter-war Governments. The British preferential arrangements had something of the appearance of an economic alliance, but they were essentially a welfare experiment the foreign-policy aspects of which were, initially at least, inadequately analysed. Trade Diversion underlined their political immaturity; and the Anglo-American Trade Agreement brought forth only a guarded recognition by the Australian Government of Ottawa's political shortcomings. In Asia and the Pacific - the area of principal security concern to Australia - even commercial policy had not been pursued with the same vigour as in the United Kingdom and Europe, and anything deserving of the name of a foreign economic policy - any active and consistent use of economic means for foreign-policy ends - had not yet emerged. There had nevertheless been some attention paid to the practice of economic sanctions. It had been used, unsuccessfully, on one occasion, within a multilateral organisation; it had been debated

---

101 E. Ronald Walker, "The Australian Economy in War and Reconstruction", New York, 1947, p. 11.

as a unilateral weapon against Japan; and it had finally been applied only a few months before Japan extended the Second World War to the Pacific.

But probably the main feature of Australian policy in the inter-war period derived from the fact that over any proposal relating to defence or foreign economic policy, "hung the recollection of the great depression",[102] with a consequent "widespread reluctance to do anything that might 'cause unemployment'".[102] Throughout the inter-war period, a conservative government was in power, except for the Scullin Administration in the disastrous years from 1929 to 1931. The policy of the Lyons Government in the 'thirties was rather to let the Australian economy restore itself gradually on the tide of an uncertain and unsatisfactory return to prosperity in the world as a whole, than to take any bold measures of Government intervention and support.[103] There was consequently a very limited scope for such things as economic alliances or economic sanctions or economic appeasement, if they threatened to disturb still further the delicate balance of the Australian economy. In this way, preoccupation with depression and a rejection of any very positive and direct control of the level of business activity and employment were two restraining factors on the development of an active and effective foreign economic policy which circumstances were increasingly requiring. Australia was not alone in this: there were

---

102 Ibid., p. 12

103 In any event, of course, Australia needed not only national action, but also widespread international action which would maintain effective demand in the world's major trading countries.

many other democratic countries which experienced much the same difficulties. But Australia, along with other countries, was seeking national and international remedies for the problems of prosperity and depression, which would certainly involve increased governmental economic control. When these remedies were found and applied, the prospect of an active and effective foreign economic policy would be very much closer.

Chapter VI. Foreign Economic Policy After the Wars

1. Perspective

2. World Political Stability: Universal Economic Progress

3. Great-Power Conflict: The Policy of Economic Mediation

4. Attachment to the United States

5. The United Kingdom and the British Commonwealth

6. Commonwealth Asia

7. South-east Asian Preoccupation

8. The Island Perimeter

9. The "No-Man's-Land" of the External Territories

.....

1. Perspective

The Second World War, the rapid Japanese progress as far south as New Guinea, and the direct threat to Australia itself underlined the uncertainty of Australia's security position. The League had failed to preserve peace and no adequate security system had been devised for the Pacific. Something better would be needed for the future, and, as contrasted with the period between the wars, Australia would have to play a full and active part in devising these better arrangements. A first need would be to develop and implement a well-reasoned Australian foreign policy, directed to take account of Australia's distinctive security problems. It was no longer tolerable, said Dr. Evatt in 1946 that "Australian policy should be a mere reflection of British policy, [since] such an attitude would fail to take into account our special

interests and the particular contribution we can make to British Commonwealth policy as a whole".[1] Partly this was symptomatic of an inevitable growth to national maturity, which however had been hastened by wartime experience.

More specifically, the Pacific War had emphasised the geographical realities of the Australian security position. Any direct threat to Australian security was much more likely to come from the Pacific than from Europe. Therefore, while in the future Australia would undoubtedly continue to interest herself in European affairs, her closest and most nervous concern would be in trends, problems, and conflicts in the Pacific. The Monroe Doctrine had, in an earlier century, established the whole of the Americas as the immediate security concern of the United States: the Pacific War as clearly established an area of similar importance to Australia, concentrated especially in South-east Asia and the South-west Pacific. Australia would continue her intimate association with the United Kingdom, but that association could not - and need not - be allowed to lead her away from her primary Pacific interest. On the contrary, the British link could heighten the effectiveness of Australian policy in the Pacific: the United Kingdom and other Commonwealth countries, especially New Zealand, could supplement and bring nearer fulfilment Pacific policies essential to Australian and British Commonwealth security. "Collaboration with Great Britain", as Mr. W. MacMahon Ball

---

1 H.V. Evatt, "Australia in World Affairs", Sydney 1946, p. 181.

suggested in 1945, might remain Australia's "first consideration in the conduct of our external affairs"; but "Australia's destiny lies mainly in the Pacific...The world's lights and shadows often appear differently in London and Canberra...To Britain the economic and political development of the widely scattered British islands in the South Pacific is only one of a number of colonial issues with which she is faced all over the world. To us, the welfare of these islanders is more pressing, for our security in large part depends on the contentment and goodwill of these near neighbours".[2]

Nevertheless, it was clear that Asia and the Pacific could not be isolated from the rest of the world, and Australian postwar policy recognised the inter-relationship between the problems, including the economic problems, of all regions. Wartime and postwar Australian Governments concerned themselves - critics often suggested that they concerned themselves more than they should - with international problems in many parts of the world. Therefore, to organise our description of Australia's foreign economic policy after the wars, we may draw on the metaphor that a stone cast into a pond causes a series of concentric circles, of which the furthest encloses the widest area and the nearest is most sharply defined. Applying this metaphor to Australia's foreign policy, some eight areas of interest may be noted:

(i) the external territories of Papua and New Guinea; (ii) the

---

2 W. MacMahon Ball, Preface to H.V. Evatt's "Foreign Policy in Australia", Sydney, 1945, p. xi.

island perimeter; (iii) South-east Asia, including especially (iv) Commonwealth Asia; (v) the United Kingdom and the British Commonwealth; (vi) the United States; (vii) the Soviet Union, as the post-war centre of Great-Power conflict; and, finally, (viii) the broad field of international relationships generally.

These eight areas of interest have been set down in approximately descending order of geographical propinquity, which however accords only very roughly with their order of importance in Australian policy. In Australian policy, the "near circles" have not always stood out most sharply. New Guinea and the Island Perimeter have occupied a much humbler place than South-east Asia and the countries of Commonwealth Asia. Furthermore, it has not always been clear that general, functional activity within the United Nations has been regarded as of less account and urgency than regional activity more precisely directed to the "Near North". Nevertheless, a systematic consideration of Australian policy shows a developing line of emphasis, deriving essentially from Australian consciousness of long-term insecurity and preoccupation with political and economic stability in South-east Asia and the South-west Pacific.

Before we go on to examine these areas of interest, beginning with the universal as distinct from the regional and other more particular aspects of Australian foreign economic policy since 1945, it should be noted that two special factors have determined the broad context for postwar Australian policy. One has been the uncertainty of political conditions and political relations in many parts of the world, and not least in the region of South-east Asia.

The second has been the enlarged control of the national economy by the Australian Government,[3] partly as a result of the war, and partly because of the long Labour reign. According to the general thesis previously put forward, both these factors of political uncertainty and increased governmental economic control should operate to enlarge the economic element in foreign policy. The postwar period may therefore be expected to reveal an Australian foreign economic policy rapidly growing towards maturity. In Australia's case, however, there is one other factor to be borne in mind. Australian prosperity and external financial strength depend very largely, not on domestic Australian policies, but on the policies of economic stability adopted by the world's major trading countries. Australian capacity to maintain a foreign economic policy involving large external expenditures, or to set aside certain commercial considerations for the sake of political advantages, or, generally, to be somewhat less preoccupied with welfare and more preoccupied with security in her economic policy, has depended since 1945, and will continue to depend, largely on the maintenance of high levels of economic activity in the world's major trading countries. This theme will recur in what follows.

---

3 Some of the economic powers exercised by the Federal Government during the war and the immediate postwar period, under the defence provisions of the Federal Constitution, had to be returned to the States after the transition period. Nevertheless, a large measure of domestic financial control, for example, and control of external trade and payments remained firmly with the Federal Government. Federal authority in the field of social services also was extended by referendum. Division of powers between the Commonwealth and the States nevertheless presents a barrier to centralised governmental control of the national economy, which should be kept in mind.

2. World Political Stability: Universal Economic Progress

It has already been noted that inter-war Australian Governments gave some measure of recognition to the relationship between political stability and universal welfare. After 1945, the emphasis on the economic aspects of international co-operation was intensified. Australia became an active leader in proposals for international economic co-operation, though she seemed to have lost little of her determination to retain any part of her economic policy which she deemed essential to her individual welfare. She clung tenaciously to Empire preferences, and she accepted the Bretton Woods Agreements only after assuring herself that the policy restrictions which they imposed were relatively slight. The Report of the Australian Delegate to the Bretton Woods Conference showed an anxiety, not so much to reveal and commend the Agreements as effective instruments for international co-operation, as to prove that the Australian Government would not be very seriously impeded by their provisions. Later, Australia took a very cautious approach to the non-discrimination provisions of the I.T.O. Charter, and, in the direct field of foreign economic policy, made sure that Article 99 was wide enough to allow her to apply unilateral trade "sanctions" if she wished.

Even so, it is true that Australia gave strong support to most projects for international economic co-operation. Did she do so for reasons solely of welfare, or, in whole or part, for reasons of foreign policy? In the Full-Employment White Paper of 30th May 1945, the Curtin Government declared its intention, in order to meet threats to

employment having their origin overseas, to

> "...seek agreement now with other nations - particularly the major industrial countries of the world - by which countries undertake to do all in their power to maintain employment within their own territories, and thereby expand demand for internationally-traded goods".

The Government went on to declare itself ready to

> "...participate in developing other forms of international collaboration designed to expand world trade and to mitigate fluctuations in prices of raw materials and foodstuffs".

This did not necessarily imply any objective beyond welfare; and, about the same time, the Leader of the Australian Delegation to the San Francisco Conference (Rt. Hon. F.M. Forde) insisted that "welfare is an end in itself". However, he also said:

> "Australia's foreign policy has long been especially concerned with the arrangements for economic and social co-operation. We take the view that peace and security must rest on economic justice and social security...
>
> "...real stability in the post-war world can be achieved only by carefully building an organisation that will do its utmost to assure the peoples of the world a full opportunity of living in freedom from want as well as freedom from fear of external aggression". [4]

The Australian Minister to Washington (Sir Frederick Eggleston) made much the same point when he said that "unless we can make some progress in the conquest of poverty, the strongest security system may be strained".[5] In the Australian view, provision had to be made for peaceful change, including steady economic advancement, throughout the world. Peace was not a static concept: "A permanent system of security can be made effective and acceptable only if its legal and constitutional framework is devised to meet the growing and changing needs of the peoples of the world".[6]

---

4 Second Plenary Session, United Nations Conference on International Organisation, San Francisco, 27th April 1945.
5 Broadcast over Columbia Broadcasting System, 24th November 1944.
6 H.V. Evatt, University of California Charter Address, March 1945, printed in "Australia and World Affairs", op. cit., p. 15.

A principal element in the Australian policy was that international co-operation should aim at economic welfare in all countries, in the Soviet as well as the United States and the United Kingdom, in Latin America, and in South-east Asia. The Labour Government claimed to be impartial, and to seek for policies which would assist the international community as a whole, rather than any single country or group of countries.

> "The Australian Delegation [at San Francisco], working closely in co-operation with that of New Zealand, always adopted an independent approach. We did not belong to any 'bloc' of nations. For instance, the debate over the powers of the Assembly was mainly with the sponsoring powers led by Russia, with nearly all the other powers supporting our view. On the other hand, on the 'full-employment' question, the Soviet supported us. On regionalism it was necessary to join issue with certain Latin-American Republics who were attempting to secure for their regional group an almost complete independence from the Security Council. On some issues we differed from the United Kingdom; on others, generally more important, including 'full employment', we obtained the complete co-operation of Britain's representatives". 7

The UNRRA Agreement, which was signed by Australia on 9th November 1944, harmonised entirely with the Labour Government's approach. To implement effectively "the principle of international co-operation",[8] Australia was prepared to contribute material resources for relief and rehabilitation, which could be used in any of those countries where "whole peoples have been despoiled and cruelly ill-treated, economic life disrupted, territories devasted and great sections of the population dispersed".[8] The objective was to restore the devastated economies as "going concerns", and to avoid the political dangers that a prolonged

---

7 Dr. H.V. Evatt, Parliamentary Debates, 30th August, 1945, Volume 184, p. 5032.

8 Statement by Dr. Evatt at the Lapstone Meeting of the UNRRA Committee of the Council for the Far East, 15th February 1945.

period of economic distress might involve. Humanitarian, commercial, and foreign-policy objectives coincided. Two contributions, each of £12 million (Aust.) were made to UNRRA, the first in 1944 and the second in 1946. Each was the equivalent of one per cent. of the Australian national income for 1943.

Resolution 2 of the First Session of the UNRRA Council provided that UNRRA assistance should be furnished on the basis of relative need "without discrimination because of race, creed, or political belief". On 15th February 1945, Dr. Evatt asserted that

> "Already UNRRA has declared that relief must never be permitted to become a political weapon. It is vital that this declaration should be made effective".

Australian supplies went to China, Italy, Austria, Poland, Yugoslavia, the Phillippines, and other widely-separated countries. There was no semblance of attempting to withhold supplies from any country for political reasons. At the same time, the Australian Government showed some awareness of the foreign-policy value of directing assistance especially to the area in which its principal security interest lay. It was claimed that Australia was "particularly anxious to co-operate in relieving the distress prevailing throughout the Pacific regions",[9] and a large proportion of Australian supplies - about 33 per cent. - went to the Pacific, almost wholly to China. However, even this attention to the Pacific was, as shown later, kept within very moderate bounds.

UNRRA terminated its work during 1947. Opposition by the United

---

9 Department of External Affairs, "Current Notes on International Affairs", February 1946, p. 87.

States and other countries made it impossible to continue general relief through an international organisation. The Australian Government had misgivings about reliance upon bilateral relief, and its possible implications of political discrimination. However, at the First Session of the General Assembly, the Australian representative said that his Government "was not convinced that bilateral relief would be unsatisfactory"[10], and supported a scheme for bilateral relief co-ordinated in some measure by the Secretary-General of the United Nations. The Australian contribution of approximately £A2 million to general Post-UNRRA Relief was however made on the same non-discriminatory basis as would have applied under UNRRA Resolution 2.[11] Furthermore, relief supplies went principally to Europe, the recipients being Poland, Yugoslavia, Hungary, Austria, Italy and Greece. Only about twenty per cent. of the total contribution was directed to Asian countries. In a sense, this was the high point of Australian post-war dedication to the ideal of non-discriminatory treatment of economic problems wherever they occurred, without any special concentration on the areas of most immediate security interest to Australia. This does not mean that extension of relief had no political motivation. But its political purpose coincided in letter and spirit with the ideals of the United Nations Charter and allied instruments, in a way that has been progressively less the case with subsequent programmes. The policy

---

10 "Current Notes on International Affairs", December 1947, p. 786.

11 See also Section 3 infra on "Great-Power Conflict: The Policy of Economic Mediation".

became untenable when divisions between the Great Powers - towards which Australia could not for long remain impartial - became acute and when, partly as a result of Great-Power conflict, instability in South-east Asia became so marked that Australia's limited resources had to be directed to those areas where her security was most likely to be critically threatened.

A point to note is that the contribution to general post-UNRRA Relief, like the second contribution to UNRRA, was made available not in cash but in commodities which were in plentiful supply on the Australian market. In 1947, it still seemed that a "burdensome surplus" of wool might not be far off, and that it might be a wise precaution to use the post-UNRRA contribution to help dispose of existing wool stocks. But the war-devasted countries which could put raw wool supplies to best advantage were the six European countries named above. Therefore, the recipients of post-UNRRA relief from Australia may seem largely to have chosen themselves rather than to have been selected by the Australian Government after a careful assessment of political factors. However, while there may have been no deliberate attempt to find supplies for Eastern European countries, Australia's assistance to these countries, as well as to non-Communist Italy, Greece and Austria, made it clear that the Australian Government was still perfectly ready to base its policy on non-discrimination. It suggests also that the Government's desire to assist South-east Asia was not so intense that special efforts were made to find supplies suitable for Asian rather than European countries.

With the contribution to general Post-UNRRA relief, contributions

were also made to the International Children's Emergency Fund, the International Refugee Organisation, and the UNESCO Reconstruction Fund under which Australia extended special assistance to South-east Asia. The latter will be dealt with subsequently.[12] The contributions to IRO and ICEF do not require any special or separate treatment. Australian participation in ICEF was similar in motivation - with an additional sentimental appeal - to her participation in UNRRA. Participation in IRO also had elements of motivation similar to that for UNRRA but, especially in the later stages, it was closely linked with defence and development objectives through the impetus which it gave to Australian immigration.

During the war, it had seemed that, after the period of relief and reconstruction, the long-term problem would be to maintain effective demand and employment by domestic measures, to avoid "beggar-my-neighbour" international economic policies, and to achieve a progressive improvement in living standards. The Curtin and Chifley Governments consistently maintained the view that effective international economic co-operation had to start with universal acceptance of a commitment to maintain domestic employment. From this would tend to flow other desirable objectives such as reduction of tariffs and other barriers to trade, stable exchange rates, and a high and stable flow of international capital: without it, any attempt to regulate economic relations among States might be futile. Before the San Francisco Conference, Dr. Evatt said that "there are some reasons..for thinking that the discussion of particular and separate parts of postwar welfare policy may, for the time being, have reached its useful limit. In the hope of providing

---

12 See Section 7 infra.

a new approach to this complex of questions as a whole, and thereby enabling particular parts to fall into their proper relationship, Australia and New Zealand have suggested consideration of an international agreement on full employment policy".[13] After San Francisco, he said, in more detail:

> "The clear mandate and obligation to promote full employment reflects another trend of great importance. A significant and striking feature of this Charter is that it places great emphasis on an aspect of international planning which after the last war was wholly ignored. The breakdown of international planning after World War I can be traced to the undue emphasis placed on trade and exchange stability as ends in themselves, and to the absence of consideration of domestic policies of employment which, if pursued, should have brought about increased consumption, increased international trade and stability in exchange rates. The history of post-Great War planning is, broadly, the story of a long succession of conferences, all resulting in resolutions to reduce trade barriers, and all followed by increased restrictions on trade because of increased unemployment. Unemployment was the great political problem. The only remedy which the World Economic Conference of 1933 could suggest was a 'programme of economic disarmament' by which was meant a programme to reduce barriers to trade. It was not at any stage suggested that the unemployment throughout the world might be caused by domestic policies or might be remedied by domestic policies such as public works programmes, housing projects, social security schemes, and other such intrinsic parts of national planning as we now know it. Today there is a totally different outlook. The economic foundations for peace are not those foundations which were planned after the last war. The end we seek is not merely increased trade, but also higher standards of living. Increased trade is vital to higher living standards, but it is not the only means to that end". [14]

In line with this approach, Australia and a number of other countries, including the United Kingdom and New Zealand, had succeeded in amending the Dumbarton Oaks text so that Article 55 of the final Charter required the United Nations to promote "high standards of living, full employment, and conditions of economic and social progress and development".

---

13 Parliamentary Debates, 22nd February 1945, Vol. 181, p. 66.
14 Ibid., 30th August 1945, Vol. 184, p. 5038.

Implementation of Article 55 was entrusted to the Economic and Social Council which in general was to be the instrument through which welfare should serve the end of peace. Australia wanted "to elevate the stature and improve the functions of the Economic and Social Council";[15] and, to this end, proposed that: "The Economic and Social Council shall be so organised as to be able to function continuously, each State member of the Economic and Social Council being permanently represented at the headquarters of the United Nations". Although this proposal was not accepted, the Council was established as a major international organ, and, taking account of the Council's functions under Article 60 and Articles 62 to 66 of the Charter, this meant, for the Australian Government, "breathing life into the original unsatisfactory Chapter of the Dumbarton Oaks draft dealing with economic matters".[16]

Although Australia was an original member of the largely ineffectual Economic and Employment Commission, she was not elected to the Council itself until 1948. Employment conditions up to the end of 1948 did not provoke any far-reaching international action;[17] but the Australian Government nevertheless took advantage of every opportunity to re-emphasise the need for adequate international planning and agreement so that prompt and effective action could be taken to meet any recession as soon as the danger signals appeared. Unemployment was the

---

15 Ibid., 30th August 1945, Vol. 184, p. 5027.
16 Statement in Sydney by Dr. H.V. Evatt, 23rd July 1945, printed in "Current Notes on International Affairs", August-September 1945, p. 177.
17 See Chapter III, supra.

Carthage against which Australian Delegations constantly inveighed. Australian pressure helped to induce the Second Session of the General Assembly to adopt Resolution 118 (II), under which the Secretary-General was asked to provide factual surveys and analyses of world economic conditions and trends; and Australia strongly supported Resolutions 104 (VI) and 221 (IX) of the Economic and Social Council calling, inter alia, for reports on action taken by governments to maintain full employment. Australian pressure for full-employment commitments was also apparent in the Trade and Employment Conferences from which the ITO Charter and GATT emerged in 1948. Any commitments on tariff reduction, non-discrimination, and so on, had, in the Australian view, to be linked with binding commitments to maintain high and stable levels of employment: if a country failed to live up to its full-employment obligation, its rights to certain tariff and general trade treatment would lapse. When, on 30th September 1948, the Minister for Postwar Reconstruction (Hon. J.J. Dedman) introduced the International Trade Organisation Bill in the House of Representatives, he said:

> "Throughout its participation in the negotiations, the Australian delegation sought to secure a charter adapted to the interests of this country. It particularly sought to establish -
>
> "(a) the importance of maintaining employment and effective demand, particularly in the major industrial countries of the world that will continue to represent the biggest markets for our exports;..."

This summed up the Australian position; and it pointed to an element in the Australian full-employment policy that must always be borne in mind - it was concerned first and foremost with maintaining stability

in "the biggest markets for our exports". It was primarily a welfare policy, into which foreign policy entered as a supplement and perhaps often as an afterthought.

At the Ninth Session of the Economic and Social Council in mid-1949, Australia actively encouraged Council action to meet the threat of widespread unemployment arising from the 1948-49 recession in the United States, and welcomed the Council's Resolution 221 (IX) which, inter alia, provided for the appointment of a group of experts to report on national and international measures to combat unemployment. Subsequently, the Australian Representative at the Ninth Session (Dr. E.R. Walker) was appointed Chairman of the expert group.

Up to this point, Australian advocacy of effective full-employment policies was consistent, both in energy and motivation. Apart from welfare objectives which were almost certainly predominant, most countries up to 1948 or thereabouts probably accepted the need for full-employment policies on the general thesis that political extremism would thrive on the distress which unstable levels of employment and business activity would bring. For some countries after about 1948, there may have been some change in the political approach to full employment - perhaps there was an increasing anxiety that unemployment would help international communism and add to Soviet allies. But, for the Chifley Government, full employment seems to have had a continuing, imprecise foreign-policy value based on the assumption that universal welfare was essential to universal peace.

After the appointment of the employment experts and before

presentation of their report, a change of government occurred in Australia. The new government was openly and strongly anti-Soviet, and it also seems to have introduced a marked break in the consistency of Australian policy on full employment. The general lines of the new Government's policy towards multilateral international co-operation can be established quite briefly.

The distinctive feature of the first general policy statement made by the new Minister for External Affairs (the Hon. P.C. Spender) to the House of Representatives on 9th March 1950, was the Minister's firm design to identify the Soviet and its communist allies as aggressively disposed enemies and to propose that Australia should seek the closest possible co-operation - both political and economic - with Western Europe, North America, and other non-communist areas to resist the communist threat. He said that one of the "self-evident and unchanging" aims of Australian policy was "the preservation of peace". He acknowledged that "we are members of, and as a peace-loving nation owe obligations to the United Nations, and must be in a position to discharge them". Nevertheless, he drew attention to the "danger of exaggerating not the importance of the aims or purposes or principles of the United Nations, but the extent to which in present circumstances it can exert real influence for the maintenance of peace in the world. It must never be forgotten that, as its membership includes representatives of all the groups of the world, it may contain those who are working to disrupt the order we believe in, as well as those who support it, although of course all are pledged to support the

principles of the United Nations". "Where the United Nations is manifestly unable", he said, "to protect Australian interests it is the duty of the Government to follow simultaneously a policy of making supplementary arrangements among those we know to be our friends". Finally, the new Government believed, firstly, "that the basis of the struggle which has developed since the war lies in Soviet foreign policy", whose "ultimate objective is world communism, a universal form of communism with Moscow as the controlling centre, either inspired by a belief that only by the destruction of other forms of government can communism be secured, or inspired by no other motive than aggression"; and, secondly, that "our economic policies can be influential in promoting the political objectives which I have outlined to Honourable Members, as well as serving our commercial interests".[18]

If the new Government accepted, even with some reservations, the purposes of the Charter (including those in Article 55), and if, further, while recognising the Soviet as the enemy, it accepted the need to direct economic policy so as to serve foreign-policy ends, Australia might have been expected to support effective full-employment measures which would help "the maintenance of stable democratic governments". In this way, Australia would be supporting an anti-Soviet measure which was, at the same time, in perfect conformity with the purposes of the Charter. Such a policy might have been particularly likely at the Council's

---

18 For full text of statement, see "Current Notes on International Affairs", February 1950, pp. 153-172. It should be noted that the Menzies Government - which is often referred to, in succeeding pages, for the sake of brevity, as the "Liberal Government" - is in fact an anti-Labour Coalition of the Liberal and Country Parties in the Federal Parliament.

Eleventh Session held in mid-1950, where, since Nationalist China was still represented, Eastern Europe was not. There was, therefore, no danger that the Council's decisions would be directly influenced "by those who are working to disrupt the order we believe in". For this Session at least, the Council was a wholly Western Organ. Moreover, at the end of the Session, Mr. Spender himself told the Council that

> "...his country was most anxious to contribute to the peace of the world, both by supporting all the measures taken by the Security Council and also by contributing to the achievement of economic stabilisation in the world. The latter might, in the long run, prove to be the most important undertaking of all". 19

In the Australian Representative's opening statement to the Council,[20] Australian devotion to effective full-employment action seemed, on the surface, to be unchanged. Nevertheless, there were some warning notes even at that early stage. Firstly, since "domestic measures to maintain full employment had necessarily to take account of differing circumstances in different countries..., it might prove more difficult for the Council to reach early agreement on detailed recommendations on domestic policy than on international measures....The Australian Government was inclined to think that the current discussion would yield greater practical results if it were mainly concentrated upon proposals for international action". Secondly, since "the factor of rapid growth involving development in many different directions would inevitably raise problems in relation to employment also, problems which could not

---

19 Official Records of the Economic and Social Council, Summary Record of the 414th Meeting of the Council, Document E/SR. 414.

20 Ibid., 391st Meeting of the Council, Document E/SR. 391.

be clearly foreseen in advance...the Australian Government considered that a full-employment policy under those conditions of rapid growth must be flexible, and would consist primarily of discretionary rather than automatic measures". Thirdly, "the ensuing twelve months might well bring deeper insight into the problem of the development of a full-employment policy both in the domestic and in the international sphere" and, "after a year or two, some governments might perhaps be prepared to accept more definite commitments than they felt able to accept just then".

Since much of the Eleventh Session's discussion of full employment took place in a Drafting Committee meeting in closed session, much of the detail of Australian policy cannot be ascertained. However, Australian amendments placed before the Economic Committee and the Plenary sought to remove any obligation to express economic goals in precise quantitative terms or to publish a quantitative standard for full employment; to leave to the discretion of each Member State the anti-cyclical measures on which it would report; to eliminate the acceptance of any full-employment standard "as a continuing objective of policy"; to avoid any special examination by the Secretariat of the full-employment standards published by Member Governments;[21] to ensure that the Economic, Employment and Development Commission formulated,

---

21 "In the Drafting Committee", said the Australian Representative, "it had been decided that the Economic and Employment Commission should not attempt to impose its own standards on governments or to evaluate theirs. In spite of that decision, he felt that the second part of paragraph 7 (b), which related to preliminary work by the Secretariat in analysing reports submitted by governments, might still be taken as implying some obligation on the part of the Secretary-General to evaluate governments' full employment standards in the light of some standards of his own. Since it had not been envisaged that even the Economic and Employment Commission should make such an evaluation, it was all the more clear that the Secretary-General should not be required to do so" (Council Document E/AC. 6/SR. 93).

for the Council's considerations, only problems "of international concern"; to delete the provision for post-hoc examination of governmental "actions" having repercussions on the economic position of other countries; and to ensure that there was no extension of Australian commitments on non-discrimination in trade, monetary, and investment policy. On the paragraphs of the Resolution dealing with forward trade estimates, the Australian Representative said that

> "...he would not vote against those paragraphs but wished, on his Government's behalf, to record that the preparation of the statistical data referred to therein would be extremely difficult in view of the position of the export industries in his country. His Government was willing to do its best, but he must voice certain doubts about the value of the proposed studies in the case of countries where estimates would be subject to a considerable margin of error". 22

The tone of this intervention was typical of the Australian stand generally. All the Australian amendments were supported by technical arguments, or by appeal to practical, administrative difficulties, within the framework that the Australian Government "wholeheartedly accepted the obligation laid down in the United Nations Charter to promote full employment in co-operation with other countries".[23] However, there was nothing positive in the Australian approach which seemed aimed, at all times, to weaken the final Resolution. Australian policy no longer attempted to give any lead to other countries, but rather to put a brake on the new leaders.

---

22 Council Document E/AC. 6/SR.94, p. 12

23 Council Document E/AC. 6/SR.93, p. 5

This was understandable from a Liberal Government, which instinctively resisted anything, whether in a Council resolution or elsewhere, involving any major concession to economic planning. However, economic stability is now much more than a welfare objective. It is also an objective of foreign policy, and it has a particular foreign-policy importance where foreign policy is specifically directed against the Soviet bloc. The evidence so far is that the Menzies Government might reject effective policies of economic stability and employment, even as a foreign-policy defence, if those policies involved major concessions to the techniques of planning and control. But this might be because the Menzies Government has not yet had time to determine its full-employment policies in precise terms: there might be a real significance behind the Australian statement quoted above that "after a year or two, some governments might perhaps be prepared to accept more definite commitments" than at the Eleventh Council Session.

In any event, the Menzies Government's commitment to apply a foreign economic policy, to avoid "conflicts in commercial and other economic policies"[24] between Commonwealth countries and Western Europe on the one hand, and the United States and Canada on the other, to help rebuild Western Europe's independent economic strength and stability because "Europe's political stability and resistance to Communism can be no stronger than her economic vitality"[24], and to build "closer economic relations with South and South-east Asia"[24], all seem to need high and stable levels of business activity and employment throughout the Western world. How much governmental planning and control these

---

24 Statement by the Hon. P.C. Spender, 9th March 1950, "Current Notes on International Affairs", February 1950, p. 170.

objectives of stability are believed to need, depends largely on the political philosophy of the government concerned; but, if any instinctive antipathy to planning and control prevents the adoption of effective international policies of economic stability and full employment, it is likely at the same time to undermine the whole of the foreign economic policy to which the Menzies Government is committed. In the vital area of South and South-east Asia, the Australian Government, along with other Governments of the Commonwealth, has recognised the crucial importance of economic stability. The 1950 Report of the Commonwealth Consultative Committee on the Colombo Plan for Economic Development pointed out that:

> "The national incomes of these countries [of South and South-east Asia], their balance of payments and, in particular, their dollar earnings are...at all times vulnerable even to relatively minor fluctuations in world business activity. In working out their programmes Commonwealth countries have assumed a relatively high level of demand for their basic exports. If this assumption were not fulfilled, their ability to carry out these development programmes would be gravely impaired". 25

It should also be noted that, if there were a serious and widespread fall in effective demand in world markets, it would immediately impose a strain on Australia's overseas balances and Australian capacity to extend financial assistance to the underdeveloped countries would be undermined. In general, a fall in effective demand of this kind might force the Australian Government to adopt expedients in commercial and exchange policy which would run directly counter to her foreign-policy objectives of close economic co-operation with the United States, Western Europe, and South-east Asia. In the short-term, the boom conditions stimulated by rearmament conceal the dangers of

---

25 United Kingdom Stationery Office, Cmd., 8080, p. 46.

recession: in the longer-term, these dangers might re-appear.

In one important field, there was a superficial continuity in Australian foreign economic policy despite the change from a Labour to a Liberal Government. The relief and rehabilitation programmes of the immediate post-war years gradually developed into programmes for the long-term development of under-developed countries. UNRRA and Post-UNRRA relief gave way to action exemplified by the Expanded Programme of Technical Assistance to Under-developed countries. The Australian Delegation at the Ninth Session of the Economic and Social Council, acting under instructions from the Chifley Government, strongly supported the Programme and played a prominent part in framing Council Resolution 222 (IX) under which it was to be launched. This support was continued under the Menzies Government, which was among the first three governments to make its initial contribution available for expenditure under the Programme.

Nevertheless, an important change of emphasis in the Australian attitude to the Programme had occurred since 1949. The anti-Soviet basis of the Menzies Government's foreign policy has already been noted. In his statement of 9th March 1950, Mr. Spender said:

> "The coming into operation of an international programme of technical assistance to under-developed countries, inspired in President Truman's Fourth Point, will give constructive tasks and an important objective to a number of these international organisations [that is, the United Nations and the Specialised Agencies]. This is a programme which, if it is backed by the more developed countries, can build surer foundations of economic progress and political stability in areas such as South and Southeast Asia where, as I have already said, economic conditions have encouraged the growth of forces which are a threat to this country's well-being".

In another place, he said that "because international economic assistance

will, in many cases, produce only slowly its effects on production and living standards, further delay in comprehensive international economic action may well have the result that action will fail to achieve its political purpose of maintaining stable government, even though such action does eventually raise living standards from which the countries themselves and those that trade with them would undoubtedly benefit". It was because existing international action might be too slow that the "Spender Plan" for direct Commonwealth assistance to South and South-east Asia was presented to the Colombo Conference of Commonwealth Foreign Ministers in January, 1950. Aid for economic development was quite frankly intended to prevent further advances by communist "forces", who were regarded as the major "threat to this country's well-being". For the Menzies Government therefore, the Expanded Programme was, not a venture in universal economic co-operation, but part of a bloc programme aimed at the Soviet and its satellites. It was a programme, not of economic appeasement, but of economic re-armament, aimed at extending and consolidating an anti-Soviet alliance. In general, it seems that, as compared with the Labour Government, the Menzies Government regarded external welfare, if not less an end in itself, at least more clearly as an aid to foreign policy, that it directed economic assistance more precisely to a more clearly-defined area of security interest, and that it applied economic power more openly as a bloc, balance-of-power instrument. This development is not surprising. Both the Chifley and the Menzies Government gave formal support to the United Nations, but the former tended to place much greater reliance on the United Nations than the latter and to give less attention to more limited security

arrangements. The Liberal and Country Parties, while in Opposition, did not conceal their scepticism about the United Nations, and insisted that Australia should concentrate its main efforts on securing the closest co-operation with friendly countries and especially with the United Kingdom and the United States. This attitude was carried across to the Government benches, with the result that the quest for security was made more clearly through an alliance system than through the more difficult and dubious agency of the United Nations, or at least the United Nations as it was conceived at San Francisco.

This attitude to international co-operation is likely to persist. It will colour the present Government's approach, not only to the Expanded Programme of Technical Assistance, but to any other policies ventilated within the United Nations. Logically it might mean that Australian interest and activity in the United Nations will rapidly decline leaving Australian policy to be expressed almost wholly in bilateral and group arrangements. Whether this happens or not will presumably depend largely on the extent of the continuing Soviet influence in the United Nations and the extent to which the Soviet can frustrate its conversion into a wholly Western organ.

One point that has already been touched on is that the Menzies Government's adoption of an active foreign economic policy seems unavoidably to involve some extension of government economic planning. Liberal traditions and continuing liberal attitudes can however not be uprooted overnight. This has already been illustrated by the Menzies Government's hesitance about planning for full employment. But an active foreign economic policy, whether within the United Nations

or outside it, will also involve Australia in large governmental expenditures which do not fit well into a liberal tradition, or, for that matter - since in this case they bring no direct welfare return - with the traditions of the Australian Labour Party. In this connection, it seems necessary to point out that one prominent aspect of Australian policy in recent years - common to both the Chifley and Menzies Governments - has been insistence on the most careful budgetary restraint by the United Nations and the Specialised Agencies. Up to a point, this approach has been commendable, since the international organisations would lose support if they were wasteful of funds - especially hard-currency funds - and placed an unnecessarily heavy burden on the national taxpayer; but Australian policy at a number of international meetings has appeared to consist wholly in objecting to the size of budgets, to the cost of individual projects, to the scale of contributions of member states, and to the inadequacy of existing financial regulations. If Australian policy decides to support these organisations, not merely as a facade for co-operation, but as effective instruments for its foreign economic policy, a "business" approach to budgetary questions might often conflict with the wider objectives of Australian policy. As an example, Australia hedged on the permanent establishment of an Asian Advisory Committee of ILO on financial grounds, when broader considerations seemed to demand enthusiastic Australian support. So far, the tight Australian attitude to agency budgets does not seem to have undermined Australian policy on any major issue; but it suggests a need to acknowledge clearly and consistently that an effective foreign economic policy almost unavoidably involves, for Australia, a large financial burden,

economic sacrifice, and an uncertain and often intangible return on money expended. Especially in South and South-east Asia, large material outlays might bring no obvious material return to the Australian economy, and, for many projects and proposals, the material benefit even to the assisted countries themselves might be a good deal less than a strictly commercial venture would demand.

3. Great-Power Conflict: The Policy of Economic Mediation

As already noted, Australia attempted an impartial approach in international affairs immediately after 1945, avoiding membership of any bloc of nations and fully supporting efforts to solve international conflicts by consultation and conciliation. In these earlier post-war years, she seemed to see herself as a potential mediator between the Great Powers. In the economic field, her attitude to relief and rehabilitation has already been touched upon. Unlike the United States, Australia rejected the opportunity for discrimination offered by bilateral post-UNRRA relief; and, believing that an objective assessment of needs rather any possible power advantage should determine the destination of Australian assistance, the Australian Government took its lead for extension of aid from the recommendations of the United Nations Special Technical Committee on Relief Needs. This approach was opposed by some Opposition Members in the Commonwealth Parliament. On 22nd April 1948, Mr. R.S. Ryan said that:

> "It is noteworthy that wool to the value of nearly £350,000 will be distributed among the satellites of Soviet Russia. No honorable member and no Australian citizen will object to the gift in the form of wool to Italy, Greece and Austria...but Hungary, Poland and Jugoslavia are in a different category. They are now the satellites of Soviet Russia...". 26

Although on a relatively very small scale, Australian policy tacitly disapproved United States discrimination, and, in very minor measure,

---

26 Parliamentary Debates, Volume 196, p. 1054. One point to be noted is that, after the war, the Department of Commerce and Agriculture was anxious to exploit any market for wool anywhere in the world, and was therefore keen to promote the use of Australian wool in communist as well as non-communist countries. However, the writer believes that foreign policy, rather than commercial considerations of this kind, was decisive in the allocation of post-UNRRA wool supplies.

tended to offset United States policy. The Australian approach was the same to the International Children's Emergency Fund, which, the Australian Government insisted, must operate "with regard to the needs of all".[27]

In the field of trade, Australian policy showed much the same desire to promote political understanding through friendly economic contact with Eastern European countries. However, trade with the Soviet and most other Eastern European countries, had never been large and the range of commodities on which to base any long-term expansion was limited. Pre-war Australian exports to the Soviet were as follows:

Australian Exports to the Soviet Union

Year	Value	Percentage of Total Australian Exports
	£A	%
1934-35	84,180	0.08
1935-36	10,700	0.01
1936-37	20,721	0.01
1937-38	1,121,262	0.79
1938-39	278,460	0.23

Source: Commonwealth Year Book, No. 34, 1941.

Australian imports from Russia were negligible. Pre-war trade between the two countries had been little more than a one-way trade in Australian wool.

From about 1943 onwards, the Australian Government seems to have explored the possibility of increasing trade with the Soviet, though perhaps intermittently and without much real energy and certainly without

---

27 Statement by Dr. Evatt to the Executive Board of ICEF, 3rd October, 1947

achieving any very apparent results. In the later war years and immediately afterwards, some Australian officials seem to have felt that substantial commercial benefits might be had from expanded trade with Russia and especially with Asiatic Russia. As markets for Australian exports continued to boom however and as no clear evidence emerged that large supplies of essential commodities might be obtained from the Soviet, these commercial considerations tended to fade into the background. When welfare incentives - which had never been great - almost completely lost their force, Australian efforts to enlarge commercial contact with the Soviet differed fundamentally from trade negotiations by, for example, the United Kingdom which continued to have strong welfare incentives for promoting exchanges with Eastern Europe.

The effort to expand trade seems to have reached its climax in 1948, but very little information was made public on the apparently prolonged negotiations of that year. This is unfortunate, because they might have been the most direct, though ineffectual attempt by the Australian Government to provide some token degree of economic mediation at a time when both economic and political relations between East and West were rapidly declining. Certainly, an effort to improve trade relations between Australia and the Soviet would have harmonised entirely with Dr. Evatt's statement in March 1946 that "the worst catastrophe which could befall the world at present would be to find suddenly that there was an unbridgeable chasm between the Soviet Union and eastern Europe on the one hand, and western Europe and the United States on the other",[28] and

---

28 Parliamentary Debates, 26th March 1946, Volume 186, p. 630.

it would also have harmonised with Australian insistence that international relief should go to both sides of the ideological frontier. On 17th August 1948, "The Canberra Times" reported that:

> "Negotiations between the Russian and Australian authorities for trade expansion have been proceeding for some time with a view to finding a suitable basis for the exchange of commodities urgently needed by both countries".

The report also said that:

> "A ship is expected to leave Australia shortly with a shipment of wheat, flour and 12 other items of Australian food products for Soviet Russia.
>
> "On return the ship will carry to Australia a large quantity of Russian paper, timber, tinned fish and other commodities, which Russia is anxious to sell to Australia.
>
> "The voyage of this vessel may be the forerunner to an extensive trade arrangement between Australia and the Soviet in keeping with other agreements which Russia has concluded recently in a trade expansion drive".

In fact, the proposed exchange did not take place, no comprehensive trade arrangement was concluded, and trade between the two countries continued on the old basis of a one-way movement of Australian wool. The negotiations seem to have been a political exercise by the Department of External Affairs, with whom it seems lay the whole initiative for the negotiations. Shipment of wheat and flour could have had little commercial value to Australia since a large permanent market for either was not believed to be likely even in eastern Russia, and the shipment to the Soviet would have had to be at the expense of more promising Australian markets. The incentive for the exchange must therefore have been either wholly political or have lain in the desire to obtain urgently needed supplies. But the newspaper report admitted that:

> "Russia has already supplied Australia with samples of her timber and paper products but, as yet, the samples supplied

have been insufficient to enable Australian manufacturers to determine their worth". 29

Although the evidence is not entirely conclusive, it suggests strongly that political pressure alone was behind the negotiations. If that is so, the timing of the negotiations is important, for in 1948 the European Recovery Programme was launched and, from March 1948, the United States had imposed severe security export restrictions against the Soviet and its satellites. Although the negotiations were unsuccessful, exports of Australian wool continued as before at a high level and, so far as can be seen, the Australian Government made no attempt to restrict Soviet purchases of any Australian exports.

However, economic mediation solely through expansion of direct exchanges between Australia and the Soviet could have had relatively little political value. The only potentially fruitful policy would have been to attempt to break down the discriminations which were rapidly intensifying between the major countries of the East and the West. There is some evidence that Australian policy accepted this as an objective, but there is little evidence that she openly spoke against policies of political discrimination in the numerous debates which the Soviet and other Eastern European countries initiated. At the Seventh Session of the Economic and Social Council in 1948, the Soviet Representative, in referring to the International Bank and the International Monetary Fund, said:

> "In [the Economic] Committee, the delegation of the Union of Soviet Socialist Republics, on the basis of reports and other sources of information, has proved beyond doubt that both agencies

---

29 "The Canberra Times", 17th August 1948.

had become instruments of United States foreign policy and of servicing the Marshall Plan. Instead of securing financial assistance for all countries which were in need of it, the two agencies had devoted particular attention to means of financing supplies to Western Europe, actuated not by economic but by political arguments thereby violating the basic principles of the United Nations and their own Constitutions, disregarding the purposes for which they had been created. As a result, countries such as Poland, Czechoslovakia and Yugoslavia, although they had been among the first to apply for loans and credits, and had suffered grave harm from Fascist aggression, had not received proper assistance from either agency. No Eastern European country had received such assistance". 30

The Australian Representative approached this issue, quite properly, on the plane of general principle, but he did not link general principle with the practical fact of discrimination and carefully avoided any criticism of the Bank's policy thus far. He "was pleased to note that there was a possibility that loans would in future be made over a wider geographical field than hitherto".[31] He agreed "that emphasis should be placed on the role of the Bank as being international...He was not altogether happy about the argument advanced by some members of the Committee that to re-state general principles, as the Polish resolution had done, was futile and implied sinister intent. He felt that at times it might be wise to make re-statements of this kind, and that to do so would not necessarily imply that the Bank was disregarding its own Constitution".[31] And finally he suggested, in reply to the claim that the Bank should direct its lending to achieve the "greatest economic productivity", that:

---

30 Official Records of the Economic and Social Council, 224th Meeting of the Council, Document E/SR.224, p. 6.

31 Official Records of the Economic and Social Council, Seventh Session, Summary Record of the Thirty-Sixth Meeting of the Economic Committee, 20th August 1948, pp. 17-20.

"Perhaps the real intention behind 'economic productivity' was expressed in the Articles of Agreement of the Bank, especially in Article IV, section 10, which stated that[1]... only economic considerations shall be relevant to their decisions, and these shall be weighed impartially in order to achieve the purposes stated in Article 1'.

"...he hoped that the Bank would continue to function according to its Articles of Agreement..." 31

The Australian Government itself had shown no unwillingness to extend at least commercial credits to countries of the Soviet bloc. On 27th September 1948, the Prime Minister announced that "arrangements for a wool purchase credit similar to that negotiated last year have been completed between the Commonwealth Bank of Australia and the Czechoslovakian authorities to cover the 1948-49 wool-selling season".[32] The amount of the credit was £Stg. 500,000.

At the Third Session of the General Assembly, in 1948, the Australian Representative said:

"The Economic and Social Council is not called on to cast a vote in favour of capitalist or socialist principles of economic organisation. Its real task is to find ways and means of organising international co-operation between countries possessing several different sorts of economic systems; between countries with varying degrees of governmental control over their internal economic affairs and their foreign trade; between countries at various stages of industrial development; between rich countries and poor countries; between countries that are large and powerful and countries that are small and weak". 33

However, when the Australian Government was called upon to consider international economic co-operation in a precise case, it attempted to give no glimmer of a solution to the General Assembly. Poland placed a

---

32 "Current Notes on International Affairs", October 1948, p. 654.
33 Statement by Dr. E.R. Walker on 3rd October 1948, printed in "Current Notes on International Affairs", January 1949, p. 146.

Resolution condemning economic discrimination before the Assembly's Third Session. In speaking to this Resolution at the Second Committee, the Polish Foreign Minister said that:

> "That kind of refusal, that kind of differential treatment undertaken arbitrarily, unilaterally and independently of any economic considerations was what the Polish delegation meant by discriminatory measures in international relations....
>
> "...In March 1948 the United States Government had decided on the establishment of licenses to be applied for exports of certain American products to certain regions and, among others, to Europe. The right of any country to limit its exports of certain commodities could not be contested provided that the limitation was applied in an equal manner to all countries. In that case, however, the differentiation between certain geo-political regions was discriminatory in character. Moreover the discrimination became flagrant because, while the licensing system was introduced for exports to Europe, the United States Government refused to issue such licenses for Eastern Europe while similar products were exported to the so-called Marshall Plan countries...
>
> "In addition, the United States Government, not content with the introduction of its own licensing system, tried obstinately to extend those discriminatory measures to other countries with which Poland maintained commercial relations and which were signatories of bilateral agreements with Poland...
>
> "...The United States was taking advantage of its economic situation in the world in order to force other countries to adopt the same discriminatory measures, even against their own interests, since they had freely signed bilateral agreements which apparently had been beneficial to both signatory parties". [34]

The chief recommendation of the Polish Resolution was "that all Members eschew the use of economic discrimination designed to apply sanctions to other countries or to influence their domestic or foreign policy".

As the United States Representative pointed out, American discrimination was not as aggressively provocative as Poland and the other

---

[34] Official Records on the Third Session of the General Assembly, Part I, Second Committee, Summary Records of Meetings 21 September-26 November 1948, pp. 156-158.

Eastern European countries alleged, but was largely a defence against the apparently aggressive intentions of the communist bloc. Nevertheless, for the United Nations, as an agency designed to promote international co-operation, to eliminate or regulate the use of force in international affairs, and to remove international frictions, there was an important issue underlying the Polish Resolution. That issue was whether unilateral or group economic "sanctions" should be freely applied by countries either of the West or of the East, or whether an attempt should be made to regulate them in some way. If the Australian Government was anxious to sustain the authority of the United Nations and to mediate between the two major blocs, it was almost equally important to attempt to regulate the unilateral use of economic power - by either bloc - as to attempt to regulate the size of armaments or other features of international relations pointing more directly towards war. However, the Australian Representative intervened in the debate only once, and then very briefly, to support a resolution which "confirmed the principles relating to non-discrimination in international trade which had been stated in the Havana charter",[35] and to support a suggestion that the Polish Resolution be withdrawn - "that solution...would remove the difficulty".[35] Subsequently, Australia voted against the Polish Resolution in Plenary, and supported, in both Committee and Plenary, a Resolution in which the General Assembly decided "to take no action". When Czechoslovakia raised the same issue at the Third Session of the Contracting Parties to the General Agreement on Tariffs and Trade, the Australian attitude seems to have been much the same. Whatever ideas of economic mediation

---

35 Ibid., p. 252.

Australia may have had in her bilateral discussions with the Soviet were, therefore, not actively put forward in the multilateral fora where, one might suppose, lay the best opportunity for achieving any useful results. It is of course possible that Australia tried, in confidential exchanges, to improve East-West economic relations, including especially trade between Eastern and Western Europe, but there is no evidence of this.

Rather surprisingly, the Labour Government's apparent leaning towards economic appeasement, seemed to carry over to the Liberal Government, for in March 1950 Mr. Spender said that

> "It is through economic relations that eventually we may be able to make the most effective contact with countries under Communist domination and through the increase of trade rebuild the contacts which have been sharply broken in the political sphere". 36

The Minister gave no details of the manner in which this line of policy might be applied, but it seemed inconsistent with the other elements of his declared policy, which had strongly advocated close economic co-operation and economic support within the Western bloc as a defence against Soviet aggression. What possible expansion of economic contact did he have in mind?

In the first place, the Minister presumably did not mean that the Western countries, including Australia, should make capital available to "countries under Communist domination". Elsewhere, he had spoken of the need "to create conditions of economic life and living standards under which the false ideological attraction which communism excites will lose its force". Presumably, therefore, whatever capital might be available

---

36 "Current Notes on International Affairs", February 1950, p. 170.

from Australia and other Western countries should first be directed to non-communist countries as a counter to the appeal of communism. Even if capital were available over and above the needs of non-communist countries, it seems that the Menzies Government would not lend or encourage other Western countries to lend to the Soviet and other communist countries for, still in the same statement, Mr. Spender had said:

> "In passing, I wish to observe one aspect of the Soviet domestic policy which undoubtedly forms a part of foreign policy, that is, the deliberate attempt to build up capital structures and to divert resources into developmental projects. This is done at great sacrifice to the people, who must go without goods which otherwise would be available to them. We tend to be complacent about the relatively advanced stage of Western industrial development. We should have in mind how quickly relative industrial capacities can change in circumstances in which governments are prepared to impose heavy sacrifices on their people in order to speed up the development of their country".

If the Minister refused to be complacent about changes in the relative industrial capacities of East and West, he would scarcely hasten the trend to the advantage of the East by use of Western capital.

It seems therefore that when he spoke of "economic relations", he had in mind principally, and perhaps solely, the "increase of trade" which he specifically mentioned. But here we come up against further difficulties. What items might contribute to the increase in trade? Apparently they would not include capital goods from Western countries since these goods would increase the relative industrial capacities of communist countries in the same way, whether paid for out of loan funds or export proceeds, though in the latter case the immediate consumption sacrifice would be greater. On the other hand, there are certain difficulties in developing trade on the basis of raw materials exports from communist countries. An Australian Government, which explicitly

regards the Soviet bloc as the enemy and which exercises a general control of imports, would hardly be willing to encourage dependence on the Soviet bloc for supplies essential to war production, industry or sustenance of the civilian population. Rather would such supplies be drawn to the maximum extent from friendly countries and only an unavoidable margin from Soviet countries. Similarly, if the Soviet is the declared enemy, any large-scale export of such commodities as iron, steel, or similar raw or partly processed products to the Soviet and her allies seems unlikely. Up to May 1951, the Australian Government did not appear to have placed any prohibitions or restrictions on exports to the Soviet bloc, except for the general embargo on export of actual military equipment, arms, and munitions. Since however Australian exports to the Soviet bloc consisted almost entirely of such commodities as raw wool, restrictions or prohibitions would presumably not be applied unless a complete economic blockade were contemplated; and it is likely that Australia, like other western countries, maintained a close watch on all exports which might have a "strategic" significance to Soviet countries. Some specific controls were imposed on 13th May 1951, when it was announced that:

> "The Australian Government has decided to impose restrictions on the export of strategic goods and materials such as aircraft parts, engines, some oils, batteries, chemicals, and pharmaceutical supplies to Hongkong and other eastern ports. The object is to prevent such exports reaching China. In addition to the prohibition on these exports Senator O'Sullivan, the Trade and Customs Minister, will have authority to refuse export licenses for certain other goods if there is suspicion about their ultimate destination and use". 37

---

37 "The Times", London, 14th May 1951.

The conflict in Korea makes the incentive for restrictions much more immediate in May 1951 than in March 1950; but even before Korea, and even if hostilities there are brought to an end, the general anti-Soviet attitude of the Menzies Government, and its anti-Soviet foreign economic policy, seems to demand that trade with the Soviet bloc be based on export of a limited range of carefully-screened raw materials and manufactures, in return for communist raw materials and perhaps some manufactured or partly processed goods, which are either non-essential or cannot be obtained from friendly sources. Quite apart from direct security considerations, there is the further general point that close economic co-operation and economic support within the Western bloc must, it seems, preclude equal treatment of the East in commercial and other economic policies. Special co-operation with any one political bloc must mean discrimination against those outside the bloc. Otherwise it loses its meaning.

From the Soviet side, the communist countries' need is mainly for capital goods, and they are likely to show the same hesitancy about permitting any long-term dependence on potential enemies for supplies of essential raw materials and manufactures. Their desire to import capital goods is largely a measure of their anxiety to achieve economic independence as soon as possible. Trade is therefore likely to be limited from the communist as well as the Australian side; and the ultimate result is likely to be a marginal trade whose sharp cessation at any time would have no major repercussions on the Australian or the communist economies.

Therefore, even if the policy of improving economic relations

between the Soviet and the anti-Soviet bloc is confined to current-account trade, existing circumstances make it unreal, for it is inconsistent with the basic premises of the Menzies Government's foreign policy. One possible foreign economic policy is that of universal economic appeasement, based on most-favoured-nation treatment over the whole field of economic relations - movement of capital, purchase of imports, and sale of exports without political discrimination of any kind. The alternative policy is that which aims at building up bloc power against another political bloc and which exercises a discriminatory flow of capital, and discrimination in its import and export trade to promote its political objectives. There might be a middle course between extreme positions of these two, but it is difficult to establish and maintain. If the Australian Government pursues its intention to apply an active and discriminatory foreign economic policy, it should be clear about what it implies. In general terms, it should be clear that it cannot obtain the advantages of political direction of economic policy, and at the same time enjoy the advantages formerly attaching to freely continuing economic contact between substantially unregulated economies. Under existing conditions of political insecurity, international economic relations generally might assist political understanding only if discriminations originating in foreign policy were substantially eliminated - that is, if the flow of trade and payments tended towards the freedom from foreign-policy influence that characterised laissez-faire relations. Otherwise, economic relations, by underlining the distinctions drawn between one set of countries and another, serve only to exacerbate political conflicts.

So far as can be seen, the Menzies Government made no attempt to follow up its declaration to foster economic relations with the Soviet bloc, either bilaterally or in multilateral discussions; and it must be assumed that this part of Mr. Spender's policy statement is now a dead letter. On the other hand, Australian adherence to the Western political and economic bloc has become even more clear-cut during the past twelve months. If Australia continues to adopt a foreign economic policy directed against some group of nations, it seems that it must accept also a limitation in the number of its effective trading partners, some periodic changes in the direction of trade and other economic relations in accordance with changes in political affiliations, and, generally, a close and continuing control of the economy by the Government. In principle, these implications might not all be readily acceptable to a Liberal Government, but might, through pressure of circumstances, be forced upon it.

4. Attachment to the United States

Since 1945, one persistent aim of Australian foreign policy has been "to strengthen Pacific security by appropriate regional arrangements in co-operation with the United States of America and other Pacific nations".[38] Wartime co-operation with the United States was intended to be projected into the period of peace, as an essential part of any plan for Australian security. At the same time - and this was especially true under the Labour Government - it was never the Australian intention to follow blindly wherever the United States might lead. "Australia", said Dr. Evatt, "has never been the satellite of any country";[38] and Australian reactions to a number of aspects of United States economic and foreign economic policy justified this contention.

Differences between the United States and Australia on full-employment policy - which virtually disappeared when the Liberal Government assumed office - have already been noted. So also have differences on relief and reconstruction policy. On 8th April 1948, Dr. Evatt said that "one of the steps which in my opinion has proved to be wrong was the liquidation of UNRRA".[39] Public statements by Ministers of the Chifley Government supported the Truman Doctrine and the Marshall Plan but there were sometimes hints that this support was not entirely unqualified. The Marshall Plan, said Dr. Evatt, "has,

---

38 Parliamentary Debates, 8th April 1948, Vol. 196, p. 749. As already noted, the Labour Government tended to place less emphasis than its successor on co-operation with the United States and more on co-operation within the United Nations.

39 Ibid., p. 749.

by its very magnitude, created a fear in Eastern Europe that the nations that will benefit by it are to form a military bloc against them".[40] These doubts may have been more precisely and more strongly expressed in confidential exchanges with the United States Government.

In the field of multilateral exchange and investment proposals, the Australian Labour Government hesitated for a long time over acceptance of the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development. The short reason was that an important section of the Labour Government, led by Mr. E.J. Ward, distrusted the two agencies as instruments of Wall Street power. There was no foreign-policy incentive for a close relationship with the United States which could overcome this refusal to subject Australia to the supposedly dubious methods of American high finance: the arguments for acceptance which finally prevailed were economic and had little or nothing to do with foreign policy. If political co-operation with the United States were necessary, it was not to be parallelled by any economic co-operation which might imperil the basis of Australian welfare policy. In general, United States economic policies had to be altered, or their influence and impact on the Australian economy kept to a minimum. This attitude seems consistently to have determined Australian policy between 1945 and 1949. If a proposal for economic co-operation with the United States could be shown to bring welfare benefits, the Australian Government would support it. Otherwise, any appeal to the foreign-

---

40 Ibid., p. 751.

policy importance of co-operation with the United States would be of little avail.

This was true in the field of commercial policy, where the Chifley Government gave limited and qualified support to American pressure for commitments on non-discrimination and reduction of tariffs and other barriers to trade. The Australian Government insisted that:

> "...paramount emphasis on reduction of trade barriers without regard to the willingness of all countries to promote world demand by adopting stable domestic full employment policies would fail to achieve the objectives of higher living standards and economic security". 41

At the Trade and Employment Conferences, therefore, while the United States fought principally to outlaw discrimination and to reduce tariffs and other trade barriers, Australia sought, first, a commitment on full employment, and then adequate releases within the principle of non-discrimination, including releases in the event that full employment were not maintained in overseas markets. More specifically, although, under the GATT tariff negotiations, some Imperial Preference margins were reduced, Australia at no time surrendered her right, in principle, to apply them, and agreed to their elimination or reduction only by process of mutually advantageous negotiations. Discussions under GATT and ITO showed little anxiety on Australia's part to make commercial-policy sacrifices for the sake of an economic alliance.

In bilateral negotiations, the same hesitancy was evident. A convention to eliminate double taxation was concluded between Australia

---

41 Report of the Australian Government Delegates to the Twenty-Seventh Session of the ILO Conference, 1945, Parliamentary Papers, General, Session 1945-46, Volume III, p. 645.

and the United Kingdom immediately after the war. The United States Government sought a similar convention, allegedly so that American businessmen operating or wishing to operate in Australia would not be disadvantaged by the heavy weight of two national taxation levies. In fact, the disadvantage was less than appeared, since any taxes levied in Australia were set against assessments made by the Government of the United States. Nevertheless, there were sound arguments and precedents for a double-taxation convention which would cover not only American nationals deriving income from Australia but also Australian nationals deriving income from the United States. However, the Labour Government declined any such convention because, while the large number of American nationals deriving income from Australia would make the Australian concession correspondingly large, there were relatively few Australians deriving income from the United States to reduce the gross concession. "Quite frankly," said the Prime Minister (Mr. Chifley), "the investigations have not yet enabled me to see any prospects of reaching a reasonably fair reciprocal arrangement, because the position in respect of trade, dividends and the like is rather one-sided. Not many people in Australia receive dividends from America, but miscellaneous payments from Australia to the United States of America other than for goods imported amount to between 90,000,000 and 100,000,000 dollars a year. There is, of course, some difficulty in making a double taxation agreement that will be, to use a diplomatic term, of mutual advantage".[42] The convention seems to have been considered entirely on this narrow

---

42 Parliamentary Debates, 11th March 1949, Volume 201, p. 1324.

financial basis. Perhaps this was justified; but encouragement to United States enterprise might have had some foreign-policy value, especially if it had been placed within a wider framework of economic co-operation. The Liberal Opposition pointed this out.

> "I have no doubt that the Treasurer (Mr. Chifley) could prove, by citing figures, that an arrangement between the United States of America and Australia, similar to that in operation between Australia and Great Britain, would favour some American industrialists who have invested capital here, and assisted Australia in developing its industries; but how small a thing that would be when set off against the goodwill we could have created by taking a more generous point of view". 43

There is no evidence of any feeling by the Government that the proposed convention might help - even in minor fashion - to form a closer political link with the United States. At the same time, it must be borne in mind that the Labour Government always tended to reject a partisan foreign policy, and there would therefore be a certain consistency in rejecting the double-taxation agreement on purely financial grounds rather than surrender these objections in order to promote a special political bond with the United States.

At about the same time, the United States Government proposed that much wider negotiations - for a Treaty of Friendship, Commerce and Navigation - be conducted by the two countries. For a very long time, this form of Treaty had been a feature of United States negotiation, and, after 1945, Treaties of Friendship, Commerce and Navigation had been successfully negotiated with, for example, China and Italy. In many respects, the postwar Treaties differed from those of the inter-war years

---

43 Ibid., Hon. H.E. Holt, 8th June 1949, Volume 202, p. 675.

by dealing, for example, with exchange control policy, transfer of earnings, exchange stability, and quantitative control of imports. In essence, however, the Treaties applied the same principles to new circumstances so as to give the United States national or most-favoured-nation treatment over the whole range of relationships with the other party to the Treaty. Presumably the Treaty which the United States proposed to the Australian Government would have been substantially the same (though perhaps not identical in every detail) as those concluded with China and with Italy.

A draft of a Treaty was first submitted to the Australian Government probably at some time in 1947, and seems to have been discussed at various times thereafter until 1949. However, the Australian Government seems to have shown no enthusiasm for it. During 1948, there was some newspaper comment on the Australian Government's failure to respond to United States overtures on the Treaty as well as other matters, and, in the Commonwealth Parliament, although the Treaty itself was scarcely mentioned, the Government's negative attitude to co-operation with the United States was criticised by the Opposition. On the foreign-affairs debate of February 1949, one journal commented that:

> "While the point was not made in the debate, it does appear that the Australian Government has not actively followed up the proposed pact of friendship with the United States which the American Government has shown willingness to conclude in the last twelve months". 44

It is possible only to conjecture about the reasons for Australian rejection of the Treaty. Assuming that the draft proposed

---

44 "The Round Table", June 1949, p. 286.

by the United States was similar to that concluded with China and Italy, then it would have obliged Australia to much the same policies of non-discrimination as those required under the International Monetary Fund, GATT and ITO, without many of the carefully drafted qualifications and essential escape clauses of those multilateral instruments and, in the case of GATT and ITO, without the general umbrella of the full-employment clauses. Furthermore, while the Australian Government might have been willing to accept commitments on non-discrimination which applied to all her trading partners, it was lesslikely that she would have been prepared to accept those commitments in a bilateral agreement with the very country against whom, for exchange reasons, she was most likely to find herself compelled to discriminate. On virtually every clause, the advantage would probably have rested with the United States. In principle, Australia would have tied her hands on preferences, discrimination, taxation, and other matters, no more than equally with the United States; but in practice only Australia did, or was likely in the future to want to, resort to an important extent to most of the policies and practices which, we may assume, would have been forbidden by the Treaty. It should also be noted that in 1948 and 1949, the future of GATT and ITO was still uncertain and that the Australian Government itself was not finally committed to either instrument, although it had expressed its readiness to accept them. Economic reasons for rejection of the Treaty are therefore not hard to discover.

The political significance, if any, which the Australian

Government attached to the Treaty, is nowhere made clear. The only fact which is certain is that the Government apparently did not expect to derive from the Treaty a foreign-policy benefit which would offset the economic sacrifices which it would be called upon to make. It is of interest however that, in a statement to the House of Representatives in September 1948, Dr. Evatt had again declared that one of the guiding principles of Australian policy was the formation of a regional security system in the Pacific, in co-operation with the United States, and the Government's interest in the economic development of South and South-east Asia in the cause of political security had been expressed on numerous occasions. Taking these two points together, one is led to wonder whether the Australian Government ever attempted to link the Treaty with some agreement more directly political in character or even to replace it with such an agreement. One of the principal objectives of Australian foreign economic policy must be to obtain the full and active co-operation of the United States in promoting economic well-being in South and South-east Asia, and agreement with the United States - expressed even in informal and imprecise terms - to adopt a joint economic policy in the area of Australia's principal security concern might have taken Australian policy a long step forward. There is however no public record that any such agreement was ever attempted.

When the Menzies Government took office in December 1949, a close relationship with the United States became more sharply significant, since the "independent" international approach of the Labour Government - which, in any case, had been weakened by events - was explicitly abandoned. The Soviet, with its communist allies, became the declared enemy, and a

corollary was to forge the closest possible political and economic links with the United States. The new Minister for External Affairs (Mr. Spender) said in March 1950:

> "I have emphasised how essential it is for Australia to maintain the closest links with the United States for vital security reasons. But our relations with the United States go further than that. We have a common heritage and tradition and way of life. During the war we built up a firm comradeship with our American friends. This friendship must, however, never be taken for granted...
>
> "Indeed, so far as possible, it is our objective to build up with the United States somewhat the same relationship as exists within the British Commonwealth...
>
> "...Our economic policies can be influential in promoting the political objectives which I have outlined to Honourable Members, as well as serving our commercial interests.
>
> "For example, it is highly desirable for Australia that the political affinity of Commonwealth countries and Western Europe on the one hand, with the United States and Canada on the other, should not be disturbed by conflicts in commercial and other policies. For a variety of good reasons sterling countries like Australia have been obliged by the disequilibrium in world trade to adopt short-term policies restricting trade and overseas payments. It will be the desire of the Government to co-operate in broad measures in which all countries play their appropriate part to overcome exchange problems so that a single multilateral currency system is restored, and unnecessary restrictions abolished.....
>
> "Australia will, therefore, conduct her foreign economic policy with these major considerations in mind. We will aim at greater co-operation with other sterling countries and seek to overcome the difficulties which prevent the development of our commercial and cultural relations with the United States,...". [45]

With these considerations immediately and directly in mind, Mr. Spender supported the conclusion of a double-tax convention and a Treaty of Friendship with the United States. His approach was in accord with his general statement that friendship with the United States "must...never be taken for granted": though political and economic relations were good

---

45 "Current Notes on International Affairs", February 1950, pp.167 and 170.

they might be improved by the conclusion of formal agreements and placed on an assured basis of comity. "Economic conditions in Australia," he said, "together with Australia's record in business practices, assures security and many profitable opportunities for United States and other investors in Australia. Australia's ability and willingness to meet commitments, the Australian Government's and the Australian businessman's observation of recognised and fair business practices is well known throughout the world. However, in business relations, it is not always sufficient to rely on past reputation, though it is fundamental. To provide a formal framework within which business and commerce can be promoted, we are discussing with the United States Government the possible conclusion of a Treaty of Friendship, Commerce and Navigation, and of a Convention on the question of taxation. By these and other means the Government hopes to assist trade with the United States and to stimulate, with proper safeguards, the flow of American capital for the development of this country".

Despite this statement, it will be recalled that the Australian Delegation at the Eleventh Session of the Economic and Social Council was very anxious to render innocuous that paragraph of the Full-Employment Resolution dealing with discrimination.[46] Before the final vote on the Resolution, the Australian Representative made the following statement:

> "The words 'along the lines envisaged in the relevant international agreements' were intended to make it clear that the resolution did not impose any obligations in relation to trade policy which would go beyond those envisaged in the Havana Charter as provisionally applied under the General Agreement on Tariffs and Trade. The provisions of the Charter and of the

---

46 See page 348 supra.

General Agreement had been very carefully drafted, and it was generally understood that the Council had not attempted, in its resolution, to substitute a more general statement for those instruments. Furthermore, the Australian Government did not regard the resolution as committing the Australian Parliament on the question of participation in the International Trade Organisation or continued participation in the General Agreement on Tariffs and Trade. The attitude of the Australian Parliament in those matters might vary according to its experience with the actual operation of the General Agreement and the commercial policies actually followed by other countries". 47

It seemed therefore that Australia might reject both GATT and the ITO Charter;[48] but, as already noted, the draft Treaty of Friendship presumably contained many of the same provisions, without some of the safeguards and releases contained in the multilateral instruments. If Australia rejected ITO and GATT, therefore, she would seem unlikely to conclude a Treaty of Friendship with the United States, in its usual form; and, in any event, the Government's obvious doubts about ITO and GATT suggest that it could show little real enthusiasm for the Treaty. One important point is that, when in Opposition, the Liberal and Country Parties objected to ITO and GATT largely through their impact on Imperial Preferences. If therefore the Treaty proposed any substantial commitment on tariff preferences, it might be on this point that negotiations would break down, even though - and this is still problematic - agreement were reached on discrimination between the sterling and dollar areas on exchange policy and investment. In any event, if any negotiations have been undertaken since the Menzies Government assumed office, they have

---

47 Official Records of the Economic and Social Council, Eleventh Session, Document E/SR. 412.

48 Australian doubts were re-stated by the Acting Prime Minister (Rt. Hon. A.W. Fadden) on 16th August 1950, in announcing Australian participation in the tariff negotiations which commenced at Torquay in September 1950.

so far reached no finality.

So far as dollar investment in Australia is concerned, the Menzies Government has not borrowed directly from the United States Government but it did successfully approach the International Bank during the latter half of 1950 for a loan amounting to $100 million, with the prospect of a further $150 million in two years. Even though this loan was from the International Bank, it suggests that the attitude of the Menzies Government to dollar investment in Australia - with its continuing dollar obligations - is somewhat easier than than of its Labour predesessor. If there may be this relaxation of investment policy, however, there has been, as already suggested, no apparent relaxation of commercial policy so far as concessions to the United States on imperial preferences are concerned. At the tariff negotiations under GATT held at Torquay in late 1950 and early 1951 no new tariff agreement was concluded between Australia and the United States. The preference issue was the stumbling block, and it seems that the Menzies Government was no more - and perhaps even less - able to fit this issue to the wider pattern of economic and political co-operation with the United States than its predecessor had been. "The Economist" commented that:

> "The blame for failure cannot be attributed until more is known of the specific differences on which the talks foundered; but wherever the blame may lie, there seems to have been a surprising blindness to the wider political issues that were at stake at Torquay". 49

The importance of the Torquay failure should not be exaggerated; but it does not fit happily against the background of the declarations of the

---

49 "The Economist", 7th April, 1951, p. 816.

Australian Government in favour of improved economic co-operation with the United States, including co-operation in South-east Asia generally and, in particular, co-operation in implementing the Colombo Plan for Economic Development in South-east Asia.

In conclusion, it might be noted that, in a speech to the Australian-American Association in Melbourne in March 1950, Mr. Spender said:

> "We have...a special and singular interest in acting in concert with America in the affairs of the Pacific and Asia.../The United States and Australian Governments/ agree the situation in South-east Asia calls for urgent action - and action of a positive nature. Having gone so far, Australia-U.S.A. relations should not be allowed to remain there. The next step is to work out together our policies and plans in relation to the Western Pacific and South-east Asia, and, in fact, any other area, or in relation to any specific situation in which Australia can play some part in the problem of maintaining peace, and take its share of the burden. We for our part will do all we can to give impetus to our thinking and to evolve concrete plans of action. But we would welcome, and the great Republic of the United States will find us responsive to any suggestion it may be prepared to make as to how we may sit down to our task and as to the occasion". [50]

This co-operation with the United States in "the Western Pacific and South-east Asia" might not need any formal instrument of agreement. In fact, it might be more satisfactorily achieved on an informal basis of full and constant consultation similar to that existing among members of the British Commonwealth. However, a relationship as intimate as this needs a mutual understanding of each other's special problems, interests, and antipathies, and a mutual readiness to make sacrifices in order to remove any points of friction, even in minor or apparently trivial fields of economic policy. The strong community of political interest between the United States and Australia is likely to override many small points

---

50 "Current Notes on International Affairs", March 1950, p. 228.

of economic conflict. How much economic-policy sacrifice Australia may be called upon to make depends on the real significance that the United States Government attaches to such things as modification of British preferences in the Australian tariff, conclusion of a Treaty of Friendship, and agreement on minor matters like double taxation, and on the extent to which disagreement does any damage, in practice, to co-operation between the two countries on wider political issues. If at any time frictions in commercial, investment, and other policies threaten the intimacy of the association with the United States, the Australian Government presumably must face the problem of finding means of treating the United States, in respect of these policies, on a basis of complete equality with other countries, including the countries of the British Commonwealth.

5. The United Kingdom and the British Commonwealth.

Before 1939, it was true to say that, "while the members of the British Commonwealth have been becoming distinct persons in international law, their own constitutional law has preserved the essential bonds which unite them to each other".[51] But the link was always a great deal stronger than international law and, certainly among the units of the Commonwealth whose populations are predominantly of British stock, that is still the case. Before the war, however, left-wing opinion in Australia sometimes opposed any too close a link in foreign policy between Australia and the United Kingdom and, in particular, rejected the idea that Australia would automatically follow the Mother Country into any war. A section of Labour Party opinion believed that in any war, Australia should stand aloof in righteous socialist isolation. For example, on 6th June 1937, the "Labour Daily" said: "Australian Labour has declared for the policy of absolute isolation and strict neutrality because it believes that whether war is to be conducted under the aegis of the League of Nations or in opposition to the League powers, fundamentally it has the same origin in the acquisitive instinct of the capitalist powers".[52] Labour's attitude towards Commonwealth co-operation - which meant presumably involvement in Commonwealth arguments - was therefore in some measure suspect. Soon after the Curtin Government took office in 1941,

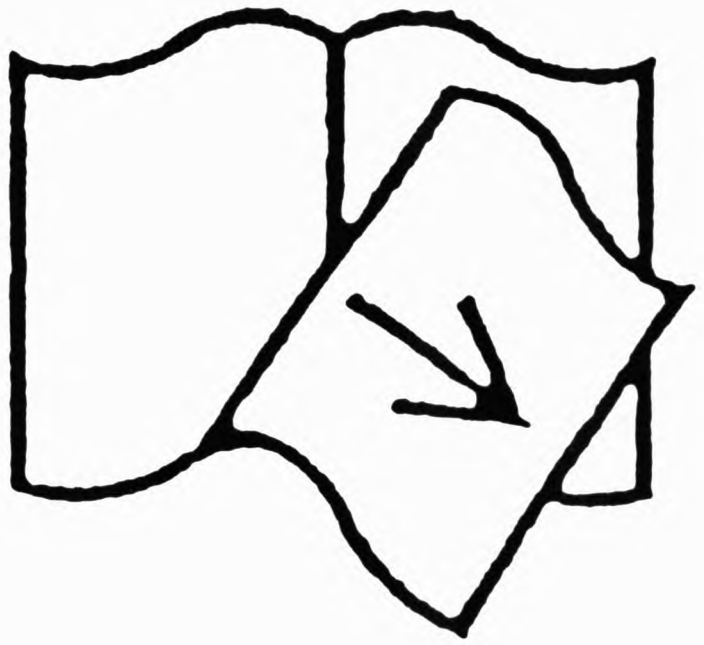
---

51 W.K. Hancock, "Australia", op. cit., p. 217.

52 Quoted from H.L. Harris, "Australia's National Interests and National Policy", op. cit., p. 122.

PAGE(S) MISSING NOT AVAILABLE

386



"Australia's dilatoriness in endorsing the Statute of Westminster"[53] was brought to an end, but though this formally completed Australia's constitutional progress to full independence, it marked no real change in the spirit of Australian co-operation with the United Kingdom and other members of the British Commonwealth. In 1946 Dr. Evatt said that "each Dominion has grown in stature in the international field, yet family partnership remains steadfast, specially in times of greatest crisis".[54] Neither did the attempt to develop collective security within the United Nations affect Australia's part in the older and less formal collective security system of the British Commonwealth, although as noted previously the Labour Government gave more significance to United Nations membership and less to bilateral relationships than did the Liberal Government which succeeded it. To quote Dr. Evatt once again, this time in 1949:

> ".....Australia has a dual status in her international relations, first as a member of the British Commonwealth of Nations, and secondly as a member of the United Nations. In each, our country plays an important and often leading role.
>
> "It is sometimes suggested that there is opposition in Australia's two positions. This is entirely wrong. On the contrary, they strengthen and reinforce one another.....
>
> "Equally it is a falsification of facts to suggest that the British Commonwealth is becoming weaker and less effective.....
>
> "In truth, the United Nations and the British Commonwealth have the same objectives - peace, justice and higher standards of welfare for all people. By supporting the United Nations and working together to advance its objectives, the members of the Commonwealth are in fact advancing their common ideals and incidentally their own interests". [55]

---

53 H.L. Harris, Ibid., p. 130.
54 Broadcast on the B.B.C., 10th May 1946, printed in "Australia in World Affairs", op. cit., p. 192.
55 Statement of 17th January, 1949, printed in "Current Notes on International Affairs", Vol. 20, No. 1, January 1949, pp. 108-109.
Dr. Evatt's views on Commonwealth co-operation are especially significant because he has been responsible, more than any other Australian statesman of recent years, for developing an "independent" Australian foreign policy.

Very briefly this sets the well-known context of the Australian attitude to co-operation with the United Kingdom and the other members of the British Commonwealth. Our concern here is however not with the general features of co-operation but with the special question of how economic policy has been directed, if at all, to bind the units of the Commonwealth into a tighter political alliance. Two points must be made at the outset. The first is that economic relations between the United Kingdom and Australia are so important for purely economic reasons that it is often extremely difficult to determine whether, and to what degree, any act of economic co-operation between the two has had any foreign-policy motivation. In the second place, the countries of Commonwealth Asia have, since 1945, assumed a new significance, and use of economic policy as an instrument for the maintenance and improvement of political relations with these countries has become so important that it will be treated separately. For the most part, this section will be concerned with Australian relations with the United Kingdom.

It is unnecessary to dwell at length on the well-known intimacy of economic ties between Australia and the United Kingdom. If anything, these ties have been strengthened rather than weakened since 1939. War-time wool, wheat, and other commodity purchases gave way in the case of commodities such as wheat to bulk-buying, and in the case of such commodities as meat, to long-term contracts. Wool, which was returned to open auctions in 1947, enjoyed almost continuously rising prices in world markets, and resumed its accustomed place in the markets of the United Kingdom. Nevertheless, although post-war markets were eager for Australian exports, there was no though of discarding preferences granted by the United Kingdom. The view persisted that the long-term

United Kingdom demand for Australian meat, dairy products, dried fruits, and other commodities, might well be diminished if the terms of foreign competition were equal. Despite a good deal of pressure at GATT and ITO Conferences, Australia insisted on retaining virtually every preference of real advantage, and agreed to reductions of preferences only when a clearly advantageous concession could be obtained in return. The United Kingdom and other Commonwealth countries supported the Australian stand, and, as a result, Article 16 of the International Trade Organisation Charter excepts British Commonwealth Preferences from the most-favoured-nation principle and Article 17 provides for their reduction or elimination only after mutually advantageous negotiations.[56] The General Agreement on Tariffs and Trade provides similarly. At the "second round" of tariff negiotations under GATT held at Annecy during 1949, virtually no new modifications of British Commonwealth Preferences were negotiated, although Denmark and Greece, both of whom are closely concerned in preferences in the United Kingdom market, entered the negotiations for the first time. At the Torquay negotiations under GATT in 1950-51, attachment to preferences seems to have prevented any new agreement between the United States and most Commonwealth countries, including Australia.

There was little or nothing in this policy of careful retention of preference that had its origin in foreign policy: any such grand conception as a British economic alliance to ensure political solidarity

---

56 See Articles 16 and 17 and Annex A of the Havana Charter for an International Trade Organisation. It should be noted that new preferences are forbidden.

had long become dated. Preferences were retained simply and wholly for commercial advantage. The Department of Commerce and Agriculture, not the Department of External Affairs, was responsible for the Australian policy. It is even possible that the latter Department might have wished some greater modification of preferences in the interests of wider international co-operation, although if at any time it pressed this view, it had no practical effect on Australian policy.

It is true that the approach to preferences did have a significant though vague background of recognition of the importance of the British link. Sir Edward Grigg has suggested that "whatever the prospects may be they cannot justify any radical departure in this country [the United Kingdom] from the principle of 'the British family first'. It is not possible for us to make that principle the subject of a bargain, because nothing could compensate, either in British or world interests, for a reaction in policy which would infallibly, if gradually, undermine the unity of the Commonwealth. That, and nothing else, is the issue at stake".[57] In the Australian approach to preferences, there is an admixture of this type of sentiment but it can scarcely be described as part of foreign policy. No one would seriously suggest that the United Kingdom-Australia link depends to any real extent on the preference system. That system may be an additional advantage, but the link itself is based on much more secure foundations of common race, history, a common crown and common social, economic and cultural

---

57 Sir Edward Grigg, "British Foreign Policy", p. 137.

institutions[58]. So far as foreign policy is concerned, there is little question that the system could readily be discarded without loss, if that were required, for example, to develop greater political solidarity with Western Europe and the United States; and, though it seems less likely now than in 1947 or 1948, preferences may still be substantially modified or may even be eliminated in the interests of Western Union and British-American co-operation.

Although preferences may not be important to political relations with the United Kingdom, they may be to relations with the new Dominions of Commonwealth Asia: that is where any foreign-policy value of the preference system may lie. In another part, Sir Edward Grigg says:

> The British Empire and Commonwealth "is not the product purely of political or constitutional wisdom, though this has been essential to it. It is not the creation of purely British sentiment, much as that sentiment has counted in keeping it intact. It owes its strength, and in some essential ways its cohesion, to the economic policy pursued by its leading members during the last fifty years, and economic policy will continue to be essential to both". 59

The same intense ties of race, sentiment, and many of the other intangibles[60] which link, for example, the United Kingdom to Australia or Australia to New Zealand do not operate to bind the countries of Commonwealth Asia to other members of the Commonwealth, and the hard realities

---

58 Dame Enid Lyons said in the House of Representatives on 26th March 1946 that: "The Minister (for Information, Mr. A.A. Calwell) must know that to be a member of the British Commonwealth of Nations imposes upon us certain obligations, just as to be a member of the United Nations imposes upon us certain obligations. I though that his expression of regard for Great Britain was one of the strangest that I have ever heard. He said that anyone who now wished Australia to break away from Britain was either mad or bad, because we could not survive without Great Britain. I am sure that this suggestion of cupboard love doesnot do justice to his feelings. I believe that the Minister, in common with other honorable members opposite, have higher motives for their attachment to Great Britain than the purely selfish one which he suggested" (Parliamentary Debates, Vol. 186, p. 621).

59 "British Foreign Policy", op. cit., p. 130.

60 British rule has, of course, influenced the political, economic and social attitudes of the countries of Commonwealth Asia, and has consequently established some important common heritage.

of economic advantage will consequently be of much greater relative importance to these Asian members. Australia may therefore have to pay less attention to the political and even the economic advantages of preferences with the United Kingdom and more attention to preferences and similar economic advantages accruing to the countries of Commonwealth Asia, through the Commonwealth link.

One major aspect of Australian policy since 1945 has been extension of economic assistance to speed United Kingdom recovery. There were two motivating elements in this policy, as indicated by the following comment:

> "Australia will naturally watch the U.K.'s recovery efforts and achievements with great interest. Our kinship with the people of the United Kingdom will alone ensure that. But we have our mundane interest as well - the interest of keeping our pockets lined with international money. To do this, we depend very substantially on the U.K. commodity markets for the sale of our exports and on the London exchange market and the convertibility of sterling for our capacity to maintain a multilateral trading system.
>
> "Or, at least, we have depended on the United Kingdom in these ways in the past, and I think that there can be little doubt that we will continue to do so. The United Kingdom at the present time is providing the market for about 40 per cent of our total exports, or in value terms, about £100 m. in a total export figure of £250 m. for the six months ended 31st October, 1948. In 1947-48, 37 per cent of our exports were sold to the United Kingdom; in 1946-47 the percentage was 28. In pre-war years the percentage was in the region of 49.
>
> "The significance to Australia of U.K.'s recovery is obvious from this series of percentages. If it should fall short of its recovery programme, we must expect it to review its spending on imports, including those from Australia. The extnet of the import cuts under such circumstances depends of course on the balance of payments gap which had to be faced. I do not propose to enter into conjecture about how large this gap may be and the consequent damage to our exports, but failure to live up to the programme would immediately involve us in the export problem which I have briefly identified". 61

---

61 A.S. Brown, "Prospects of United Kingdom Recovery", ANZAAS Papers, January 1949. (Published in "Economic Record" Supplement, August 1949).

The Australian Government made grants totalling £35 million[62] to the United Kingdom, even though Australia still had a large sterling debt in the United Kingdom whose repatriation had been deliberately postponed so that the sources of United Kingdom invisible earnings would not be further diminished. There were other less obvious but even more valuable acts of assistance, including limitation of internal food consumption in order to maximise exports to the United Kingdom, and the most careful control of dollar spending to conserve the sterling area's dollar resources. In 1948, Dr. Evatt said that "the people of this country and the Government of this country, with the approval of the Parliament, are doing everything possible to assist Great Britain. I remind the House of the £25,000,000 gift which was passed unanimously by the Australian Parliament, of our undertaking to live within our sterling income, and our rationing of meat and butter in Australia so that the people of Great Britain shall be supplied with those commodities. Food rationing has practically disappeared from every country, except a few countries in the British Commonwealth. I remind the House of the sale of our entire gold output to Great Britain to help ease its dollar situation. Into the dollar pool of the Empire, which is administered by the United Kingdom, approximately 400,000,000 million was paid by Australia during the war".[63]

---

62 Note that this was greater than the total of all other external assistance given by the Australian Government between 1945 and 1950 including contributions to UNRRA and post-UNRRA relief, and assistance to South-East Asia.

63 Parliamentary Debates, 8th April, 1948, Vol. 196, p. 745. Another £10 million gift was later added to the £25 million referred to by Dr. Evatt. It should be noted that this later £10 million was intended to help not only the United Kingdom but Western Europe as a whole. The Australian gift would reduce the burden of United Kingdom sterling assistance to Western Europe.

These policies were no doubt linked with the widespread Australian conception of the importance of the United Kingdom economy to Australia. But they did not draw their whole inspiration from that conception. In very large part, they originated in the strong sentimental attachment of Australians for the people of the United Kingdom - they were a simple gesture of help to people who were, literally in many cases, members of the same family. Perhaps in a sense they were linked with foreign policy. But there was little or no conscious intention to extend help so that the closer links thereby created would ensure United Kingdom aid in any future emergency. The links were already too close for any need of "insurance" policies. Rather was any foreign-policy element to be found in the desirability of ensuring that a certain ally would be as strong as possible in any emergency. This strand in the web of Australian foreign economic policy should not be neglected, even though it is not always expressed, but rather is taken as an unchanging and unchallenged background to policy.

We may say therefore that, for reasons of sentiment, welfare, and security, the closest possible co-operation with the United Kingdom will remain a prominent feature of Australian policy. For the most part, it is true that, fundamentally, this co-operation "does not depend on pacts and agreements"[64], although, as Dr. Evatt pointed out in 1948, "special interests"[64] might make it desirable to conclude particular agreements between members of the Commonwealth from time to time. One

---

64 Parliamentary Debates, 8th April, 1948, Vol. 196, pp. 745-6.

example of such an agreement was that signed by Australia and New Zealand in 1944. The importance of this and any similar agreements which might be concluded in the future is not that they alter or enhance the fundamental harmony between members of the British Commonwealth, but that they put this fundamental harmony to greater foreign-policy advantage. By and large, however, Commonwealth co-operation - including economic co-operation - is likely to continue to depend principally on informal but frequent consultation among Commonwealth countries, both at Ministerial and official level. Apart from frequent Commonwealth conferences, regular consultation on economic matters is already effected through such official bodies as the Commonwealth Liaison Committee and the Sterling Area Statistical Committee. Within the framework of Ministerial and official consultation, the plan for aid to South-east Asia has been devised and brought to the threshold of implementation. The way in which this plan unites welfare and political objectives is likely to continue to mark Commonwealth consultation in the future.

To conclude this section, two major differences between postwar Commonwealth relations and those of the interwar period may be noted. The first concerns the fact that, before the war, London was the unrivalled Commonwealth centre. Commonwealth relations comprised, for the most part, the relations of each Dominion with the United Kingdom: direct co-operation between two or more Dominions other than through the common association with the United Kingdom was comparatively unimportant. That has now changed. Canberra, Wellington, Colombo, Delhi, Karachi, Pretoria and Ottawa have now an importance for one or other

aspect of Commonwealth relations which make them centres almost equally with London. Moreover, Australian relations with the United Kingdom are no longer of sole or overriding significance: relations with New Zealand, with India, with Pakistan, and the other members of the Commonwealth might be equally important, or even, in some cases, of greater significance to Australian foreign policy. The lines of Commonwealth relations no longer radiate from the single centre of London, but criss-cross from a number of centres which place varying emphasis on different aspects of Commonwealth affairs. In many ways, this development makes for strength but it also makes for complexity in post-war Commonwealth relations.

The second change is one that has hastened the trend noted in the first. It is the emergence of the countries of Commonwealth Asia as independent political units. This has increased the need for Australian co-operation with the United Kingdom and New Zealand in particular, not only or perhaps even primarily for the direct benefits that will bring, but for the indirect purpose of co-operating to meet the problems of Commonwealth Asia and South-east Asia generally. The Anzac Pact was the most formal expression of the need for this co-operation, but other activities, including most notably the Colombo Plan for aid to South-East Asia, are equally illustrative. Dr. Evatt suggested this special incentive for co-operation with the United Kingdom and other Commonwealth countries, when he said that:

> "The fact that India is undergoing enormous constitutional changes, and that there must be changes in Burma, Indo-China, Indonesia and in other countries, illustrates in a dramatic

fashion that the solution of the problems that we have to face are difficult, and that the results may be of acute importance to Australia. We must maintain the closest possible co-operation with other members of the British Commonwealth, and especially with the Government of the United Kingdom". 65

---

65 Parliamentary Debates, 26th March, 1947, Vol. 191, p. 1176.

6. Commonwealth Asia.

Before the war, Australian relations with India, Pakistan and Ceylon could, in large part, be conducted indirectly, through the United Kingdom. That is now changed, and Australia must, on all matters whether political or economic, deal directly with the wholly autonomous Governments of the three new Dominions. As a result, Australian understanding of Commonwealth Asian problems, and her direct concern in them, have undergone a rapid development; for "just as far as the peoples of South-East Asia cease to be dependent upon the decisions of European Governments, so far do Australia's interests in the councils of South-East Asia increase".[66] Under the new conditions, even though Australian relations with the United Kingdom - and Asian relations with the United Kingdom - remained unmarred, dangerous frictions could develop between Commonwealth Asia and Australia. The South African dispute with India exemplifies the danger.

However, so long as these three countries retain membership of the Commonwealth they may be expected, a priori, to be on especially close and friendly terms with Australia. Largely for this reason, the Australian Government has striven to preserve the Commonwealth link.

In June 1947, Dr. Evatt said:

> "Australia's view on the broader problems confronting India must remain as expressed in my statement to the House on 26th February last, when I said that Australia, as a member of the British Commonwealth enjoying a status of complete freedom, of autonomy in both domestic and foreign policies, looked forward to the achievement by India of a similar status and a similar

---

66 H.V. Evatt, House of Representatives, 26th February 1947, Parliamentary Debates, Vol. 190, p. 164.

freedom. The peoples of India could pursue all their national aspirations while maintaining the link by which all members of the British Commonwealth are bound together. The complete severing of the links which join the British and Indian peoples would be greatly prejudicial to them both and to all mankind". 67

However, the mere existence of this link cannot solve all problems. The emergence of the Asian Dominions gave a changed character to the British Commonwealth. It "brought in nations with tremendous resources, ...[and] 68 individuals of tremendous value to the councils of the Commonwealth". But it also meant that frictions within the new Commonwealth might be more frequent and serious than among the older Dominions. Intra-Commonwealth relations were likely to take on increasingly the forms of foreign relations. Vis a vis Commonwealth Asia, Australia would derive a big initial advantage from common Commonwealth membership, but in spite of this - or rather because of it - Australian Governments recognised the need to attend as carefully to Commonwealth Asian relationships as to those with non-Commonwealth Asia.

A further point - relating directly to foreign economic policy - was involved. During a foreign-affairs debate in February 1949, in reply to an Opposition request for increased attention to Commonwealth economic co-operation, the Minister for External Affairs denied that sixteen years had really elapsed since there had been a full-dress economic conference attended by representatives of all members of the British Commonwealth. "As a matter of fact", he said, "every British Commonwealth conference now is also an economic conference". 69 Problems

---

67 Parliamentary Debates, 6th June 1947, Vol. 192, p. 3692.
68 Ibid., H.V. Evatt, 9th February, 1949, Vol. 201, p. 83.
69 Parliamentary Debates, 17th February 1949, Vol. 191, p. 478.

of post-war reconstruction - including especially sterling-area dollar difficulties - have been primarily responsible for the prominent place which economic questions have occupied in Commonwealth discussions. But the need to pay greater attention to both immediate and long-term economic needs in Commonwealth Asia was an additional factor.

In February 1947, before the future relationship of India to the Commonwealth had been decided, Dr. Evatt followed his hope that India would remain within the Commonwealth with the suggestion that the Commonwealth association could contribute to a solution of India's economic problems:

> "The contribution Britain has made to India has been of inestimable value, especially in the field of engineering, communications, industrial and other technical developments...
>
> It is necessary, by means of constant and closer relationships with India for Australian industries to make a substantial contribution to the solution of India's problems, which are fundamentally problems of the organisation of industry and agriculture. India's resources are great, and with assistance, that country can increase its productive capacity to meet the urgent requirements of its people. Eventually, India must play a leading part in contributing to the welfare and security of the nations whose interests are similar". 70

Again in 1948, the Prime Minister, in referring especially to Commonwealth Asia, said that "Commonwealth countries will endeavour to strengthen their own economies and do all in their power to assist in the development of others and thereby bring about conditions in which democracy can thrive".[71] Here was a substantial part of the approach used later in the Colombo Plan.

Meantime, expansion of current-account trade was one of the most direct and continuous means by which the objective of economic development of Commonwealth Asia - and economic co-operation with Common-

---

70 Parliamentary Debates, 26th February, 1947, Vol. 190, p. 165.
71 Rt. Hon. J.B. Chifley, Parliamentary Debates, 2nd December 1948, Volume 200, p. 3896.

wealth Asia - could be promoted. In 1947, Dr. Evatt, having quoted "most striking" figures to illustrate the increase in South-east Asian trade which had already taken place, forecast a further "spectacular growth" in the future. The figures on which he depended, and figures for subsequent years, are set out in Table 12. The real increase in trade has not been as great as the value figures suggest; but even so there has been a large increase in commodity exchanges between Australia and Commonwealth Asia since 1939. Moreover, although total Commonwealth Asian trade and total Australian trade have both increased considerably the percentage of total Australian trade which is carried on with Commonwealth Asia has tended to increase and so has the percentage of total Commonwealth Asian trade carried on with Australia.

In 1938-39, 1.60% of Australian exports went to India, whereas in postwar years the percentage was as high as 9.16 in 1945-46 and (excluding trade with Pakistan) was still 6.0 in 1949-50. On the import side, the 1938-39 figure was 2.96, the peak postwar figure was 8.54 and the figure for 1949-50 (once again excluding Pakistan) was 5.2. The figures for Ceylon are not so impressive. A little more than one per cent of Australian exports went to Ceylon in 1938-39, and this percentage was at its postwar peak of 3.53 in 1945-46. Since then, it has steadily fallen away and in 1949-50 was almost exactly one per cent again. On the import side, much the same trend was apparent. In 1949-50, Australia drew 1.7 per cent of her supplies from Ceylon as compared with 3.30 per cent in 1945-46 and 0.87 per cent in 1938-39. One point to be noted, therefore, about the percentage figures in Table 12 is that the relative importance of Commonwealth Asia to Australian

Table 12. **Australian Trade with Commonwealth Asia, by Value and as a Percentage of Total Australian Trade.**

Year	India[1]				Ceylon			
	Exports		Imports		Exports		Imports	
	£A'000	%	£A'000	%	£A'000	%	£A'000	%
1938-39	1,965	1.60	3,588	2.96	1,327	1.08	1,050	0.87
1939-40	2,116	1.41	7,359	5.21	933	0.62	848	0.60
1940-41	2,874	2.13	8,764	6.59	824	0.61	663	0.50
1941-42	7,573	4.74	13,853	7.54	1,063	0.67	1,495	0.81
1942-43	6,997	5.57	18,580	7.10	3,571	2.85	5,033	1,93
1943-44	10,148	6.92	23,656	9.93	6,969	4.75	4,356	1.83
1944-45	15,799	10.18	18,406	8.75	6,840	4.41	4,498	2.14
1945-46	18,045	9.16	11,442	6.54	6,950	3.53	5,764	3.30
1946-47	13,029	4.22	17,444	8.54	7,116	2.30	6,570	3.22
1947-48	26,689	6.5	26,698	7.9	10,213	2.5	8,133	2.4
1948-49	25,986	4.8	25,874	6.2	8,801	1.7	7,512	1.8
1949-50	37,034	6.0	27,664	5.2	6,070	1.0	8,937	1.7

Source: Overseas Trade Bulletins, Commonwealth Year Books, and, for 1949-50, Quarterly Summary of Australian Statistics, September 1950.

1 Excludes Pakistan from 1st July 1948.

Table 13. **Commonwealth Asia - Total External Trade in Merchandise with all Countries.**

	1938		1948		1949	
	Imports	Exports	Imports	Exports	Imports	Exports
	(Annual total value in million United States dollars)					
India	563	609	1,419	1,295	1,753	1,227
Pakistan	-	-	254	262	424	266
Ceylon	86	104	300	306	289	293

Source: "Economic Survey of Asia and the Far East 1949", United Nations 1950, Table 63, p. 200.

trade, which was built up during the war, has tended to slip away in postwar years. Although much of the gain - with India at least - has so far been held, the tendency has been for the overwhelming relative importance of United Kingdom, European, and North American trade to reassert itself since the war.

Table 13 shows the increase in total Commonwealth Asian trade since 1938. These figures are not completely satisfactory, if only because of the difficulties of comparison caused by emergence of the new State of Pakistan. However, they show a general picture in which Indian (including Pakistani) imports in 1949 were almost four times as great, in value terms, as in 1938, while exports were almost two and one-half times as great. Ceylonese imports had increased more than threefold, and exports almost threefold, over the same period. As shown in Table 12, however, Australian exports to India in 1948-49 were almost thirteen times as great as in 1938-39 and her imports from India were about seven times as great. For Ceylon, exports had increased almost sixfold, and imports sevenfold. It appears therefore that Commonwealth Asian trade with Australia was increasing at a much more rapid rate than was the trade of Commonwealth Asia as a whole.

How far the present increases in trade are likely to be permanent is difficult to say. Much will depend on the extent to which present living standards in Commonwealth Asia can be maintained or increased through internal policies and through such external assistance as that provided under the Colombo Plan for economic development. Furthermore, if the recent increases in Australian exports have been mainly in food items and the Commonwealth Asian countries aim at self-sufficiency in food,

Australian exports to those countries in the future are likely to fall away sharply. That leads to the question, what has been the composition of Australian trade with Commonwealth Asia in postwar years?

As before the war, Australian exports to Commonwealth Asia still consist mainly of foodstuffs and raw materials, together with some manufactured consumption goods. One source commented in 1949 that "one of the most striking features of the post-war picture is the remarkable increase in Australian wheat and flour exports to India which, on the average, have been worth about £11 million annually since 1945-46 and which rose to almost £22 million in 1947-48";[72] and says again that "probably the most significant change in our exports to Ceylon has been the increase from £150,000 to £5.3 million in the annual value of our flour and wheat shipments".[73] In 1949-50, out of a total of £37,034,000 exports to India, £34,962,000 covered exports of foodstuffs of animal or vegetable origin. For Ceylon, these items amounted to £5,710,000 out of a total of £6,070,000. Australia does not supply, in any large quantity, the capital goods urgently needed by Commonwealth Asian countries. In 1949-50, exports of metals, metal manufactures, and machinery amounted to £856,000 to India, and £85,000 to Ceylon, and these were the largest non-food exports by Australia to either country. By and large, Commonwealth Asia still depends on Europe, North America, and - as production recovers - Japan, for its supplies of capital goods.

> "There is evidence...that there was a further increase in the import of constructional materials and plant equipment in 1949 [by the countries of the ECAFE region] as plans for development of

---

72 "Current Notes on International Affairs", March 1949, p. 385.
73 Ibid., p. 387.

industries were put into execution. Deliveries from the United Kingdom and Europe became more rapid and the improvement in Japanese production enabled several countries - notably India and Thailand - to obtain substantial quantities from Japan....

"The incomplete figures on trade in iron and steel show, in general, considerable increases in 1949 as compared with 1948, especially the imports into Ceylon, India and Indo-China. The United Kingdom was the chief supplier of iron and steel to most countries of the region, but Belgium also supplied considerable quantities. The Philippines continued to import mainly from the United States, which also shipped a certain amount to Hong Kong.....

"The United Kingdom and the United States were also the chief suppliers of machinery to the countries of the ECAFE region...But in 1949 Japan greatly expanded its exports of machinery to these countries and in particular to India and Thailand. The United States was practically the sole source of machinery imports of the Philippines and Indonesia. It also supplied considerable quantities to India, Pakistan, China (including Manchuria and Taiwan), Hong Kong and Malaya. The United Kingdom was India's principal supplier and also a significant source of supply to Malaya, Pakistan, Hong Kong and Ceylon". 74

In general, Commonwealth Asian trade, apart from the very substantial proportion concentrated within the region of South and South-east Asia itself, is still oriented predominantly towards Western Europe and the United States, and any recent increases in Australian trade should be set against that background.

Assuming that mutually advantageous commercial relations between Australia and Commonwealth Asia have a political as well as a commercial significance, it is of interest to consider the centre of Australian Departmental activity for expansion of trade with the three Asian Dominions. So far, there is little evidence that the Minister or Department of External Affairs has, in co-operation with the Trade

---

74 United Nations, "Economic Survey of Asia and the Far East 1949", Lake Success 1950, pp. 237-238.

Departments, taken active steps to expand trade with Commonwealth Asia. Dr. Evatt, in a statement quoted previously, linked trade between India and Australia with political understanding between the two countries. But in the same statement, although he quoted figures showing how Australian trade with Asian countries had increased, he offered no evidence that the External Affairs Ministry had been responsible for any part of the increase nor did he propose any specific measures for maintaining this expansion or assisting it still further. In March 1950, Mr. Spender said: "We live side by side with the countries of South and South-East Asia, and we desire to be on good-neighbour terms with them. Above all, it is in our interest to foster commercial and other contacts with them and give them what help we can in maintaining stable and democratic governments in power, and increasing the material welfare of their peoples".[75] Elsewhere in his statement, Mr. Spender described the Australian Government's plans for special aid to South-East Asia, but at no point did he outline any concrete plans to expand normal "commercial..contacts". Presumably any such plans were to be left to the trade Departments with External Affairs a closely interested but passive observer.

The trade Departments have actively promoted trade with Commonwealth Asia. The Department of Commerce and Agriculture, for example, has directed an important part of the energies of its trade-promotion service to Commonwealth Asia, and expanded its Trade

---

75 House of Representatives, 9th March, 1950, printed in "Current Notes on International Affairs", February 1950, p. 160.

Commissioner representation there. However, no comprehensive trade agreement was ever negotiated with India, Pakistan, or Ceylon, although the Department of Commerce and Agriculture seems to have recognised the potential value of such an agreement. Tariff negotiations were conducted with India, Pakistan, and Ceylon, in 1947, within the framework of the General Agreement on Tariffs and Trade. In 1948, the Department of Commerce and Agriculture claimed that "the conclusion at Geneva of a tariff agreement between Australia and the Dominions of India and Pakistan is the most important step which has yet been taken in the development of trade between these countries".[76] But the Department seemed to look beyond this: "it is quite possible that when private negotiations are resumed with representatives of India and Pakistan, the present tariff reductions may give way to a properly comprehensive agreement on the 'favoured nation' principle".[77] This "properly comprehensive agreement" was not concluded.

The type of trade agreement which Australia might negotiate with India, Pakistan and Ceylon in the future will depend to a large extent on whether Australia accepts ITO - the United States rejection now makes this unlikely - or continues to apply GATT. Both of these agreements forbid new preferences, except in the special circumstances set out in Articles 15 and 44 of ITO. Therefore, although preferences might be much more important to foreign policy when applied to the countries of South-East Asia than to political relations between the

---

76 Department of Commerce and Agriculture, "Overseas Trading", Vol. 1 February 1948, No. 9, p. 12.
77 Ibid., p. 13.

United Kingdom and Australia, it is unlikely that they can form part of Australian foreign economic policy while Australia is bound by either multilateral instruments. This might - though it is doubtful that the point has been given much consideration - be one of the reasons for the Menzies Government's hesitations about the trade Charters. Quite apart from GATT and ITO, however, it has already been suggested that Australia might be forced to look more closely at British preferences in general, if they seem likely to damage relations with the United States. In Australia's bilateral, political relations, therefore, there might be a tendency for two contrary influences to operate on the preferential tariff system. On the one hand is the United States pressure for modification of the system, and on the other there might be some political gain to be had from new preferences for Commonwealth Asia.[78] If the present United States attitude to preferences remains unchanged in the future, Australia will presumably first seek for methods other than tariff preferences to enlarge trade with Commonwealth Asia.

On a number of occasions after the War, trade discussions for purchase and supply of specific commodities were held between Indian and Australian Ministers and officials. For example, on 5th September 1949, the Australian Prime Minister announced that:

> "Consequent on the visit to Australia of the Secretary to the Indian Ministry of Commerce (Mr. C.C. Desai), towards the end of 1948, talks between the Indian Ministry of Commerce and the Australian High Commissioner in India have been taking place at New Delhi. These have consisted of the exchange of information on the availability in each country of commodities important

---

78 Existing preferences extended by the United Kingdom to Commonwealth Asia may, of course, have the same, though indirect, importance to Australian political relations with Commonwealth Asian countries.

to the economy of the other. Where controls exist, each country has endeavoured to the best of its ability to arrange allocations of commodities as requested.

> "In accordance with the understanding reached during these discussions, Australia is prepared to allow the export to India of butter, cheeses, processed milk, lead, zinc and, where possible, capital goods. India has agreed to release for export to Australia jute goods, cotton textiles, manganese ore, linseed and linseed oil, castor oil and coal.
>
> "Both Governments have recognised the value of these talks in securing supplies of essential commodities". 79

Postwar discussions of this kind seem to have been aimed entirely at commercial advantage, and to have received no special stimulus or direction from foreign policy. Nevertheless, they have no doubt provided an enlarged understanding of trade possibilities between the two countries, which should assist relations - commercial and perhaps political - in the future.

We may expect expansion of current-account trade to continue to form part of Australian policy towards Commonwealth Asia. But Australian foreign economic policy is likely to be expressed mainly through programmes of capital and technical assistance. The hub of these programmes will presumably be the Plan for economic assistance which developed out of the Australian proposal put forward at the Colombo Conference of Commonwealth Foreign Ministers in January 1950.

The need for aid to South and South-east Asia had been recognised by Australia for a long time - by the Chifley Government equally with its successor. However, as already suggested, the Menzies Government adopted a more direct bilateral or group approach to its foreign-policy objectives than the Chifley Administration which relied heavily - almost exclusively - on action taken through

79 "Current Notes on International Affairs", September 1949, p. 1009.

the United Nations. In a statement on 7th February 1950, the Prime Minister referred to Mr. Spender's report on the Commonwealth Foreign Ministers' Conference in Colombo, in which "Mr. Spender comprehensively reviewed the present international position, including the spread of Communism in South and South-East Asia; ....[and] outlined the general scheme for economic aid to Asia and South-East Asia which he had advanced at the Colombo Conference, which entails among other things the examination by each Government of the possibility of affording bilateral assistance for essential productive purposes by way of either financial or technical assistance to countries in this area. The Minister's recommendation included the establishment of a consultative committee for the consideration of proposals for the economic development of this area, keeping in view the possibilities of mutual assistance, the review of measures which each Commonwealth Government decides it can apply and the co-ordination of programmes of technical assistance and the exchange of information on the really essential needs of the area, and examination of the possibility of determining some long-term development objectives ....."[80] Here was the framework of the Colombo plan. As it has developed, it has become the core of Australian foreign economic policy in the Pacific.

A "Commonwealth Consultative Committee on South and South-East Asia" was created and met in Sydney in May 1950, in London in September-October 1950, and in Colombo in February 1951, to give detail to the Plan.

---

80 Press statement by the Rt. Hon. R.G. Menzies on the Commonwealth Foreign Ministers' Conference, 7th February 1950. Note that, as this quotation suggests, the Australian Government seems initially to have had in mind "bilateral assistance" perhaps loosely integrated by a Committee, rather than a comprehensive "plan".

From the London meeting emerged a comprehensive Report on "The Colombo Plan for Co-operative Economic Development in South and South-East Asia"[81], which was "based upon a series of careful and detailed surveys of existing conditions...prepared for the Committee's consideration by the Governments of Ceylon, India, Pakistan, the Federation of Malaya, Singapore, North Borneo and Sarawak"[82].

The Report presented a comprehensive programme of development for these Commonwealth Asian countries over a six-year period beginning in July 1951. The Programme was "largely concerned with increasing the agricultural output and improving basic services such as roads and railways and the development of new sources of power"[83]; but it also took account of industrial development, social services, health, and education. The programme's total cost was set at £1,868 million, and, to cover the balance-of-payments deficit resulting from the programme and from other external expenditure, external assistance amounting to £1,084 million sterling would be needed. But even this vast programme was, "realistically conceived, no more than a holding operation, designed not so much to raise the standard of living in Asia, but to prevent the decline that the incessant growth of population will otherwise inexorably produce"[84]. This - the effect on living standards - is

---

81 Published as Cmd. 8080 (United Kingdom), 29th November 1950.
82 Statement issued by Commonwealth Consultative Committee, 5th October 1950, printed in "Current Notes on International Affairs", October 1950, p. 730.
83 Ibid., p. 731.
84 "The Economist" 2nd December 1950, p. 928. The Report itself acknowledged that "the programmes will do little more than hold the present position" (Cmd. 8080, p. 44). On the other hand, the Committee's statement of 5th October referred to "the urgent need to improve...standards of living", and said that the programmes outlined the minimum development necessary to give "real hope of an improvement in...living conditions".

the really operative consideration, and of much greater relevance to political objectives than the contention elsewhere in the Report that "in all the countries the programmes represent a considerable acceleration in the present rate of development".[85]

Even within this "holding operation", the emphasis was on self-help. While, for example, India would need £Stg. 818 million from external sources, she would herself provide £772 million from internal finance; and, for all the countries concerned, the external assistance of £Stg. 1084 million, would be matched by internal expenditure totalling £Stg. 1030 million. This approach to self-help was eminently sound; but it was significant that, even when external sources were being called upon to meet only the margin of developmental needs beyond the maximum that could be provided internally, these external sources could aim at no more - or, as the Report said, "little more" - than to hold living standards at their existing level. This is not, in fact, surprising; but it underlines the immensity of the task in South and South-east Asia, and especially emphasises the likelihood that the danger of a sudden decline into widespread economic distress - with its consequent political dangers - will persist for a long time yet to come.

Moreover, the £1,084 million to be found externally was to come from all possible sources, and not merely from within the Commonwealth. For example, it would be necessary "to enlist financial support of international agencies",[86] and, although "the Colombo Plan had to be drawn up on the assumption that the Americans would not take part...

---

85 Cmd. 8080, p. 42.
86 Consultative Committee's statement of 5th October, op. cit., p. 731.

year, in view of the larger requirements of the programmes in the earlier years, the Government would make available up to seven million pounds sterling (eight and three quarters million pounds Australian).

> "This was in addition to the sum which the Government had already agreed to contribute to the Commonwealth Technical Assistance Programme for South and South East Asia - approximately three and a half million pounds Australian". 90

What has been the political motivation of the Colombo Plan, and what are its political objectives? Mr. Spender has insisted that:

> "It was vital from Australia's viewpoint to help maintain and to promote, both economic and political stability in the area and to assist in preparing the way for a large-scale attack against poverty, social unrest and extremist ideologies". 91

He first put his proposals forward at Colombo "because the economic situation in South and South-East Asia lies so close to the international political problems that arise in particular parts of the area";[92] and he has continually linked the Plan with frustrating "those whose efforts are directed to disruption".[93]

This has been the accepted background to policy, but, as far as possible, the Plan has unfolded and has been elaborated as an economic exercise - as an effort to raise welfare standards in the most populous region in the world. There has been no evident attempt to fit the Plan at every step to the objectives of foreign policy. The Report of the Consultative Committee was for the most part silent on political issues - which seems to confirm that "what the plan was never intended to do is to make any political calculations about the dangers either of external aggression or of internal rebellion".[94] Only at one or two

---

90 Statement by the Hon. P.C. Spender, 20th December 1950, printed in "Current Notes on International Affairs", December, 1950, p. 886.
91 Ibid., p. 886.
92 House of Representatives, 9th March 1950.
93 Statement to Commonwealth Consultative Committee, Sydney, 15th May 1950, printed in "Current Notes on International Affairs", May 1950, p. 340.
94 "The Economist", 2nd December 1950, p. 928.

points does the Report comment, in general terms, on the need for "grappling with the problem of promoting the economic improvement which is indispensable to social stability, and necessary to strengthen .... free institutions".[95]

There are two main reasons for this: Firstly, the Plan has welfare objectives which are tremendously important in themselves, not only for the countries of South and South-East Asia, but also for other countries of the Commonwealth and Western Europe. For example, the United Kingdom must take the closest interest in the full restoration of South-East Asian production as a means of closing the dollar gap through a return to something like the triangular commodity exchanges with the dollar area which made a multilateral payments balance possible in pre-war years.[96] The second - and probably more important - reason is that economic aid from the West should never be linked too closely with Western political objectives, for Asian countries are still prone to suspect, for the slightest cause, some veiled return of the old imperialism. Economic aid must therefore not be used - or even appear to be used - to impose on the countries of South and South-East Asia a political system favourable to the West, or to place Asian countries in a political straitjacket from which the cost of release would be a sharp and severe reduction in investment and in living standards. It has been abundantly clear that, although Asian countries are "pathetically conscious of their poverty",[97] and although most of them exert constant pressure to secure

---

95 Cmd. 8080, p. 1. See also para. 15, page 3 of the Report.
96 This is recognised in paragraph 5, pp.1-2 of the Report. It is possible that some people see the Plan primarily as a dollar-earning project, rather than as an exercise in foreign economic policy.
97 "The Economist", 2nd December 1950, p. 928.

additional amounts of Western capital, the suspicions of some countries, especially Indonesia and Burma, that foreign investment still goes hand-in-hand with foreign domination, have by no means yet been set at rest.

From the outset, the Colombo Plan was intended to extend to the non-Commonwealth countries of South and South-east Asia; and "the Commonwealth Consultative Committee at its meeting in Sydney in May, 1950, agreed to invite the non-Commonwealth countries of the area to join in discussions in the hope that they would become participants in the Colombo Plan".[98] This non-Commonwealth participation will be considered separately in the following section.

---

98 Statement by Consultative Committee of 5th October 1950, op. cit., p. 730.

7. South-east Asian Preoccupation.

The focus of Australian concern since 1945 has been not only Commonwealth Asia, but the region of South and South-east Asia as a whole. Within this region are a number of independent foreign countries, many of which have attained their independence only since the end of the war. Pre-war Australian policy towards this area was vague and unformed. As indicated previously, there was a growing awareness of the vital importance of the "Near North", but, for the most part, attention was concentrated on Japan rather than on the countries closer at hand. Moreover, even so far as Japan was concerned, there was little evidence of any energetic, well-sustained policy to protect Australia's security position in the Pacific. Still less was there any evidence that economic policy was being linked with Pacific security. If anything, the incident of Trade Diversion suggested rather that economic policy might be allowed to frustrate the objectives of Australian foreign policy.

Attempts to remedy these pre-war deficiencies were rapidly set in train after 1945. The reasons are not far to seek. Firstly, the development of a more active and independent Australian foreign policy meant a closer attention to the areas of vital Australian security interest. Secondly, the easy Japanese progress through South-east Asia to New Guinea and the other northern islands had underlined the need to secure the northern approaches. Thirdly, the emergence of independent states in South-east Asia created a new situation making direct relations with South-east Asian countries imperative, instead of the indirect relations of pre-war years maintained, if at all, through the metropolitan countries. Moreover, this trend towards independence

continued long after the end of the war and is still continuing for areas under European control: "one effect of the war has been to release new nationalist forces in South-east Asia which Australian policy must take fully into account and which must be regarded realistically and with understanding".[99]

These factors set the general background to Australian concentration on South-east Asia. In addition, however, this regional concentration had a distinctive economic emphasis, for a number of mutually supporting reasons. Firstly, the major need of the area has been for rapid economic development. "The communities of South-east Asia are from the economic point of view only half developed", said Sir Frederick Eggleston in 1944. "The primary equipment of these countries, their transport and communications, etc., are scanty. Industrialisation in its earlier stage exists in a few. Here are vast masses of humanity whose production per man is small and whose consumption is correspondingly limited.....They need some of the economic machinery which the western world has built up to stimulate their activities and raise their standards of life".[100] Secondly active Australian concentration on South-east Asia coincided with the end of a war and the beginning of a period of reconstruction in which the Australian Government's greater control over economic affairs offered an enlarged opportunity to implement a foreign economic policy. Thirdly, Australian industrial potential and overseas balances increased during the war to a point where (i) substantial exports of manufactured, including capital, goods might be

---

99 H.V.Evatt, House of Representatives, 6th June, 1947, Parliamentary Debates, Vol. 192, p. 3687.
100 Broadcast by Sir F.W.Eggleston, Australian Minister in Washington, over the Columbia Broadcasting System, 24th Nov., 1944.

possible, and (ii) Australian capital, either private or government, might be made available to finance the purchase of Australian exports. Australia seemed to be nearing the stage of the capital exporter, and to be approaching industrial maturity. Furthermore, the countries whose need for capital and capital goods was greatest were those countries immediately to the north which Australia seemed in a good position to supply. There was a widespread feeling in Australia, at the end of the war, that markets for the products of Australian secondary industry would be needed, and should be secured, especially in South and South-east Asia.

Australian foreign economic policy pointed in the same direction. Dr Evatt said in 1945:

> "Pacific security is vital to us: but such security will have to be patterned within the supreme objective of world security. At the same time, there is full scope for a regional as well as a global attack on the problem of security. So much is expressly recognised in the San Francisco Charter.
>
> "A just and lasting system of Pacific security depends upon its adequacy to take care of the growing and changing needs of all the Pacific peoples. They ought to be assured of a full opportunity to live in freedom from want as well as in freedom from external aggression. If peoples of South-east Asia and the Pacific, who are now submerged in the direst poverty, or who are living the life of primitive tribes, getting a bare subsistence, could be raised to a higher level of human well-being, if the human and economic potentialities of these peoples and the countries in which they live could be developed, America, Australia and all other Pacific nations would also derive very great benefit. But these benefits will not accrue unless we can banish the spectre of war from the Pacific. We cannot expect an improvement of human welfare, a development of industry, or an increase of trade, if a contest for supremacy in power is being fought over the area. Nor, on the other hand, can we avoid political unrest unless human wants are satisfied to a greater degree than at present; and political instability will invite military movements and engender the contest for military power". [101]

The Australian Government had only limited means available to implement this policy. In the first place, its diplomatic influence

---

101 Address by Dr. H.V. Evatt to the Herald Tribune Forum, New York, 29th October 1945, printed in "Australia in World Affairs", op. cit., p.77.

was at best that of a middle power; and, in the second, Australia's economic resources, although rapidly increasing, were still tiny in relation to the tremendous needs of South-east Asia. What means has the Australian Government employed?

As for Commonwealth Asia, so for South-east Asia generally, expansion of current-account trade is an obvious first step in the development of enlarged economic co-operation. It has already been recorded that Dr Evatt often touched on the political advantages likely to accrue from expanded trade with South-east Asia. In June 1948, in defending the Goodwill Mission to South-east Asia led by Mr W. Macmahon Ball,[102] he declared that, although the Mission had no direct concern with trade, "our trade relations with those countries are of supreme importance".[103] The attitude of the Menzies Government was the same. Mr Spender's general policy statements have already been quoted. More specifically, in August 1950, when a trade mission was sent to Djakarta to negotiate a trade arrangement between Australia and Indonesia, the Minister for Commerce and Agriculture (the Hon. J. McEwen) gave a wider significance to the mission than mere commercial advantage. He said that:

> "Indonesia is a natural market for Australian flour, milk and other foodstuffs as well as a wide range of manufactures. Based on present day values Australia's pre-war trade with Indonesia would be worth about £5 million, but current exports are but a fraction of that amount.
>
> "Indonesia is an important source of supply of tea, coffee, spices, kapok, vegetable fibres, and petroleum products.
>
> "Australia is interested in the general economic development of the countries of South and South-east Asia. The expansion of trade and commerce between these countries and other major trading nations could be one of the principal factors in raising living standards in the area". 104

---

102 See page 428 infra.
103 Parliamentary Debates, Volume 197, p. 1608.
104 "Current Notes on International Affairs", August 1950, p. 586.

Despite this policy, Australian trade with most of the countries of South-east Asia outside Commonwealth Asia, has shown an uncertain recovery since the war. If we take an overall view of trade with South-east Asia, as has sometimes been done,[105] an appearance of general trade expansion as compared with pre-war years, emerges. For example in 1949, it was claimed that, before the war, Australian imports from India, Ceylon, Malaya, China, and the Netherlands East Indies averaged about £A12.3 million annually, or about 10.5 per cent of total imports, and that exports to these countries were approximately £A6.8 million annually, or 4.8 per cent of total exports. Since the war, however, it was pointed out that imports had averaged £A30 million annually (11.6 per cent of total Australian imports), and exports had reached £A41.5 million, or 13.4 per cent of total exports.[106] Almost the whole of this expansion, was, however, due to the increase in trade with Commonwealth Asia - and most particularly with India - and the total figures concealed the trade reduction or trade stagnation which had ruled with other countries in the area. "The volume of trade with the Orient", said one trade journal in 1951, "has varied little from the 1930's, but the war and post-war difficulties, both physical and financial, have caused some changesin its distribution. India has now become the most

---

105 See, for example, the impression left by Dr. Evatt in his statement in the House of Representatives on South-east Asian trade on 26th February, 1947. The same impression is given by aggregate trade figures contained in an article on South-east Asian trade in "Current Notes on International Affairs", March 1949, pp. 383-399. This article does, however, quote trade figures for individual countries as well, and points out areas where trade has declined.

106 These figures are from "Current Notes on International Affairs", March 1949, p. 389.

important market, accounting for about 40 per cent of the value of all Australian Eastern trade last year (that is, in 1949-50)."[107] The discouraging trade figures for Australian trade with non-Commonwealth Asia are of course mainly due to political disturbances in many of those countries, and it may be expected that trade will expand as those disturbances disappear, and the countries affected are able to devote their full energies to restoration of production and external trade. So far, however, the figures in Table 14, although unfortunately incomplete, show that, even in value terms, trade is not yet running at pre-war levels in some cases, and that the effectiveness of Australian commercial policies in these countries has yet to be clearly established. For example, Australian exports to Indonesia in 1949-50 were little more than one-third of their 1938-39 value, and to China were only one-sixth of their value in 1938-39. Presumably, trade with China will decline still further in the immediate future. Exports to the Philippines were about one-third as much again in 1949-50 as in 1938-39 but this increase was no doubt more than absorbed by price rises. For Thailand and Burma, the figures in 1947-48 showed a brighter trend, although continuing disorders in Burma have prevented any stable expansion of trade relations since that year. From the import side, the 1949-50 figure for China showed a substantial increase over 1938-39, although the real increase in trade is once again obscured by price rises, and, especially as a result of the Korean fighting, imports from Communist China are likely to fall away sharply in the future. Imports from

---

107 The Melbourne and Brisbane Chambers of Commerce, "Trade", March 1951, p. 9. In "the Orient" is included, not only Commonwealth Asia, China, Indonesia and other countries of South and South-east Asia, but also Japan.

Table 14. Australian Trade with Non-Commonwealth South-east Asia

Australian Imports.

Year	China	Indonesia[1]	Burma	Philippines	Thailand
	£A	£A	£A	£A	£A
1938-39	519,258	8,009,758	29,952	137,682	3,432
1945-46	95,550	71,062	319	645	84
1946-47	1,147,940	213,446	15,013	3,779	15,790
1947-48	1,667,335	4,418,649	22,735	48,181	19,651
1948-49	2,541,953	11,096,867	n.a.	14,000	n.a.
1949-50	1,451,000	14,750,000	n.a.	68,700	n.a.

Australian Exports.

Year	China	Indonesia[1]	Burma	Philippines	Thailand
	£A	£A	£A	£A	£A
1938-39	3,022,571	1,379,600	59,228	498,893	119,494
1945-46	885,226	1,808,263	300,244	116,241	2,078
1946-47	6,067,211	485,865	1,241,121	454,011	110,247
1947-48	2,756,945	131,590	1,992,128	256,379	245,524
1948-49	1,438,413	1,285,486	n.a.	514,400	n.a.
1949-50	502,000	507,000	n.a.	654,000	n.a.

Source: Compiled from official publications of the Commonwealth Bureau of Census and Statistics, the Department of External Affairs, and the Department of Commerce and Agriculture.

1 "Indonesia" covers the same area as the former Dutch East Indies, and includes Dutch New Guinea.

Indonesia in 1949-50 were almost double their value in 1938-39, and might increase to a further substantial extent as a result of the agreement concluded by the Australian trade mission of August 1950. From the other three countries listed in Table 14 - Burma, Philippines, and Thailand - Australian imports, on the latest figures available, were negligible.

So far as can be seen, expansion of trade in non-Commonwealth Asia - as in Commonwealth Asia itself - has been left to the trade Departments of the Australian Administration. The Department of Commerce and Agriculture has carried on energetic trade-promotion work throughout the area; it has expanded its trade representation; and it has tackled a wide variety of specific export problems, such as maintenance of a high uniform quality in Australian exports, adequate packaging of consignments, and so on. But these are the normal tasks of a commercial organisation; they have received no special inspiration, so far as can be seen, from those responsible for Australian foreign policy. Dr. Evatt spoke vaguely in February 1947 of creating a "regional instrumentality" for South-east Asia, which would improve the "interchange of basic information" on, among other things, "commerce"; but no concrete proposals emerged subsequently. For foreign policy as well as economic reasons, the Australian Government supported, for example, the trade-promotion activities of ECAFE, but any independent activity of real substance was left, so it seems, entirely to the trade Departments.

The only really active foreign economic policy in South-east Asia has been that associated with capital and technical assistance to the countries of the region. This policy commenced with UNRRA, although no

attempt was made to direct all Australian relief supplies to the countries of Asia and the Far East.

Australian contributions to UNRRA totalled £A24 million. The principal recipient of Australian aid was China, who received food, clothing, medical supplies, and agricultural and industrial equipment to a value of about £A8 million.[108] However, the second largest beneficiary was Italy, and almost the whole of the Australian contribution of raw wool - valued at more than £A10 million - went to European countries. Apart from China, no South-east Asian country received substantial assistance from Australia. A large part of the reason for this lay in the fact that Australia, very naturally, made available those commodities which were in best supply. That meant, in the immediate post-war years, a considerable emphasis on supplies of raw wool, which had accumulated during the war. These raw wool supplies could most profitably be used in Europe. Therefore, although it would have been logical to use the large relief contribution to give concrete expression to Australian concern for Asian needs, the opportunity was largely lost through the need

---

108 Details of the country and commodity distribution of the Australian contribution to UNRRA are included in Parliamentary Debates, Volume 192, 15th May to 6th June 1947, pp.3695-3698. The allocation listed there for China is £A6,563,000, but this does not seem to include the contract for fifty locomotives which would increase the allocation by about £1,500,000.

From these figures also, it appears that, of the total contribution of 55,000 metric tons of raw wool, 41,000 metric tons went to Italy, Poland and Czechoslovakia, and the remaining 14,000 metric tons were divided among Albania, Austria, Byelorussia, China, Greece, Ukraine and Yugoslavia.

The only Far Eastern country, other than China, mentioned in this statement as a recipient of Australian supplies is the Philippines, which is reported to have received supplies to a total value of £A77,000. Supplies of meat and meat products accounted for £A74,000 of this total.

for foreign policy to make concessions to the demands of the supply position.

Extension of aid to China provides a number of interesting points. Firstly, the aid could scarcely have been less effective. Blackmarketing and chaotic internal conditions were largely responsible, but incapacity to understand Chinese conditions also contributed. For example, Australian fishing boats, although made to UNRRA specifications, were not entirely suited to Chinese conditions and, in any case, were left idle after delivery because, since their catch would have depressed fish prices, the fish merchants refused - successfully - to permit their use. Secondly, the Australian Government negotiated to have fifty locomotives included in Australian relief shipments. The Australian Government was at that time trying to develop markets in South-east Asia for the products of the greatly expanded Australian engineering industry. Australian policy was to take positive steps to create "opportunities for developing overseas markets for many of the goods that she had been producing successfully during the war".[109] However, those who negotiated

---

109. E.Ronald Walker, "The Australian Economy in War and Reconstruction", page 328.

Again, in an article entitled "The Commonsense of Australian Support for UNRRA" in "The Australian Quarterly" of June 1946, Mr G.C.Remington, Chief Administrative Officer of the South-West Pacific Area Office of UNRRA commented that:

> "Through UNRRA Australia may secure a large order for locomotives for China, thus opening up interesting prospects for the future of heavy industry here. Large numbers of modern, powered fishing boats are being sent to China from Australia and New Zealand....
>
> "Such examples of the creation of interest and knowledge of what Australia can do and what Australia has to offer can be of great material value when the time comes, as it will within two or three years, when our maintenance of full employment will depend largely upon our ability to secure overseas markets" (p. 56).

It is interesting that this article emphasised the commercial advantages to Australia from the UNRRA programme, but referred only in passing and platitudinous terms to the possibilities of improved political relations in the Far East. Reference was made to the political advantages of personal contact between many Australians and Chinese but not to the general thesis later underlying the Colombo Plan, for which the UNRRA programme in the Far East might have been, in many respects, the spiritual forerunner.

the locomotives contract did not foresee the tremendous domestic demand for the products of Australian industry. Under pressure of this demand, the dateline for delivery of the locomotives was put back again and again and the contract had not been completed when UNRRA finished its operations in the Far East or when the Communist regime was firmly established on the whole of the Chinese mainland. No further attempt was made to supply to South-east Asia large consignments of the products of heavy industry.[110]

When UNRRA was terminated, Australia contributed £A4 million to Post-UNRRA Relief. This total was divided so as to contribute "approximately £A860,000 to the International Refugee Organisation, £A1,000,000 to the International Children's Emergency Fund, £A90,000 to the U.N.E.S.C.O. Reconstruction Fund, and the remainder, less a small amount to meet contingencies, to general post-UNRRA relief".[111] The IRO contribution was directed solely to Europe. The ICEF contribution was applied to meet the needs of children in war-devastated areas throughout the world, but in practice assisted European more than Far Eastern countries. Most of the general post-UNRRA relief took the form of supplies of raw wool to European countries. There was left, for specific allocation to the Far East, the £A90,000 contribution to the UNESCO Reconstruction Fund, and surplus military clothing and other supplies, valued at about £A400,000, made available under general post-UNRRA relief. This seems a meagre allocation to the region of principal foreign-policy interest in Australia.

---

110 Large quantities of rails were, however, successfully supplied about the same time as the locomotives contract was negotiated.
111 "Current Notes on International Affairs", February 1948, p. 82.

Of the £A90,000 contribution to the UNESCO Reconstruction Fund, £A60,000 was to be "expended on the granting of Fellowships to Asian students and the remainder for the provision of educational materials".[112] The general post-UNRRA relief assistance comprised about £A400,000 worth of surplus army clothing, boots and similar items which had little domestic disposal value. On the basis of this assistance, Dr. Evatt announced on 16th May 1948 that "he was arranging for Mr. W. Macmahon Ball, accompanied by an educational and supply officer and an officer of the Department of External Affairs, to visit the countries concerned to arrange for the selection of scholars to come to Australia and, in some cases to arrange for the sending of relief supplies....Dr. Evatt emphasised that he attached a great importance to these positive steps to promote international understanding, and hoped that Mr. Ball's visit would strengthen the ties of friendship between Australians and the peoples of South-east Asia".[113]

The idea of a Goodwill Mission to South-east Asia was quite sound. Extension of aid - even on a small scale - was also, in itself, well-conceived. But it was disastrous - and savoured of empty exhibitionism - to link a Goodwill Mission with assistance which was, so far as the surplus army goods were concerned, ill-chosen, and which was in any event pitifully small in relation to needs and even in relation to assistance being extended by Australia to other countries. Moreover, the decision to send the Mission seems to have been announced before the host Governments were properly consulted. The Mission made a tour

---

112 "Current Notes on International Affairs", June 1949, p. 714.
113 Ibid., June 1948, p. 354.

punctuated by extremist attacks on Australian immigration policies and on the insulting and parsimonious nature of Australian charity. On 3rd June, 1948, an Opposition Member said in the House of Representatives:

> "I direct the attention of the Attorney-General (Dr. Evatt) to a report from Singapore, dated the 2nd June, in which it is said that a storm of hostile comment has broken out in Singapore against Australia on the eve of the arrival of the Australian goodwill mission, led by Mr W. Macmahon Ball. The report states that the influential Progressive party has issued a statement in which it denounces the mission as a 'mockery', refers to the gifts it bears as 'the traditional thirty pieces of silver', and complains about the immigration policy of the Australian Government. Can the right honorable gentleman say whether any enquiries were made in the countries to which the goodwill mission in going to discover whether it would be welcomed or received in a hostile manner? Does the Minister not think that it is unwise to send a mission to countries that bear ill will to Australia because of our immigration policy, and that the visit of the mission may tend only to increase that ill will?". [114]

In reply, Dr. Evatt said "enquiries were made in the South-east Asian countries by the Australian Government before (the mission) left Australia".[115] However, in reply to further questions in the House a little more than a week later, he admitted that "the press published a statement that the goodwill mission was projected", before the South-east Asian Governments had been informed of the Australian Government's intention. "But", he said, "I think that the Governments of South-east Asia knew of the proposal before the official announcement was made".[116]

After the Mission's return to Australia, the aid programme was, fortunately, carried through in a quiet and unostentatious way, much more appropriate to its magnitude and its nature, and to the delicate susceptibilities of the recipient peoples.

The project to send surplus military clothing and other supplies

---

114 Parliamentary Debates, Volume 197, p. 1607.
115 Ibid., Volume 197, p. 1608.
116 Ibid., Volume 197, p. 1920.

to South-east Asia was of negligible importance. Nor was there much foreign-policy value in the provision of educational materials, if only for the reason that the amounts involved were far too small. An amount of £A2,500 each was allocated to Burma, China, Ceylon, India, Netherlands Indonesia, Pakistan, the Philippines, the Republic of Indonesia, Siam, and each of the constituent territories of British South-east Asia (Federation of Malaya, Colonies of Singapore, Sarawak and North Borneo). Supplies consisted mainly of visual aid equipment, textbooks and "Australian information libraries", consisting of sets of 75 "typical Australian books".

Potentially, there was a much greater and continuing value in the provision of scholarships and fellowships to South-east Asian students. In addition to the Reconstruction Fund programme, the Australian Government made provision in January 1948 for expenditure "of £5,000 a year for the establishment of three Scholarships at undergraduate level or below for students from South-east Asia".[117] "It was the Australian Government's hope," said the Department of External Affairs, "that both the Fellowship and the Scholarship schemes would strengthen the ties of friendship between the countries of Asia and Australia".[117] In 1949, twenty-nine students arrived in Australia under the two schemes. For 1950, forty places were allocated and an undisclosed number were reserved for Burma and China. The studentships were distributed among all the countries of the area, and the coverage in 1950 was extended beyond South-east Asia to provide one scholarship each for New Caledonia and Portuguese Timor. The studentships have been taken out in such diverse

117. "Current Notes on International Affairs", June 1949, p. 714.

fields as "animal health, animal breeding and genetics, sugar-cane research, cytogenetics of Australian flora, soil conservation, soil fertility and soil diseases, vegetable oils research, electricity and electronics, geological research, ear, nose and throat specialisation, and dental studies".[118] A large number of educational and technical institutions throughout Australia have participated in the two schemes.

The economic value of the studentships to South-east Asian countries is similar in nature to that of assistance under the United Nations Technical Assistance Programmes, and the Commonwealth Programme of Technical Training. Australia has reached a stage of economic and technical development where she can readily provide this type of assistance to underdeveloped countries as a means of improving political relations. Moreover, the studentships have a special value to Australian foreign policy. They offer direct, indefinitely continuing contact with the people of South-east Asia. No term was set to the Scholarships, although the funds available to the Reconstruction Fellowships were limited. Moreover, the tendency is to expand the number of the Scholarships rapidly. On 5th September 1949, "Cabinet decided... to vary its original decision so as to provide an annual allotment of two 4-year scholarships, one 3-year scholarship and one 2-year scholarship",[119] as compared with the 1948 provision for three annual scholarships. The 1950 Consultative Committee Report on the Colombo Plan recorded that "Australia...is working out detailed plans for 150 additional special fellowship awards and for several group visits of technical students in 1951";[120]

---

118 Ibid., p. 715
119 Statement by Prime Minister J.B. Chifley, 5th September 1949.
120 Cmd., 8080, op. cit., p. 50.

and, on 20th December 1950, Mr. Spender announced that for the countries which "constituted the region of South and South East Asia for the purposes of the Plan inaugurated at Colombo",

> "...the Commonwealth Government had offered to the Governments of Ceylon, India and Pakistan one hundred fellowships and scholarships, tenable in Australia, to be commenced during the year 1951. Fifty places have been offered to the nominees of the Government of India, thirty-five to nominees of the Government of Pakistan and fifteen to nominees of the Government of Ceylon.
>
> "Mr. Spender added that he had also authorised the offers of the following fellowships and scholarships, and that these offers would shortly be sent to the Government concerned: Indonesia, 25; Thailand, 8; Burma, 7; the Associate States of Indo-China - Vietnam, Laos and Cambodia -, 3; the British Territories of Malaya, Singapore, Brunei, Sarawak and North Borneo, 7." 121

These scholarships and fellowships should serve to provide an understanding of Australian political, economic, and cultural conditions to people who might become political, industrial, commercial, or professional leaders in their own countries after their return home. Moreover, they furnish some concrete evidence that Australian immigration restrictions are not based on feelings of racial superiority and a desire to keep all Asian peoples at arm's length. Official Australian spokesmen have always contended that immigration restrictions are directed at preserving the high living standards of Australian labour and the "homogeneity of the population".[122] These spokesmen have often insisted that Australians do not consider their way of life, their religious, cultural, moral or other attitudes, better than those of Asian peoples, but simply different,

---

121 "Current Notes on International Affairs", December 1950, p. 887.

122 See, for example, the statement made by the Leader of the Australian Government Delegation (Dr. E.R. Walker), at the 32nd Session of the International Labour Conference in Geneva in June 1949, in response to an attack by the Philippines Delegate on Australian immigration policy. (Record of Proceedings, Thirty-Second Session of International Labour Conference, pp. 234-235).

and therefore providing a difficult problem of assimilation. The ready welcome extended to South-east Asian students has been quoted, in official statements, as evidence that no feelings of racial superiority underlie immigration restrictions, but that Australia is anxious to co-operate directly with Asian peoples, by admission of students as well as by other means, in solving the economic problems of their countries.[122] Admission of students will not stop Asian criticism of Australia's immigration policy, but it might blunt some of its sharper edges.

In the United Nations, whenever plans for long-term economic development have been discussed, Australian policy has placed the same consistent emphasis on the capital and technical-training needs of South and South-east Asia. In discussing the Regular and Expanded Programmes of Technical Assistance, for example, Australian statements have concentrated attention on this area, claiming for it a full share of aid, irrespective of aid received under other, including bilateral, programmes. "The Australian Government," it has been said, "were interested in assisting certain under-developed countries but did not wish by so doing to deprive those countries of their full share in the United Nations programmes".[123]

The same emphasis occurs, wherever appropriate, in expressions of policy towards the Specialised Agencies. For example, in speaking on the ILO Report at the Eleventh Session of the Economic and Social Council, the Australian Representative stressed "the continuing interest of his country in the Asian and Far Eastern areas" and emphasised the need for ILO to ensure "sound planning in the new operational work...particularly..in Asia,

---

123 Summary Record of the First Meeting of the Technical Assistance Committee, Economic and Social Council, Document E/C.5/SR.1 of 2nd August, 1950.

where the need was most pressing".[124] Proposals which promise to give effective assistance to South-east Asian countries almost invariably receive Australian support. More than that, there is often active Australian pressure for adequate attention to South-east Asian needs. This seems, for example, to have been behind an Australian request at the Eleventh Session of the Economic and Social Council for a comprehensive statement of "project expenditure by the United Nations and the Specialised Agencies in the various regions...[which] would show the extent to which the needs of the various regions were receiving balanced attention".[125] In general, at meetings of the economic organs of the United Nations and the Specialised Agencies, Australian Delegations, even if they play no prominent part in discussions on issues primarily of European or Latin American concern, almost invariably become vocal on issues touching South-east Asia. On rare occasions, this close political interest in the area seems to have been influenced overmuch by considerations of finance. Australian hesitations about the Asian Advisory Committee of ILO, which left Australia open to the charge that she was suggesting that the Asian countries be put "on probation" has already been mentioned. Slips of this kind however seem to be, for the most part, negligible.

Outside the United Nations, the Colombo Plan for economic aid to South and South-east Asia might overshadow other and earlier efforts at economic co-operation with the non-Commonwealth countries of the area, although the extent of non-Commonwealth participation in the Plan is still

---

124 Summary Record of the Fifty-fourth Meeting of the Co-ordination Committee of the Economic and Social Council, 12th July, 1950, Document E/AC.24/SR. 54.

125 See Summary Record of the Sixty-third Meeting of the Co-ordination Committee of the Economic and Social Council, 19th July 1950, Document E/AC.24/SR. 63.

uncertain. The first substantial act in the Plan - or, perhaps more correctly, associated with the Plan - was the extension of a £Stg. 6 million loan to a non-Commonwealth country - Burma - after the Colombo Conference of Commonwealth Foreign Ministers in January 1950. Australia subscribed £Stg. 500,000 to this loan, which might be the precursor of other long-term capital assistance to the non-Commonwealth countries of South and South-east Asia. It should be noted however that up to mid-May 1951, there had been no report that Burma had taken up the loan. The long delay since the loan was offered suggests - although there might be other good reasons for it - that the terms of the loan might not be acceptable to the Burmese Government. If that is so, further efforts are apparently called for to devise terms for lending - perhaps not only to Burma but to other non-Commonwealth countries - which are acceptable both to lender and to borrower.

Whatever further assistance is extended might ultimately form a more direct part of the Colombo Plan than did the Burmese loan. As already pointed out, the Sydney meeting of the Commonwealth Consultative Committee decided that non-Commonwealth countries should be invited to participate. As a result, "the Governments of Cambodia, Laos and Viet-Nam, and the Government of Thailand..sent delegations to a joint meeting with the members of the Consultative Committee early in October 1950; the Ambassadors in London of Burma and Indonesia attended this meeting as observers on behalf of their Governments".[126] These countries were again represented at the Colombo meeting of February 1951, when the Committee's name was altered

---

126 Cmd. 8080, op. cit., Foreword, para. 2.

from the Commonwealth Consultative Committee to the International Consultative Committee. The Colombo Plan might therefore be extended to these countries and the Report of November 1950 was drawn up on that assumption. The Report concerned itself with a region which "comprises the countries of India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo, Sarawak, Brunei, Burma, Thailand, the Associate States of Cambodia, Laos and Viet-nam, and Indonesia".[127] The Constitution of the Council for Technical Co-operation, like the rest of the Plan, is drawn up "in no exclusive spirit",[128] and "the Council may at any time admit to its membership a Government which applies to co-operate under the scheme".[129] Similarly, so far as provision of capital is concerned, the Report noted that the

> "...other countries of South and South-East Asia which are not members of the Commonwealth...all suffer from an acute shortage of capital. It has not yet proved possible for these countries to discuss their economic programmes alongside those of Commonwealth countries, but it is hoped that this may be done at a later stage. When their data and programmes become available, it will almost certainly prove that they require external finance for comparable purposes and on a comparable scale". 130

At present, it cannot be said how many non-Commonwealth countries will adhere to the Plan, or how much assistance they will receive. It seems clear, however, that if they do come into the Plan, they will come in as fully equal participants entitled to the same kind and scale of benefits as the Commonwealth countries. If all the non-Commonwealth countries in the area decide to participate, it seems equally clear that the nature of the Plan, as an organisation for economic development, will be radically altered. From being a Commonwealth organisation, it will become some-

---

127 Ibid., p. 1.
128 Ibid., p. 2.
129 Ibid., Appendix 7, "The Council for Technical Co-operation-Constitution", p. 99.
130 Ibid., pp. 62-63.

thing very much like another ECAFE, without the communist membership of that organisation, and with a more precise and more convincingly operational role.

That however is for the future. Before going on to consider some further political aspects of extension of the Colombo Plan to non-Commonwealth Asia and, at a later stage, to consider Australian foreign economic policy towards Japan, we might at this point look at some figures showing what proportion of total Australian external assistance since 1945 has been directed to South-east Asia. To what extent has Australian practice coincided with the widely-accepted thesis that "reconstruction and economic development of the countries of South-east Asia provide Australia with a unique opportunity for forging close and friendly ties with the region which will necessarily be most vital for our future security and well-being"?[131] Some answer can be found in the figures set out in Table 15.

An allocation to South-east Asia, as shown in Table 15, of less than fifteen per cent of total Australian aid is hardly convincing proof of Australia's absorbed concern in the region. Even if we exclude aid to the United Kingdom and the immigration expenditure represented by IRO, only 30% of the remainder of Australian aid was devoted to South-east Asia. If only half of the total aid of almost £68 million had been devoted to South-east Asia, it would have been possible to expand

---

131 Article by J. Leyser entitled "Australia and the Post-War Settlement in South-East Asia", in "The Australian Outlook", September 1949, p. 189.

Table 15. Australian Postwar External Aid, excluding Colombo Plan Assistance.[1]

Recipient	Total Amount of Assistance	Amount Specifically Directed to South-East Asia	Percentage Specifically Directed to South-east Asia
	£A million	£A million	%
UNRRA	24.00	8.00	33
Post-UNRRA Relief	2.00	.40	20
IRO	3.01	-	-
ICEF	3.47	.35[2]	10[2]
UNESCO Reconstruction Fund [3] and Scholarships	.10	.10	100
United Nations Expanded Programme of Technical Assistance	.20	.20[4]	100
United Kingdom	35.00	-	-
	67.78	9.05	13.35

1 These figures are not completely exhaustive and do not include, for example, Korean and Palestinian Relief. Nor are any commercial credits, for example, to Czechoslovakia, included.

2 These are approximations only. Australian supplies have been sent to Italy, Greece, Austria, Roumania, Finland, Czechoslovakia, Hungary, Poland, Yugoslavia, Albania, Bulgaria, China, India, and Lebanon. There is no real verification for the figure of 10 per cent. The Fund is now tending to pay greater attention to Far Eastern countries, and a greater proportion of Australian supplies might go there in the future than in the past.

3 This includes only the early, small scheme of scholarships. The expanded scheme is included in Table 16.

4 Because of the emphasis placed on South and South-east Asian needs by Australia during discussion of the Expanded Programme, this assumes that the whole of Australian assistance will be directed to that area.

Australian assistance to the area four-fold.[132] Since the capacity of the Australian economy to support substantial programmes of external assistance is very limited, and since it will be extremely difficult for Australia itself to make any notable contribution to raising productivity and living standards in South-east Asia, it seems that the maximum possible proportion of future Australian aid should be directed to this area, rather than, as in the past five years, to European countries which have a less direct and immediate foreign-policy significance to Australia and which, in many cases, have already received tremendous United States assistance. As already indicated, the comparative neglect of South and South-east Asia from 1945 to the end of 1949 was due principally to the Chifley Government's insistence on support for the United Nations and on non-discriminatory extension of assistance, allied with a careful framing of assistance programmes in

---

132 It is interesting that the Report of the Commonwealth Consultative Committee on the Colombo Plan states that:

> "...India, Pakistan and Ceylon drew upon their sterling balances in the years 1946-49 to the extent of about £340 million to finance their deficits on current account...To this extent the United Kingdom bore the immediate burden of rehabilitation in India, Pakistan and Ceylon, and it was in fact enabled to do this by generous support from the United States, Canada, Australia and New Zealand in the form of gifts and loans (including Marshall Aid) and by the accumulation of sterling balances by various countries" (op. cit., p. 8.)

From this, it could be alleged that the £35 million Australian gift to the United Kingdom indirectly gave a measure of aid to South-east Asia. However, the Australian intention was to aid the United Kingdom, not South-east Asia, and any subsequent benefit to South-east Asia through a more liberal United Kingdom policy on releases from sterling balances was largely fortuitous. Moreover, of course, the South-east Asian countries received no additional funds, but merely releases of funds which they had already accumulated.

accordance with the domestic supply position in Australia. It is always possible to look at the programmes of these five years from two viewpoints. On the one hand, they may be commended for adherence to the non-discriminatory principles of the United Nations Charter, aimed at universal rather than regional welfare. On the other hand, they may be criticised for paying inadequate regard to Australia's own security position. In the same way, if the Chifley Government veered too far towards internationalism, its successor might leave itself open to criticism from some quarters for veering too far towards regional concentration, in the interests of national or bloc security.

In any event, although Australian aid might in the next five years be less than £68 millions, it seems certain that a much higher proportion of total Australian aid will go to South and South-east Asia than in the past, and it is already clear that the absolute benefit of this region will be very much greater. As shown in Table 16, the Australian Government has already committed itself to assistance valued at £A 35.675 millions. This is almost four times as great as previous Australian postwar aid directed to South and South-east Asia, under all programmes, bilateral and multilateral. On the other hand, however, it is scarcely larger than the postwar gifts by Australia to the United Kingdom. The bulk of Australian assistance will, under present arrangements, go to Commonwealth Asia, rather than to the area as a whole. But the non-Commonwealth countries of the area have received every encouragement to participate in the Plan and they might ultimately join as full members and receive full benefits. In that event, Australian assistance will

Table 16. Australian Assistance under the Colombo Plan.

	£A Million
Economic Development, General	31.25
Technical Training	3.50
Special Scholarships Scheme	.30[1]
Loan to Burma	.625
£A	35.675

1 This is an estimate, reached by assuming that the one hundred and fifty scholarships offered by Australia will cost the round figure of £2,000 each.

presumably be spread more evenly over the area, and the Australian contribution might be increased.

Extension of assistance to non-Commonwealth countries complicates the foreign-policy value of the Plan. The tendency has been for the Australian Government to advocate assistance to South and South-east Asia at least in part as a frank anti-communist measure: it has been in part "stimulated by...the menace of imperialist Communism".[133] In setting the Plan within the broad context of Australian foreign policy, Mr. Spender said that:

> "Australia should examine the possibilities of closer economic relations with South and South-east Asia where in so many places appalling poverty is a continuing obstacle to the maintenance of stable democratic governments with whom Australia can co-operate in a spirit of friendship and confidence". [134]

The Australian Government seems to have accepted as the clearest test for economic assistance, or for attempts to build "closer economic relations", the effective existence or otherwise of "democratic" governments. It is a simple rule: if governments are "democratic", they may expect economic support; if they are communist, they may not. What, however, would be the attitude to, let us say, Indonesia, if any deep conflict developed over New Guinea? Although the ideological complexion of the Indonesian Government might not have changed, could the Australian Government feel that its friendship was sufficiently assured to justify the extension of economic aid or the promotion of closer economic relations? Would

---

133 Article by the Hon. P. C. Spender entitled "Partnership with Asia", reprinted from "Foreign Affairs" in "Current Notes on International Affairs", January 1951, p. 15.

134 House of Representatives, 9th March 1950.

the Australian Government feel that Indonesia would be influenced by Australian economic appeasement to yield any important part of her political objectives, or would it feel that, in Indonesia's relations with Australia, these political objectives were in fact likely to be decisive? Australian policy might continually face problems of this kind and might risk

> "...the charge of inconsistency in refusing point blank to agree to a common frontier with Indonesia in Western New Guinea, while at the same time it is giving material aid for economic development in South-east Asia and is making particular overtures of friendship to these countries.." 135

The question turns on the limits to be acknowledged to a policy of economic appeasement, or, put in another way, on the extent to which economic relations can, in themselves, create or maintain an economic and political alliance. It must at all times be borne in mind that Australian assistance will not be of such a magnitude that its extension and the threat of its withdrawal will be sufficient to "buy" an alliance with South-east Asian countries; and even the capacity of total Commonwealth and United States assistance to operate in this way, against the nationalisms sweeping South-east Asia, is extremely doubtful. Non-discriminatory extension of assistance might therefore have a negative value only: frictions with South-east Asian countries will not be multiplied through any failure by Australia to support and actively participate in measures for the economic development of the area. Any positive advantage from extension of economic assistance is likely to come only when there is a wider harmony of political interest. This wider harmony will be fortified

---

135 "The Economist", 20th January 1951, p. 146.

and intensified by mutually advantageous economic relations and by Australian economic assistance, but it can hardly be created by economic relations and economic assistance alone. Bearing in mind the narrow limits to Australian capacity to extend economic aid or to foster significant economic advance through commercial relations, Australian foreign economic policy might find it increasingly futile to lump the countries of South-east Asia indiscriminately together, and the question might more clearly become, not so much whether, as to what extent and on what grounds to discriminate among South-east Asian countries.

Australia's foreign economic policy might therefore be expected to develop according to two lines of emphasis. The first - and outer - line will divide communist countries, as the presumed potential enemies, from "democratic" countries, as the presumed potential allies. The second, inner line might draw a more subtle, less sharp line between those countries, for example of Commonwealth Asia, which have close political ties with Australia, irrespective of economic relationships, and those which have not. Nevertheless, even the first line might not be inflexible and unchanging. A Tito in the Far East is perhaps no less possible than a Tito in Europe. Initially, the Menzies Government seemed committed to no sharp exclusion of Communist China from contact with Australia. On 9th March 1950, Mr. Spender said that

> "we should like to think that the Chinese Communists would look for the sympathetic help of the Western democracies in the work of uniting and rehabilitating their country". 136

At the Fifth Session of the General Assembly, he said, on 21st September 1950, that:

> "Australia...had no quarrel with Communist China because she was Communist. They would be able to co-operate with her if

136 Parliamentary Debates. 9th March 1950.

> she behaved like a truly sovereign State and followed a policy of tolerance. Communist China had her destiny in her own hands. She could subordinate herself to the leaders of Soviet Russia or pursue an independent course, dealing with all nations on an equal basis of international law - a choice, indeed that was open to Russia and all other Communist States". 137

The Chinese intervention in Korea has, however, reduced the possibilities of any friendly contact between Australia and China in the near future. In any event, however, Mr. Spender's general statements of willingness to co-operate with China were not accompanied by any attempt to extend recognition to the Communist Government; and this refusal of recognition has been maintained, despite growing public pressure in Australia that "recognition would be a realistic and constructive course".[138] The outer, anti-communist line remains, therefore, sharply drawn. At the same time, the argument for some inner line has not been weakened. It would be false to assume that the "democratic" countries of South-east Asia must inevitably and invariably find their closest political links with the countries of the Western bloc, including Australia, rather than with one or more of the Soviet group of countries, or with some other group, hostile to Australia, which might subsequently form.

Much of the Australian policy in South-east Asia was initially inspired by Japanese aggression and the need to guard against its repetition. It therefore seems appropriate to consider here the lines of Australian foreign economic policy towards Japan itself. It must of course be borne in mind that, during the whole period since 1945, Australia has been an occupying power, and there might be some marked

---

137 As reported in "The Times", London, 22nd September, 1950.

138 Ibid., 11th January, 1951.

changes in Australian policy if and when a peace treaty is finally concluded. Nevertheless, some features of Australian policy in the occupation period will presumably continue to have an influence - though it may be not a decisive influence - in the long-term.

The two main features of Australian policy towards Japan, as expressed, for example, on the Far Eastern Commission, the Allied Council for Japan, and at the British Commonwealth Conference on the Japanese Peace Settlement in 1947, have been:

> (i) To ensure that Japan could never again rebuild her military and economic potential to the extent that she could resume her policies of aggression; and
>
> (ii) To re-establish and maintain a viable Japanese economy.

These were broadly the policy objectives of other FEC countries also, including especially the United States. But while Australia placed much the greater emphasis on security, the United States placed increasingly heavy emphasis on viability. For the United States, this was understandable, firstly, for economic reasons, because she was bearing the burden of supporting the Japanese economy. But it also became increasingly understandable for foreign-policy reasons, because the United States became steadily more convinced of future Japanese friendship, and rapidly more dubious of the friendship of the Soviet Union and then of China, in the Far East. All of these points appealed to Australia with much less force, at least until the Menzies Government took office atthe end of 1949, or more clearly, until the outbreak of hostilities in Korea some six months later. However, prior to 1949 at least, the differing emphasis in Australian and United States policy at length amounted to a fundamental difference in the approach of the two countries.

How was this difference expressed in practice? Firstly, Australia insisted that Japan make substantial deliveries of industrial equipment as reparations, the amount of the deliveries to be determined by the excess of existing capacity over the desirable level of long-term production in a wide variety of "strategic" industries. Her objective was to strip Japan of essential industrial war potential, and also, it seems, to build up the other economies of Asia and the Far East, partly no doubt to help strengthen them against any future Japanese aggression. Australia does not seem to have been anxious for any substantial deliveries of industrial equipment for herself, but on the contrary seems to have been prepared to make her share available to the Asian and Far Eastern members of the Far Eastern Commission. The United States, on the other hand, insisted on a steady scaling-down of proposed reparations deliveries and the removal of restrictions on the level of Japanese industries, in order to promote reconstruction and ensure long-term viability.

Secondly, the United States wanted full and speedy restoration of Japanese trade, and, as one means towards this end, wanted FEC and other countries to extend to Japan reciprocal most-favoured nation treatment. Australia participated in discussions which led to the conclusion of sterling-area trade arrangements with Japan, though she may initially have done so with some reluctance. She was anxious to find markets in Japan, especially for Australian wool, but she seemed much less anxious that there should be a resumption of pre-war Japanese exports to Australia. The recent flow of trade between the two countries has been considerable, with, however, a very large balance in favour of

Australia. Australian exports to Japan were valued at £A7.4 million in 1948-49 and £A 24 million in 1949-50. Imports from Japan were £A1.7 million in the former year, and were running at the rate of £A7.3 million in 1949-50.[139] In the earlier postwar years, Australian import-licensing restrictions were applied to Japanese goods with such severity that only highly essential goods were licensed. Recently, these restrictions seem to have been relaxed to some extent, although a careful test of essentiality is still applied. In very large measure, of course, this is a reflection of Australian currency difficulties, but there may also be a political element mixed up with it. Australia has also consistently and strongly opposed extension of reciprocal most-favoured-nation treatment to Japan. Once again, commercial considerations may have determined this attitude rather than foreign policy, but, if that is so, those responsible for foreign policy either have been prepared to concur in, or have had to yield to, the commercial view.

There is a third point that Australia has consistently opposed Japanese observer representation at international economic agencies, at least until a peace treaty is signed. This difference with the United States is presumably not so fundamental, however, since it is clear that Australia would welcome Japanese representation in any world security organisation, including the economic agencies of that organisation, once a peace treaty has finally been concluded. However, it may be recalled that, in the Trade and Employment Conferences leading to the ITO Charter and GATT, Australia insisted on a wide drafting of Article 99 of the

---

139 This is an approximation based on the value of imports during the first nine months of 1949-50.

Charter and the comparable article of GATT, largely so that she could apply restrictions on the export of "strategic" materials to hostile countries - and she had Japan specifically in mind. If this attitude persists, it suggests that Australian co-operation with Japan, within the international economic agencies or outside them might be wary and hesitant, especially when security fears are linked with misgivings about any full-scale Japanese re-entry into the Australian import market.

What emerges from the foregoing is that, to date, Australian policy has been far from extending a ready welcome to the Japanese to resume a strong place in the world economy. It is too soon to say what Australia's future policy will be now that a Peace Treaty and a security agreement between the United States, Australia, and New Zealand, seem at last in view. No details of either of these instruments are yet available, but it seems probable that the Peace Treaty will allow Japan to maintain and expand her formidable industrial potential, and will place few, if any, restrictions on Japan's right to rebuild her armed strength. Moreover, through the United States, Australia might find herself less the enemy and more the ally of Japan, linked in common opposition to Communism in Asia. Such a position would seem to call for a radical revision of Australian foreign economic policy towards Japan, as it has been expressed since 1945.

Australia's greatest effort in South-east Asia - the Colombo Plan and associated activities - need involve no aid to Japan, since she is already highly developed industrially and has an abundance of technical skills. But might Japan be expected to come into the Plan, and other programmes for economic development in South-east Asia, as a donor

participant - of capital perhaps, and of technical knowledge? If that were to happen, Japan might extend her influence in South-east Asia more rapidly than the Australian Government would have wished. Again, what is to be the Australian attitude to Japanese trade? Will Australia encourage its full restoration and expansion in South-east Asia, and give a lead itself by opening Australian markets on a basis of equality? It might be noted that, if the Peace Treaty provided for extension of reciprocal most-favoured-nation treatment to Japan, it could presumably do so only in principle, and would have to provide for detailed tariff negotiations to be conducted at some later stage. Presumably it would be only at those later negotiations that the Australian attitude to two-way trade with Japan would be made wholly clear. From the export side, is Australia likely to permit as free export of Australian goods, including such raw or partly manufactured materials as iron ore, pig iron, and steel, as she permits to other countries? If Australia agrees to allow Japan to rebuild her industrial potential and armed strength, if she accepts a pact with the United States as an adequate security guarantee, and especially if she goes further than that to accept Japan as an ally through their common alliance with the United States, the logical answer to all these questions would seem to be in the affirmative. Quite apart from any commercial objections, however, there is in Australia a powerful residue of political hostility to Japan which would make a foreign economic policy of unqualified co-operation with her difficult. And yet it would seem an unreasonable course for Australia to accept a security system which includes a strong Japan, and then to subject that system to continuing strains through economic policies of discrimination and restraint. Beyond that, we can only conjecture

about the future lines of Australian foreign-economic policy towards Japan.

This section on preoccupation with South-east Asia has covered a number of topics. But its main emphasis has been on extension of capital and technical assistance to South-east Asian countries. To conclude it therefore, it seems appropriate to quote a comment made some years ago by Mr. Herbert Feis, to the effect that:

> "Unless the action of nations is governed by a resolute wish to live in peace and trade with one another, foreign investment, of itself cannot create reliable ties. On the contrary, it is likely to serve as fuel by which the spirit of nationalism can be nursed into brighter flame.....
> "Various foreign countries who after the war regarded American capital as a blood transfusion that would restore them to health came later to regard it as an infection in their systems, and turned against it in hate". 140

Australia is not likely to extend loans and credits to South-east Asia on a scale which will impose interest burdens in any way comparable with those borne by European countries on United States loans in pre-war years. Nevertheless, even grants - which will presumably form the bulk of Australian assistance - must be handled with discretion if they are not to breed resentment instead of friendship. The experience of the 1948 Goodwill Mission is a warning that a carefully co-operative approach to South-east Asian economic development is essential, and that plans for economic development must be carried forward in intimate consultation with governments of equal status, without conspicuous display and without real or apparent political "strings". Even if all precautions are taken, the extent to which economic assistance can of itself create, strengthen or

---

140 Herbert Feis, "The Sinews of Peace", New York, 1944, pp. 102 and 106.

maintain political amity must not be over-estimated. A broader approach will still be needed, which takes careful account, not only of the economic needs of South-east Asian countries, but of their political attitudes, ambitions, and antipathies as well.

In proportion as the effectiveness of Australian foreign economic policy in South-east Asia falls short of expectations, the importance of strengthening relations with the territories on Australia's immediate northern approaches will be increased. It is to a consideration of Australian policy in relation to these territories - the foreign island perimeter - that we shall now turn.

8. The Island Perimeter

Around the Australian coast from the north-west to the far south-east runs, like a protective rampart, a chain of island territories over which Australians, ever since colonial days, have shown a close and nervous concern. The annexation of New Guinea in the 'eighties of last century was spiritedly advocated by Australians "for the purpose of keeping bad neighbours from coming near them"[141] - in other words, to prevent the island perimeter from becoming a springboard from which an enemy could launch an attack on Australia. This Australian anxiety about the island perimeter persists. In speaking of one territory in the perimeter, Mr Spender said in November 1950, that "to us, Dutch New Guinea is and must remain a vital area to our national security which is the supreme interest of any nation".[142]

Many islands comprise the perimeter. Many governments participate in their control. The perimeter commences (for our purposes here, at least) with Portuguese Timor, to the north-west of Darwin, and extends through Dutch New Guinea, the Solomon Islands, the New Hebrides, Fiji, and New Caledonia to New Zealand, about 1000 miles off the south-east coast. New Zealand alone is fully self-governing. In what follows, account will be taken, firstly, of Australian relations with those territories governed by non-Commonwealth countries, secondly, of Australian participation in the South Pacific Commission which owes its creation to Australian and New Zealand initiative, and, finally, of the special relationship existing between the two Dominions

---

141 Statement by Sir Thomas McIlwraith, pre-Federation Premier of Queensland, quoted in W.K.Hancock's "Australia", page 201.
142 House of Representatives, 28th November, 1950, Parliamentary Debates Nineteenth Parliament, First Session 1950 (Second Period), No.36, p.3174.

of the South Seas.

The strategic significance of Portuguese Timor, which fell easily to the Japanese in 1942, shortly after a small Australian force had arrived to strengthen the Portuguese garrison, was emphasised by the war. From Timor, air attacks were launched on northern Australia and, for some time, it appeared as a possible stepping-off point for a Japanese invading force. A wartime agreement between Australia and Portugal contemplated more intimate defence, commercial and air-communications relations between Australia and Portuguese Timor on a long-term basis.

After the war, the Australian Government sent a Consul to Dili to establish continuing contact with the territory, and periodically it seemed that there were attempts to improve economic relations. For example, on 6th June, 1947, Dr. Evatt said:

> "On the suggestion of the Australian Consul at Dili, the Governor of Portuguese Timor has been invited to visit Australia. The invitation has been accepted, and it is expected he will arrive in Australia on a courtesy visit early in June.
>
> "The Governor has expressed his appreciation of the interest taken by the Australian Government and by the Australian Consul at Dili in the promotion of trade and the improvement of co munications with Portugues Timor. It is hoped that, as a result of his stay here, more can be done in this direction. Besides permitting an exchange of factual information regarding conditions in Australia and Portuguese Timor, the visit may also facilitate preparations for formal discussions on the basis of a war-time understanding between the Australian and Portuguese Governments under which the Portuguese Government agreed in principle that relations between Australia and Portuguese Timor in respect of defence, commerce and air communications should be discussed and made closer". 143

The Governor's visit seems to have achieved nothing substantial.

---

143 Parliamentary Debates, Vol. 192, p. 3692.

Nor is there any record of any subsequent "formal discussions" on economic and other relations. Australia made supplies available to Portuguese Timor in the course of normal trade and, on occasion, after 1945, released scarce goods for export to the Territory, as a concrete gesture of assistance towards the Territory's reconstruction.[144] A regular air service was also established but was followed by no marked increase in traffic to and from Australia. Beyond these few relatively insignificant developments, relations do not seem to have differed materially from those of pre-war years. In March, 1950, Mr Spender said that "we cannot be passive observers of any developments in Timor, the New Hebrides and New Caledonia that might have unwelcome consequences for Australia. But that is negative; we are prepared positively to join with the governments of these countries in arrangements of mutual economic and security benefit".[145] Concentration on problems further afield appears, however, to have prevented any significant recovery of the lapse into pre-war inaction. One point which should nevertheless be noted is that, throughout the period since the end of the war, during most of which the Portuguese Monetary Area as a whole was treated as hard, Australian import-licensing policy made a special exception of Portuguese Timor and import licenses were issued freely for products of the Territory. This exception was deliberately made for reasons of foreign policy, to assist the economic position of the Territory and to promote co-operation

---

144 A limited programme of long-term economic development has been implemented by the Portuguese Government but, it seems, without any active assistance by the Australian Government, apart from provision of supplies on a commercial basis.

145 "Current Notes on International Affairs", February 1950. p. 164.

with Australia.

Co-operation with the major foreign territory in the area - French New Caledonia - seems to have been pursued more energetically though still without substantial results. New Caledonia was never overrun by the Japanese, and depended on Australia for the bulk of her wartime supplies. An Australian Consulate functioned in the Territory during the War and, when peace came, turned its attention to improving longer-term political and economic relations between the Territory and Australia.

Among New Caledonia's more serious postwar economic problems were, firstly, a serious shortage of coal, and secondly, a large negative balance of trade and payments, especially with Australia. The two problems were closely linked, for supplies of coal determined the output of nickel, which in turn was the Territory's largest export industry. Australia had been the usual supplier of coal. After the war, however, the tremendous expansion of Australian industry, combined with persistent industrial disputes on the Australian coalfields, created coal shortages in Australia, and regular, adequate supplies were no longer shipped to New Caledonia. Post-war Australian coal exports ran at something over 20,000 tons annually, as compared with annual requirements of 40,000 tons if the New Caledonian nickel industry were to operate at moderately full capacity. As Australian supplies continued to fall short of requirements, the New Caledonian balance of payments position became progressively more acute.[146] There

146 An article in "Overseas Trading" of June 1948 included the comment that: "New Caledonia's principal economic problem at present is foreign exchange, particularly Australian. Dollar funds accumulated during the war have been largely exhausted in the post-war buying boom, and the usual income from nickel sales is not earned, due to low nickel matte production. Increasing chrome production only partially offsets this deficit, and it appears that New Caledonia's future ability to buy abroad will depend largely on coal from Australia..." (Vol.2, No.1, p. 20).

is evidence (for example, the trade mission mentioned below) that, perhaps under pressure from the French Minister in Australia and advice from the Australian Consul in Noumea, the Australian Government attempted to increase coal exports. Some increase did occur, especially during 1948; but supplies fell away again later and United States assistance which enabled New Caledonia to import United States coal with E.R.P. funds was a valuable supplement. When Australian supplies of coal were increased in 1948, especially from open-cut Queensland mines, some criticism appeared in the Australian press against export of coal while domestic shortages persisted. No attempt was made to answer this criticism by appeal to the need for the closest possible political association with the Territory.

As already stated, New Caledonia's annual coal requirements were only 40,000 tons. This was only a fraction of one per cent of total Australian production, and its export could have made little real difference to the Australian supply position. Moreover, Australian supplies averaged, in any case, more that 20,000 tons annually, so that a firm guarantee to supply a further 20,000 tons would have fully met New Caledonian needs. This guarantee was never given, presumably because foreign-policy considerations had to give way to the supposed pressure of the supply position. We have therefore the following situation. New Caledonia was recognised as politically and strategically important to Australian security; it was a territory with which the Australian Government had declared its readiness to co-operate closely in economic and other relations; and Australian officials recognised that lack of Australian coal was at the heart of

the Territory's economic difficulties. Despite these considerations, the Australian Government was unable to guarantee to supply annually - for cash, not credit - an amount of coal equal to .01 per cent of annual Australian production. This may be a token of the immaturity of Australian foreign economic policy, which might, one is led to suspect, often not be implemented when some economic sacrifice is involved or might be alleged by the Australian public or press.

Apart from coal, New Caledonia depends on Australia for a wide range of consumer goods; but her exports find only a limited market in Australia. The resultant large imbalance of payments complicates the Territory's general balance-of-payments position and the problem is sharpened during any period of French shortage of sterling. Over a period of years, the New Caledonian authorities, Australian Consuls in Noumea, and private Australian interests examined the possibility of expanding New Caledonian exports to Australia of such commodities as iron, manganese, coffee, timber, and one or two other items. Some trial shipments were made, and some Australian companies took an active interest in the Territory's potentialities. In January 1948, the Australian Government sent an Economic Mission to the Territory, consisting of officials from the Department of Commerce and Agriculture, the Forestry and Timber Bureau, and the Commonwealth Bank, to examine, in particular, the possible expansion of Australian imports of New Caledonian products, the problem of coal supplies, the financial position of the Territory, and the long-term market for Australian exports. The Mission and its work received little publicity, and it might have achieved results which are not on public record; but

published material and trade figures show no marked development of New Caledonian-Australian economic relations as a result of the Mission's visit. Later in the same year, however, it was announced that:

> "The first shipment of half a million super feet of timber for the manufacture of matches and furniture, and for the building trade, is expected to leave New Caledonia for Australia in two months.
>
> "It is understood that Australia is sending coal, flour, and other commodities to New Caledonia in exchange for the timber". 147

It is not clear how far the Australian Government gave any active encouragement or support to this project; but imports of undressed timber from New Caledonia, which had averaged only 3,747 super feet annually in the four years from 1944-45 to 1947-48, rose to 866,513 super feet in 1948-49. On the other hand, Australian coal exports, which in 1947-48 had reached 33,828 tons, fell away again to 15,666 tons in 1948-49. In October 1949, the New Caledonian Governor-General (M. Pierre Cournarie) and his wife made "an eight-day goodwill visit to Australia as guests of the Commonwealth Government", 148 and discussed the prospects for expansion of two-way trade. But, once again, substantial results were not apparent.

All this suggests that the Australian Government has developed an enlarged understanding of the problems of the Territory and has shown an evident readiness to consult regularly and sympathetically with the Caledonian authorities. Beyond that, however, the evidence would not seem to justify any claim that Australia has applied any very active foreign economic policy to its relations with New Caledonia,

---

147 "The Sydney Morning Herald", 21st June 1948.
148 Ibid., 14th October 1949.

that she has actively promoted any close economic alliance, or that she has offered to make any energetic co-operative approach to a solution of the Territory's commercial and developmental problems. As in a number of other instances, Australian policy has not passed effectively beyond recognition of the need for a certain course of action to translate that recognition into a concrete and effective programme of action.

With the third, and largest foreign territory in the area, Dutch New Guinea, any worth-while economic relations have been impossible.[149] It is a territory of thick jungle, difficult mountains, and extensive swamps, almost wholly undeveloped and offering only a limited potential for development in the immediate future. Australian interest in economic development of the Territory has been expressed mainly through the South Pacific Commission, which it will be useful to consider at this stage.

Under the heading of "Welfare and Advancement of Native Peoples of the Pacific", Clauses 28 to 31 of the Australian-New Zealand Agreement of 21st January 1944 forshadowed the establishment of machinery to extend the doctrine of "trusteeship", and to achieve "the

---

149 "The Economist" of 6th January 1951 commented that:
"The western half of New Guinea... has been under Dutch administration since 1897, as part of the Netherlands East Indies. Up till the end of 1948 very little was accomplished, principally because the Government did not see its way to making the necessary extensive survey of a country which looked so unpromising and unprofitable. Now circumstances have changed and, since December 1949, when New Guinea became an autonomous territory within the Kingdom of the Netherlands, Holland has seriously undertaken to develop its 151,789 square miles of territory and to push on with assisting its 1,000,000 native inhabitants. The Government frankly admits having more or less neglected this part of its colonial empire up till now" (page 26)

welfare of the native peoples and their social, economic and political development".[150] Clauses 30 and 31 provided specifically for a "South Seas Regional Commission", as follows:

> "30. The two Governments agree to promote the establishment, at the earliest possible date, of a regional organisation with advisory powers, which could be called the South Seas Regional Commission, and on which, in addition to representatives of Australia and New Zealand, there might be accredited representatives of the Governments of the United Kingdom, and the United States of America, and of the French Committee of National Liberation.
>
> "31. The two Governments agree that it shall be the function of such South Seas Regional Commission as may be established to secure a common policy on social, economic and political development directed towards the advancement and well-being of the native peoples themselves, and that in particular the commission shall -
>
> (a) recommend arrangements for the participation of natives in administration in increasing measure with a view to promoting the ultimate attainment of self-government in the form most suited to the circumstances of the native peoples concerned;
>
> (b) recommend arrangements for material development including production, finance, communications and marketing;
>
> (c) recommend arrangements for co-ordination of health and medical services and education;
>
> (d) recommend arrangements for maintenance and improvement of standards of native welfare in regard to labour conditions and social services;
>
> (e) recommend arrangements for collaboration in economic, social, medical and anthropological research;
>
> (f) make and publish periodical reviews of progress towards the development of self-governing institutions in the islands of the Pacific and in the improvement of standards of living, conditions of work, education, health and general welfare".

---

150 Clause 28 of the Australia-New Zealand Agreement of 21st January, 1944

When the Agreement establishing the South Pacific Commission[151] was drawn up and signed in Canberra on 6th February, 1947, it contained the same emphasis on "material development". The powers and functions conferred on the Commission under Article IV of the Agreement were:

> (a) to study, formulate and recommend measures for the development of, and where necessary the co-ordination of services affecting, the economic and social rights and welfare of the inhabitants of the territories within the scope of the Commission, particularly in respect of agriculture (including animal husbandry), communications, transport, fisheries, forestry, industry, labour, marketing, production, trade and finance, public works, education, health, housing and social welfare;
>
> (b) to provide for and facilitate research in technical, scientific, economic and social fields in the territories within the scope of the Commission and to ensure the maximum of co-operation and co-ordination of the activities of research bodies;
>
> (c) to make recommendations for the co-ordination of local projects in any of the fields mentioned in the previous sub-paragraphs which have regional significance and for the provision of technological assistance from a wider field not otherwise available to a territorial administration;
>
> (d) to provide technical assistance, advice and information (including statistical and other material) for the participating Governments;
>
> (e) to promote co-operation with non-participating Governments and with non-governmental organisations of a public or quasi-public character having common interests in the area, in matters within the competence of the Commission;
>
> (f) to address enquiries to the participating Governments on matters within its competence;
>
> (g) to make recommendations with regard to the establishment and activities of auxiliary and subsidiary bodies.

---

151 It should be noted that the Commission's territorial scope includes "all those non-self-governing territories in the Pacific Ocean which are administered by the participating Governments and which lie wholly or in part south of the Equator and east from and including Netherlands New Guinea" (Article II, 2). Portuguese Timor, for example, is therefore outside the scope of the Commission.

The reference in the Australia-New Zealand Agreement to the promotion of self-government, has completely disappeared. The Commission, as finally constituted, is entirely an economic and social body. The Conference which drafted the Commission Agreement in January-February 1947, decided that the Commission's immediate projects should be within the fields of agriculture, economics, educational and social development, fisheries, forestry, health and medical services, and labour and labour conditions. At its early Sessions, the Commission identified the projects to be undertaken within these fields more precisely. The Third Session, for example, approved twenty-eight separate health, economic development, and social projects, and established a statistical service. Among the economic projects were included such undertakings as (1) "a study of atoll and low island economy, designed to improve cash and subsistence crops and handicrafts, to widen commercial opportunity and provide greater security for island peoples",[152] and (2) "the introduction of economic plants from without the Area or transfer from within for study and improvement in special gardens and aboretums looking to improvement, saving and availability of such plants for distribution".[152] The Commission's Budget is still very small, and, although it was increased steadily in the Commission's first two or three years, it now seems to have been stabilised. In 1950, provision was made for an expenditure of £144,595 sterling, most of this for work of the Research Council, established under Articles VI, VII and VIII of the Commission Agreement. At £149,165 sterling, the

---

152 "Current Notes on International Affairs", June 1949, pages 735-736.

budget for 1951 was virtually unchanged, although the Commission was considering, for example, a technical assistance programme which, if adopted, would increase budget expenditure in future years.

It must be emphasised that the Commission is a research and advisory body. In Dr. Evatt's words, "it will not have executive power; it will be mainly a consultative and advisory body, consisting of representatives of the Governments concerned".[153] The projects undertaken by the Commission suggest that the Commission is interpreting its function in a limited technical manner, without any attempt to alter the wider context of economic and political[154] relationships within which the techniques can be employed. For example, so far, no consideration seems to have been given to any such more far-reaching issues as the development of preferential arrangements, or the formation of some form of customs or economic union within the region, which might be the most effective way of developing the economic strength of the island territories.

This introduces an interesting possibility - the possibility of forming in the South-west Pacific, some economic union or some economic co-ordination among the territories, to direct their policies of economic development in unison, and maximise their common security against aggression. In speaking of Australia's own external territories in New Guinea - which are an integral part of the island perimeter - the Minister for External

---

153 Parliamentary Debates, 26th February, 1947, Vol. 190, p. 163.
154 In reporting the First Session of the South Pacific Conference, held in Suva in April 1950, the Department of External Affairs drew attention to a comment of the Chairman of the Conference that "politics were no concern of either the Conference or the Commission, and the matters with which the Conference was concerned related only to social and economic welfare" ("Current Notes on International Affairs", May 1950, p. 329).

Affairs and External Territories (Mr. Spender) said in June, 1950, that:

> "...In any programme for economic development of the territories it is essential to clarify the economic relationship that is to exist between Australia and its territories. It is the view of this Government that such development should generally be complementary to existing Australian industry. The economic relationship between Australia and the external territories will necessarily require to be developed in accordance with this broad policy. Australia is the logical market for territory production, and geographical and other advantages should normally ensure that market to the territories. However, during the initial stages of development, territory industry will almost certainly need a measure of assistance and protection which it will be the purpose of this Government to provide through whatever appropriate channels are available. Conversely, this arrangement implies that Australia should expect to supply the territory requirements of capital goods and consumer goods, and it is proposed that this arrangement shall also be secured to the greatest practicable extent.
>
> "The effect of the General Agreement on Tariffs and Trade and the proposed International Trade Organisation is not as yet fully clear in relation to the external territories, and it is possible that, in giving effect to a policy on the foregoing lines, practical difficulties may be encountered because of the limitations that those international commitments impose on the grant of preferential treatment. However, it is the view of this Government that in the overall interests of Australia and the territories a close integration of economies is desirable and our policy will aim generally at this objective". 155

The argument for integration of the economy of New Guinea with that of Australia would seem to apply with much the same force to the other territories in the island perimeter. There is however no evidence that economic integration, affecting any territory beyond New Guinea, has so far been considered by the Australian Government. A partial exception must be made in the case of New Zealand, for, in the Anzac Agreement of

---

155 Parliamentary Debates, Nineteenth Parliament, First Session, 1950 (First Period), No. 17, 1st-7th June 1950, p. 3638. Note that Article 44 of ITO (and the equivalent Article of GATT) allows the formation of a customs union or free trade area, or interim arrangements leading to either of these. . Furthermore, Article 15 of ITO allows the Organisation, by a two-thirds majority, and subject to certain conditions, to approve "new preferential agreements between two or more countries in the interest of the programmes of economic development or reconstruction of one or more of them". The Article contemplates such agreements especially between "contiguous" territories or territories in the "same economic region".

1944, some form of economic co-ordination, if not economic integration, was contemplated between the two Dominions.

Under Clause 35(c) of the Anzac Agreement, the two Dominion Governments agreed that "the development of commerce between Australia and New Zealand and their industrial development should be pursued by consultation and in agreed cases by joint planning". To carry out this provision and other similar provisions relating especially to defence, there were to be, inter alia, Ministerial conferences (it was "the aim of the two Governments that these conferences be held at least twice a year"), "conferences of departmental officers and technical experts", and "meetings of standing inter-Governmental committees on such subjects as are agreed to by the two Governments". A permanent Australian-New Zealand Affairs Secretariat was established.

Clause 35 (c) seemed to foreshadow some form of industrial co-ordination between the two Dominions, not dissimilar in principle perhaps from some later postwar arrangements between Eastern European countries. Since the Agreement as a whole emphasised defence co-operation, Clause 35(c) gave promise that the capacities and resources of the two Dominions would be brought together so as to develop vital defence industries for both countries as cheaply and efficiently as possible. The limited capital and labour resources of Australia and New Zealand could then be applied to achieve the widest coverage of essential industries, without duplication. Industries could be developed on the basis of a combined Australia-New Zealand market; and an effective step would have been taken towards economic union, with accompanying political and defence advantages.

After 1944, discussions were held frequently at Ministerial and

official level to improve economic and other relations between the two countries. The Governor-General's Speech of 6th November 1946 recorded that:

> "In accordance with the principles of the Australian-New Zealand Agreement, the Government has maintained continuous consultation with the New Zealand Government on all matters of common concern to the two countries in relation to the promotion of security and welfare in the South and South-Western Pacific". 156

In April 1948, an agreement for supply of New Zealand softwoods was concluded. Earlier there had been a long-term agreement on Australian wheat. In June 1948, two senior New Zealand Ministers (Messrs. Nash and Nordmeyer) visited Canberra, and later the Australian Prime Minister announced that:

> "We have discussed matters relative to the common interest of Australia and New Zealand, and also international economic developments affecting our two countries...
>
> "Another matter dealt with was how far New Zealand resources can be utilised to supplement shortages in Australia and vice versa, and the extent to which these resources can be made available to each country".157

In January 1949, a senior Australian official was sent to Wellington for further discussions. In general, consultation on economic and other problems seems to have been continuous and intensive. Nevertheless, the possibility of industrial co-ordination seems to have received little attention. In the case of at least one industry - the aluminium industry - it seems that plans could usefully have been co-ordinated but the two Governments seem to have proceeded independently. There may have been an exchange of information on this industry and on other developmental projects through the special liaison machinery established in Canberra and Wellington; but, if this is so, knowledge of what each was doing does not seem to have

---

156 Parliamentary Debates, Volume 189, p. 8.
157 "Sydney Morning Herald", 15th June 1948.

affected what each decided to do itself. "Australia's bauxite deposits and cheap power promised favourable conditions for an aluminium industry",[158] and the Australian Government took steps to establish such an industry. At about the same time, the New Zealand Government embarked on a similar project, and in September 1947, it was reported that:

> "A big aluminium industry is being planned in New Zealand.
>
> "More than £10 million will be invested in construction work and plant for smelting aluminium in the far southern sounds if plans under investigation by Aluminium Ltd., of Canada, with the co-operation of the New Zealand Government prove feasible.
>
> "Canadian hydro-electric engineers have gone to the sounds to begin exploratory surveys". 159

So far, the most apparent value of the Anzac Agreement seems to have lain, not in any trend it has established towards economic union, but rather in the impetus it has given to the formulation and implementation of a joint foreign policy, and a joint foreign economic policy, especially in the Pacific. As one commentator said, "this 'pact', though not of world-shaking significance, nevertheless reflected the Australian Government's belief in the value of regional agreements and the importance of small nations uniting their efforts to pursue policies considered jointly advantageous".[160] Australia and New Zealand faced the same security problems. It was sound policy to concert their efforts towards meeting them. That was all the more important when, as Dr. Evatt pointed out, British influence - and perhaps British interest also - was beginning to decline in Asia and the Far East.

---

158 Walker, op. cit., p. 136.
159 "Sydney Morning Herald", 27th September 1947.
160 Walker, op. cit., p. 370.

> "The lessening of British influence as expressed in concrete terms of forces or economic interests is one thing; but any lessening of British interest, evidenced by failure to give to South-east Asia and the Pacific their rightful place in British political thinking, is a very different thing and should be guarded against. For there are now, and there will be in the future, area problems of great magnitude which can be satisfactorily solved only if Britain, Australia and New Zealand make a joint approach towards them, bringing to bear on them the full contribution of experience and knowledge which each has to make". 161

In other words, the major achievement of the Anzac Agreement (so far as concerns foreign economic policy) has been the joint initiative for the creation of the South Pacific Commission, the development and exposition at the San Francisco Conference of a joint international full-employment policy, and the development, in some degree, of a joint approach on economic assistance to South-east Asia.[162] It may be that this co-operation is more useful and practical than premature attempts at economic union; it may be that the growing habit of co-operation in foreign policy will create an atmosphere making some progress towards economic union or economic co-ordination easier at some later stage when the security gain may stand out more clearly and submerge any real or supposed welfare loss; and, finally, it may be that, irrespective of union between Australia and New Zealand themselves, a joint initiative may secure some form of closer economic alliance with the territories of the South Pacific which will strengthen the security position of them both.

---

161 Parliamentary Debates, 6th June 1947, Vol. 192, p. 3687.

162 Joint action by Australia and New Zealand has not yet been carried as far as it might be. Even in the fields of employment policy and technical assistance, it is probable that, at many international conferences, the delegation of one Dominion knows the policy of the other only after public exchange of statements across the conference table.

One final point to be made here - which the industrial co-ordination project with New Zealand illustrates - is that in many instances there has been comparatively little development of Australian policy since 1945. Principles of policy have been enunciated again and again, and have, for the most part, been freely accepted by both sides in Parliament, but have then been implemented inadequately or not at all. This seems true of policy towards the island perimeter as a whole, and, at least prior to the framing of the Colombo Plan, it seemed true of Australian foreign economic policy towards South and South-east Asia. The task for future Australian Governments will be, not to re-state principles and general lines of policy, which have already become popular cliches, but to translate them into effective programmes of action so that they become a living and effective part of Australia's foreign economic policy.

9. The "No-Man's-Land" of the External Territories.

Australian policy towards Papua and the Territory of New Guinea has its chief significance for Australian foreign policy through its possible conflict with the claims, aspirations and interests of the countries of Asia and the Far East.

New Guinea was originally annexed, not for the purposes of Australian colonisation, but simply to keep other countries out. Mr. Hughes insisted on an Australian Mandate for German New Guinea for the same reason. The not-surprising result has been that both Papua and New Guinea have remained what we have previously called a "no-man's land" - to some extent a diplomatic liability, and almost literally a defence vacuum. So far as New Guinea presents simply a defence problem, it is outside the scope of the present study. Nevertheless, the defence problem might be partly solved if, through economic development, local supplies, local industry and local forces could be expanded to meet any future defence crisis. Certainly, economic development would reduce the diplomatic liability which an "empty" territory represents.[163]

---

163 Talks between the Netherlands and Indonesia on the future of Netherlands New Guinea, which were held at The Hague at the close of 1950, ended in deadlock. Commenting on this, "The Economist" of 6th January 1951 said that the breakdown of the talks

> "...means that Western New Guinea remains, at least for the time being, entirely in Dutch hands. It means, too, that the Dutch are under a strong moral obligation to develop this large and primitive country and to assist its people" (page 26).

The same "moral obligation" rests on Australia for the territory under its control; and this will have a continuing foreign-policy importance in Australia's relations especially with the countries of South and South-east Asia.

In the policy of expansion of industry, agriculture and population on the Australian mainland, one motivating element has been the need to show that the resources of the Continent can and will be utilised fully. The same motive may be expected to influence policy in the Territories, especially since there the white man is acting not - or not soley - for his own advantage, but as trustee for the native peoples. If the overcrowded and now-independent countries of South-east Asia see a continuingly static, comparatively unpopulated territory in Papua and New Guinea, their claims for participation in its development, and ultimately in its political control, are likely to become increasingly insistent. The recent unofficial Indonesian claim, not only to Netherlands New Guinea, but also to Australian New Guinea, is not likely to be the last; nor are future claims likely to be always unofficial. A satisfactory answer is these claims may depend to an important degree on the extent to which effective economic development is being accomplished in New Guinea.

There is a further point, arising from hypotheses put forward in the previous sections. It has been suggested that Australian foreign economic policy in South and South-east Asia might be increasingly selective in its extension of economic aid. This would imply the development of a limited economic alliance, the members of which would co-operate to meet a threat to the security of any one of its members. It could reasonably be maintained that expenditures for such an economic alliance should logically be accompanied by expenditure for the economic development of territories which are directly under Australian control and which can be relied upon completely to play their

part in meeting a threat to their own and to Australian security.

Figures for the pre-war development of the Territories by the Australian Government have already been given. "With the exception of an annual grant of a very small sum from the Commonwealth towards the cost of administration of the Territory of Papua, the Territories were required to live and develop within their own financial resources",[164] and these resources were, of course, extremely small. Since the war, there may have been insufficient time for policies adopted in principle to show results. However, figures so far available for post-war development are unimpressive. It must be remembered that, in primitive territories like New Guinea, proportionately large governmental expenditures in opening up the territory are an essential prelude to effective private exploitation. Government expenditure is therefore a fair indicator of development trends. In any case, "information as to private capital invested or available for investment in the Territory is not available",[165] except in very incomplete form. For example, in the Territory of New Guinea during 1948-49, "seven new companies with a total nominal capital of £1,215,000 were incorporated in the Territory, making a total of 24 new companies with an aggregate nominal capital of £1,456,500 incorporated since the Registry was reopened on the 1st

---

164 Statement by the Minister for External Territories (the Hon. P.C. Spender), House of Representatives 1st June, 1950, Parliamentary Debates, Nineteenth Parliament, First Session, 1950 (First Period), No. 17, p. 3636.

165 "Report to the General Assembly of the United Nations on the Administration of the Territory of New Guinea from 1st July, 1948, to 30th June, 1949", Commonwealth of Australia, 1949, page 25. The quotation given here applies only to the Territory of New Guinea but could be applied equally well to Papua. The 1948-1949 Annual Report on the latter Territory makes no attempt to assess private capital participation in the development of the Territory.

February, 1946. Of the companies incorporated during 1948-49, four were general trading companies, two plantation companies and one automotive engineering company".[166] Tables 17 and 18 contain some figures for Papua and New Guinea respectively, which indicate, roughly, the rate of economic development of the first four complete post-war years.

That the two Australian Territories in New Guinea have remained a backwater may in part be due to the absence of any integration between administration of the external territories and administration of foreign policy. The prospects of an economic return from development may not in themselves be sufficient inducement to embark on large programmes. The addition of defence and diplomatic incentives may be essential. For this reason, the Menzies Government's original combination of the two portfolios of External Affairs and External Territories in the one Minister might have set a valuable precedent, leading to a closer future link between foreign and external-territories policy.[167] During his first visit to the Territories in March, 1950, Mr. Spender told the people of New Guinea that "he would try to convince the Australian Cabinet to spend money to develop Papua and New Guinea".[168] He went on to say that "other people have hungry eyes on this area", and that "the Australian Government regards Papua and New Guinea as of prime strategic importance - territories that can be neglected no longer".[168]

---

166 Ibid., p. 48.
167 From May 1951, the two portfolios were again assigned to separate Ministers.
168 As reported in the "Daily Telegraph", Sydney, 31st March, 1950.

Table 17. Papua: Economic Progress.

	1938-39	1946-47	1947-48	1948-49
Non-Native Population [1]	2,173 (1933)	3,239 (1947)		
Exports				
Rubber (tons)	1,290	983	1,275	1,198
Copra (tons)	9,357	4,815	8,094	9,458
Total Trade (£A)	1,004,966	1,814,783	3,217,388	4,111,397
Government Expenditure (£A) [2]	166,330		1,030,123	1,418,074
Australian Government Grants (£A)	42,500		757,449	1,607,828

Source: Territory of Papua, Annual Report for the Period 1st July, 1948, to 30th June, 1949, published by the Department of External Territories, Canberra, 1949.

1. This includes not only the white population but also Chinese, Indians, Malays, Polynesians, etc.

2. This is a total figure and includes expenditure from the Australian Government Grants set out in the line underneath. In 1948-49, the Australian Government Grant exceeded total expenditure by the Territory.

Table 18. Territory of New Guinea: Economic Progress.

	1938-39	1947-48	1948-49
Non-Native Population [1]	5,216 (1933)	6,200 (1947)	
Total Trade (£A)	4,314,730	5,032,173	7,596,130
Government [2] Expenditure (£A)	502,580	1,656,929	2,593,304
Australian Government Grants (£A)	-	1,109,494	1,588,840

Source: "Report to the General Assembly of the United Nations on the Administration of the Territory of New Guinea from 1st July, 1948, to 30th June, 1949", Commonwealth of Australia, 1950.

1. This is a total figure covering both European and non-European foreign population, and including, especially, a Chinese element numbering 1,449 in 1933, and 1,769 in 1947.

2. This is also a total figure and includes expenditure made from the Australian Government Grants set out in the line underneath.

In this statement, foreign-policy and defence considerations were thoroughly mixed up together. The greater emphasis was on defence, and the foreign-policy element was hard to identify precisely. In later statements, the Minister has shown the same imprecision in dealing with the non-economic motives for economic development in New Guinea.

Shortly after his return from New Guinea, Mr. Spender, in response to a question in the House, acknowledged that "there is ample scope for encouraging people, particularly returned soldiers to go to New Guinea and engage in primary production",[169] and that "it will be a very good scheme from every point of view to encourage as many Australians as possible to go there".[169] At that time, what he had in mind, inter alia, was that "it will assist us to discharge our responsibilities to the natives and to maintain this area as a strategic zone".[169] When he made his first lengthy statement on the Territories as Minister in the following June, Mr. Spender emphasised the importance of the Australian stake in New Guinea. He said that a recent tour of the Territories had

> "...confirmed the conviction I already held that the importance of the territories to Australia has not been fully appreciated and that if we are to hold these territories safe from external aggressors they must be developed as quickly as our resources permit. There can be no doubt that we must so hold the area; nor can there be any question that we shall not be able so to do unless we make the fullest possible use of the undoubted natural resources with which the territories are endowed. The present Government has no illusions about the magnitude of the task of developing the Territories. The task is great, yet our resources are limited by many factors, including our own internal programme of development". [170]

---

169 Parliamentary Debates, Nineteenth Parliament, First Session 1950 (First Period), No. 8, 19th-20th April, 1950, p. 1563.
170 Ibid., No. 17, 1st-7th June 1950, p. 3636.

At the conclusion of the same statement, he re-emphasised these points, and, most importantly, he proposed some special means of financing territorial development. He said:

> "Australia has, in the Territory of Papua and New Guinea, a great responsibility and a great opportunity. We must make up our minds that the tasks ahead of us, which I have mentioned only in bare outline, are such that we must courageously face up to them and discharge them if this area, vital to Australia, is to be kept secure and its people gradually developed as a self-supporting, modern community. These people look to Australia as their natural protector in their interests as well as our own. We must get on with the task as rapidly as possible. In my opinion, we should view our financial commitments in respect of the territories as a 'must', and as involving a different budgetary approach from the method that has been adopted to date. We cannot solve the problems of New Guinea merely by relying on revenue hand-outs by the Commonwealth. We must consider engaging in loan expenditure which, in my view, is the proper way for the purpose of establishing capital buildings and equipment in the territories". 171

This was, however, a policy declaration on a very general plane. What specific expenditures, if any, on economic development in the Territories, did the Minister have in prospect? Looking back over the postwar period, he noted that, between October 1945 and June 1949, total expenditure by the Territorial Administration had been £A9,300,000. By 30th June, 1950, he estimated that this expenditure would be raised to £A14,500,000. During the total period from October 1945 to June 1950, "the revenue of the territory amounted to £3,926,000, and the balance was made available by the Australian Government by way of grants".[172] Earlier, Mr. Spender had already recorded that the Australian Government had made funds available "to the amount of £11,000,000",[173] in order to "re-establish the administrations of the Territories, to rehabilitate the inhabitants and to repair the ravages of war".[173] This, however,

---

171 Ibid., p. 3652.
172 Ibid., p. 3652.
173 Ibid., p. 3636.

concerned the past. For the future, Mr. Spender summarised the Government's expenditure intentions as follows:

> "...It has been estimated that a programme of hospital building will amount to about £7,000,000, and the cost of establishing a headquarters settlement to replace Rabaul is calculated to cost at least £5,000,000. Many other items necessary for reconstruction and development will involve expenditure on a comparable scale. Expenditure of that magnitude is clearly beyond normal budgetary provision, and the question of obtaining at least a substantial portion of the necessary funds by way of loan must accordingly be explored..." 174

These expenditures are tiny if judged by the standard of international grants and loans to which we have become accustomed in recent years. But, for territories like New Guinea, at the threshold of development, capital expenditures of the magnitude of those for well-developed countries could not be expected. As development gets under way and as the population engaged in non-subsistence activity increases, the range of projects calling for capital expenditure, is likely to be extended. There is no final proof yet that the Menzies Government will pursue New Guinea development with real energy; but, even though the capital expenditures discussed seem tiny, there is some real prospect that, under foreign-policy and defence pressures, the Menzies Government will attempt a more sincerely progressive policy of economic development in the territories than has been the case in the past.

One thing which might, however, impede the Menzies Government is the continuing insistence on the role of private enterprise. As far as possible, the Menzies Government will attempt only to establish an atmosphere in the Territories attractive to private enterprise, rather

---

174 Ibid., p. 3652.

than to handle the task of development directly itself. In his statement of June 1950 already quoted, Mr. Spender said that

> "...this Government's purpose will be (1) to locate, assess and regulate the availability of the natural resources of the territories so as to bring them within reach for development; (2) to afford all reasonable encouragement for the investment of private capital in the development of these resources; (3) to ensure that the native peoples of the territories shall be enabled to participate to an ever-increasing extent in the fruits of this development". 175

Private enterprise is likely to be given special inducements in the territories. Mention has already been made[176] of the possibility of preferential tariff treatment for territorial produce entering the Australian market. Fiscal inducements, such as freedom from direct taxation, are also likely to be continued and perhaps extended.

If, however, private enterprise does not take the bait, what then will become of the Government's policy? Will the Government accept a more direct role, by starting its own plantations, establishing and conducting its own industrial plants, recruiting its own labour? If, as Mr. Spender suggests, development of the Territories is a "must", this might be a possibility for the future, perhaps as a supplement to private enterprise. But the prospect of some Australian version of, for example, the British Overseas Food Corporation operating in the Territories has not come yet. For the present Government at least, policy is likely to stop far short of any such expedient.

---

175 Ibid., p. 3637.
176 See p. 465 supra.

Chapter VII. Some Projections of Australian Policy

Looking to the future, one of the certain features of Australian foreign policy is that it will contain an active economic component. An Australian foreign economic policy, varying in points of detail according to changing conditions, is well established both in principle and practice, and it appears, will be energetically implemented by future Australian Governments, whether of Liberal or Labour extraction. This, in itself, is a development of major significance, especially when, for example, the fumbling relationship between commercial and foreign policies during the inter-war period is recalled. Moreover, since the present outlook is that there will be continuing, critical uncertainty in international relations, the immediate prospect at least is that the economic factor will become more, rather than less, prominent in Australian foreign policy in the future than it is at present.

Nevertheless, Australian Governments and the Australian people are still, and probably will continue to be, much more concerned with immediate welfare than with security, and this, combined with the continuing influence of liberal traditions, will have its effect on foreign policy. We may expect however that both these factors will decline in significance as a habit of co-ordination among all aspects of external policy is substituted for the habit of diversity which has often prevailed in the past. When this trend is completed, external economic relations are likely[1] to be substantially different from what

---

1 It is not inevitable, of course. One possible foreign economic policy is deliberately to separate economic policy from foreign policy and to apply a wholly non-discriminatory economic policy despite any diplomatic conflict short of war. But it does not seem to be a likely policy for the 'fifties.

the economists, including the Keynesian economists, have tried to make them. Australia, along with the other countries of the Western World, is likely to develop a habit of neo-mercantilism which harmonises readily enough with the political traditions of Germany and, to a lesser extent, of France, but which is far removed from the more liberal traditions which formerly distinguished the British nations and the United States.

However, given that Australia will certainly apply a foreign economic policy, what is the nature of this policy likely to be? From the experience of other countries, there seem to be five possibilities. Firstly, there is the policy of aggression, following the example of inter-war Germany or Japan, and using national strength probably in conjunction with the formation of aggressive alliances. Second is the policy of non-discriminatory isolation which was followed by the United States in the period between the wars and which assumed, firstly, a high degree of immunity from armedassault, and, secondly, a high degree of confidence in the national armed potential if the first assumption proved false. The third is the policy of defensive isolation followed by Soviet Russia before 1939, in which security has to be preserved without any formal alliance system, since all countries are almost equally suspect, and in which whatever time is available is used to build up independent relative strength. The fourth is a policy of defence similar to that of the United Kingdom in the inter-war period, in which a sober consciousness of national strength is tempered by acknowledgment of the need for a moderate alliance and security system to meet the graver possible contingencies. The fifth is the policy of defence through a tight and elaborate system of alliances - the

policy which France failed to apply effectively in the face of the threat from Germany which culminated in the humiliation of Vichy.

Of these five, the possibilities really open to Australia are limited. She has neither the disposition nor the power to apply the policy of Hitler's Germany. She has neither the immunity - real or imagined - nor the inherent strength to apply the isolationist policy of inter-war America. If, however, these are ruled out because of deficiences of one sort or another, the policy of defensive isolation is ruled out for a different reason - that Australia has no such insufficiency of friends that she need resort to the desperate expedients of Soviet Russia between 1918 and 1939. But a part of this third possibility remains - the rapid expansion of absolute and, if possible, relative strength. This, with an alliance policy lying somewhere between that of pre-war Britain and pre-war France suggests the following broad objectives of policy for future Australian Governments:

> (i) To maintain and, where possible, extend Australia's present formal or informal alliances so as to give a clear margin of strength over her potential enemy or enemies;
>
> (ii) To expand absolute, and, if possible, relative strength by means of immigration and industrial development, so that the importance to national security of the possibly uncertain external alliances declines in relation to the importance of the certain exercise of national strength; and
>
> (iii) To create or extend economic alliances, including if necessary limited economic or customs unions, in order to make the political alliance system more certain and more fruitful, while maintaining as adequate a base as possible for a system of independent national defence.

The problem of expanding international strength is a defence problem, closely related to foreign policy, but a special issue not

immediately and directly germane to the present study. What is germane, however, is the probable development of Australian foreign economic policy in search of a satisfactory system of mutually-supporting political and economic alliances. Some details of this policy can readily be foreseen: others can be the result of little more than conjecture. In what follows, the objective will be to minimise the range of speculation, and to concentrate on what can be said with assurance.

A certain and permanent background to the whole of Australian policy in the future will be the strong political and economic link with the United Kingdom. In part, this will be reflection of self-interest - Australia, like France ever since 1870, needs the assurance of powerful allies such as Britain. However, it is a reflection of strength as well as weakness - a determination to continue to assist the Mother Country in the future as she has already done in two World Wars. It is this close mutual support, needing no formal instrument of agreement, which makes the bond between the United Kingdom and Australia so strong and its continuance so certain.

It is this same support which, as already suggested, makes preferential or other economic agreements largely unnecessary for continuing, intimate political relations between the two countries. Nevertheless, an especially intimate economic co-operation between the two countries is certain to continue, if only for welfare reasons. Australian support for tariff preferences, her close participation in sterling area policy, her willing co-operation to solve the recovery and supply problems of the United Kingdom, all underline Australian determination to keep intact

the economic link with the United Kingdom.

At the same time, it is probable that even the welfare need for special treatment in the United Kingdom market is declining. Preferences, long-term contracts, and so on are largely - though not wholly - an insurance against depressed market conditions. If however high and stable levels of employment and business activity are maintained in the world's major trading countries, the need for this insurance will largely disappear. Some special arrangements might still be necessary for Australian exports which have expanded under the shelter of preferences and commodity contracts; but even this, under conditions of assured full employment and economic stability in the major trading countries, should decline in importance. The important thing, however, is that continuing full employment is not yet completely assured; and it seems clear that the Australian Government will make no concessions in the British market on general and uncertain argumentation, but, on the contrary, will agree to concessions only when some definite quid pro quo is in prospect. Under pressure from the United States and other countries, Australia agreed to some modification of the principle of preference and some reduction of preference margins, in negotiations under ITO and GATT, but full compensations were obtained in the United States and other markets, and the Torquay negotiations suggest that the effective limit of preference concessions may now have been reached. However, United States pressure for reduction or elimination of preferences - though it may be somewhat less energetic than in 1945 and 1946 - still persists, and also - although the movement now seems less active than in, say, 1949 - the project for Western

European integration may yet affect preferences from another side. If any concrete plan for Western European integration did emerge and United Kingdom participation were considered essential, as we might suppose it would be, some curtailment of Commonwealth preferences in the United Kingdom market would seem unavoidable. At the moment however any formal integration - beyond the close co-operation involved especially in OEEC - does not seem likely, and Australia is not likely therefore to have to face the dilemma of choice between insisting on her long-cherished privileges in the United Kingdom market or making some commercial sacrifice to assist her newly-urgent desire for Western European solidarity. If at any time preferences had to be weighed against foreign-policy advantage, in relation either to the United States or to Western Europe, there are good grounds for concluding that any wholesale jettisoning of preferences for foreign-policy reasons is not a course to which any Australian Government - Liberal or Labour - would readily agree. If the Chifley Government and, more especially, the Menzies Government have pledged their support for close economic co-operation with the United States and Western Europe, both have demonstrated their attachment to British preferences much more convincingly. To outweigh anxieties about commercial loss, therefore - and, it must be added, to offset the intense aura of emotion which surrounds preferences - any proposal to abandon or seriously modify preferences for political reasons would, it seems, have to show a very precise foreign-policy gain.

Apart from the issue of preferences, and beyond the links, political and economic, binding the United Kingdom and Australia one to

the other, it is important for the Australian Government to develop a closely co-ordinated foreign economic policy with the United Kingdom for application to "third countries". In particular, a closely co-ordinated policy is of major importance in implementing Australia's foreign economic policy in South and South-East Asia. The comment has been made that:

> "The Pacific Ocean has many important interests for the British Commonwealth, and particularly for those members of it who are situated on its shores. The United Kingdom itself cannot stand aside from Pacific problems, but must be careful not to attempt to play a part there which is beyond its powers. This does not mean that we would wish to withdraw altogether from participation in a security system. It means that in our view it is for Canada, Australia and New Zealand to take the lead with the United States in a Pacific Pact should one be found necessary. Our active participation should be limited to the South West Pacific and South East Asia areas". 2

Australian policy since 1945 has accepted a situation which fits this pattern. Although Australia took the initiative in, for example, the Colombo Plan, she clearly needed, sought out, and obtained the full and active participation of the United Kingdom. It is reasonable to assume that future Australian policy will often be implemented along the same lines.

That brings us to the heart of Australian foreign economic policy - the policy to be applied in the region of South and South-East Asia, and, especially, policy towards the countries of Commonwealth Asia. First of all, future Australian policy will seek to ensure that the countries of Commonwealth Asia remain within the

---

2 Contribution of Major-General Sir Ian Jacob to the R.I.I.A. Study, "United Kingdom Policy Foreign, Strategic, Economic", London 1945, p. 55.

Commonwealth and that their relations with Australia continue to be intimate and friendly. These objectives might depend to a significant extent on Australian economic policy towards Commonwealth Asia and, more especially, on the measure to which Australia, in co-operation with other countries, can assist Commonwealth Asian countries "to increase production, raise standards of living, and...enlarge the volume of trade around the world from which all countries may benefit".[3] Looked at from the purely negative viewpoint - and from the viewpoint also of pure self-interest - it is vital that, as a general and continuing objective independent of any passing threat from communism, Australia should try to remedy conditions which might be used to foster "have-not" hostility towards her own comparatively wealthy community. Such an attempt could certainly be aimed to cover the whole region of South and South-East Asia, but there is good reason to suppose that it should and will be concentrated with special energy on the Commonwealth countries within the region. This concentration would be amply justified, for, if Australian foreign economic policy failed in Commonwealth Asia, the whole security objective of her foreign economic policy would be gravely jeopardised.

In what way is Australian foreign economic policy likely to be applied towards Commonwealth Asia? Clearly, it will not be applied as a policy of economic pressure. For Australia, exertion of force or pressure is always a policy of last resort, not a regular instrument of policy; but, in any event, Australia lacks the economic potential to make economic pressure possible, and the countries of Commonwealth Asia would stoutly

---

3 Report by the Commonwealth Consultative Committee on "The Colombo Plan for Co-operative Economic Development in South and South-East Asia", (Cmd. 8080), London 1950, p. 3.

resist the slightest hint of intimidation. Unless it is a simple policy of co-operative assistance, without any attempt to impose political obligations, it will defeat its own purpose: it will create a resentment against Australia at the same time as it builds up Asian strength to be used perhaps against her. Australian policy over the past five years or so has recognised this clearly and is certain to continue to do so.

It must nevertheless be recognised that a policy of this kind assumes a close underlying harmony of political interest. This is a very reasonable assumption for the countries of the Commonwealth, but it suggests possible grounds for discrimination where other countries are concerned. For example, would the Australian Government agree, at the present time, to an extension of the Colombo Plan to, let us say, Communist China? This will be discussed below in more detail; but here it is important to note that the co-operative programmes for economic development of Commonwealth Asia can be implemented without reserve because of the tacit Commonwealth alliance which underlies them.

What are the means at the disposal of Australian foreign economic policy in Commonwealth Asia? Except for agreements concluded through the General Agreement on Tariffs and Trade, it is still true that "Australia has never had a trade agreement with India",[4] and neither has any agreement outside GATT been concluded with Pakistan and Ceylon. Whether or not any formal agreements beyond GATT are considered necessary in the future, the Australian Government is certain to advocate expansion

---

4 Department of Commerce and Agriculture, "Overseas Trading", Vol. 1, February 1948, No. 9, p. 13.

of trade with Commonwealth Asia, both for commercial reasons and as a concrete expression of the wider spirit of co-operation in all fields which unites Commonwealth countries. However, the two principal means of co-operation to be used by Australian foreign economic policy are likely to be the provision of capital and the provision of technical training. Although it has not always been so impressively named, a "technical assistance programme" has been a part of Australian policy in South and South-East Asia since 1947, when the Australian Cabinet agreed to establish scholarships on a regular basis for students from the region and also to make available fellowships under the UNESCO Reconstruction Programme. The later United Nations schemes fitted readily into this Australian policy, and, under the Colombo Plan with its Council for Technical Co-operation, the same idea was further extended to establish a more formal, more permanent and more comprehensive programme of technical training. After this long period of trial, a continuing place for technical training in Australian policy seems assured.

Much the same is true of provision of capital, though it is likely that here Australia can make a less significant contribution to Commonwealth Asian needs than in the field of technical assistance. Australia is already pledged to contribute to the capital needs of the countries of Commonwealth Asia, but how large this contribution will ultimately be depends on how far Australia will be prepared to make a substantial economic sacrifice for foreign policy in the same way as for defence. At least, it seems likely that the six-year programmes of the Colombo Plan are only a beginning to capital and technical

assistance, although it has obviously been impossible to give any definite commitment beyond the six-year term. The Report of the Consultative Committee said that:

> "The strength of these programmes is that they are designed to lay sound foundations for further development: they aim to provide, in a six-year period, the indispensable preliminary basic development which will pave the way for improvement in the future". 5

For the area of South and South-East Asia generally - that is, outside the Commonwealth countries - the same general arguments for export of capital and for provision of technical assistance apply. It is a policy from which Australia, as one of "the community of free nations stands to gain immensely".[6] Nevertheless, as suggested previously, the arguments for assistance for economic development to the non-Commonwealth countries of South and South-East Asia are likely to apply with less force because of the less certain political affiliations of these countries with members of the Commonwealth including Australia. It must be borne in mind that any present classification of governments according to their communist sympathies is only one and not a final classification. Future Australian Governments are likely to find special causes of conflict and special points of mutual interest with one government or another independently of the broad line of division into communist and non-communist. Neither will conflict or mutual interest in foreign policy entirely follow the lines of collision or harmony in economic relations.

It is often assumed that Australian immigration restrictions

---

5 Cmd. 8080, op. cit., p. 44.

6 Ibid., p. 3.

could be very fruitfully compensated by wisely-directed capital assistance, aimed at raising standards of living in the Asian countries themselves instead of providing a dubious and temporary relief to population pressure through migration. It is also assumed that expanding trade contact might make political relations between Australia and the countries of South and South-East Asia both more intimate and more amicable. "Economic co-operation is bound to affect other relations"[7] is a concept upon which policy is often based, and it is usually accepted that economic co-operation will affect "other relations" - including diplomatic relations - favourably. In fact, however, it is never very easy to say just in what way or how importantly economic relations will react on diplomatic relations, and it would be a very slender foreign policy indeed which placed its whole trust in mutually advantageous trade relations, or in a mutually profitable lender-borrower relationship, or in any other economic complementarity alone. In general, it seems reasonable to say that harmonious economic relations might accomplish three things:

(i) They might help cement an existing political alliance, and make it more fruitful, in terms, for example, of efficient defence preparations, industrial co-ordination and so on.

(ii) They might remove the danger of a breach in an alliance, resulting from some sort of welfare discrimination, failure to assist in overcoming long-term economic problems or some temporary economic crisis, and so on.

(iii) Where no political alliance exists - but where there is no active hostility - they might help prevent neutrality lapsing into hostility through, for example, one country or other nourishing some "have-not" jealousies or some other welfare grievances, either real or imagined.

---

7 Contribution by Sir Charles Webster to the R.I.I.A. Study on "United Kingdom Policy, Foreign, Strategic, Economic", op. cit., p. 18.

Harmonious economic relations tend however only to reduce the danger that political frictions will arise, or to supplement existing bonds of amity. It is doubtful how far they can go beyond this to create de novo a close political alliance, and still more doubtful how far they are capable of converting active hostility - deriving from territorial conflict, for example - into mutual friendship. As a result, it is likely to be important for the Australian Government to take care that, in its foreign economic policy, it is building on a basis of political amity or neutrality, or that it is combining a policy for expanded economic relations with a more directly political attempt to overcome any diplomatic hostility.

While, therefore, Australia may be expected to apply to the wider area of South-East Asia much the same, general policy of economic co-operation as she applies to Commonwealth Asia, there may, for this wider area be a more subtle policy decision to be taken. For, although in conception the Colombo Plan has quite a long background in Australian policy, it would be simple-minded to imagine that the Plan can be applied with equal foreign-policy advantage to all the countries of the region. As a consequence of this unequal advantage, Australian policy seems to be faced with a choice of three possible courses. The first - and the one which seems to be intended under the Colombo Plan - is the course of complete non-discrimination - at least as among members of the

"community of free nations".[8] Mutually advantageous trade relations would be encouraged with Indonesia equally with India, or with Burma equally with Pakistan. Capital assistance would go to the country or countries where the prospect of economic benefit was greatest or in some form of "fair shares" - India, let us say, would not get specially favourable treatment, for foreign-policy reasons, and Indo-China, let us say, especially unfavourable treatment for reasons of the same type. The second course which seems to be available to the Australian Government is one based on a system of regional, collective security. For a long time, Australia has advocated a regional pact for the Pacific. If such a pact were concluded, the close political links which Australia would presumably form with its signatories would be an inducement for Australian foreign economic policy to discriminate between members of the collective security system and countries remaining outside it. Discrimination - "economic sanctions" - might also be involved for any member of the system which failed to meet its obligations. The third choice for Australia is to adopt a policy

---

8 It could, of course, be claimed that if the principle of non-discrimination is broken in relations with communist countries, then the way isopen for other, similar forms of foreign-policy discrimination. For this reason, it might be claimed that, if there is to be a policy of non-discrimination, it should be kept entire, and should be applied with equal determination to Communist China as to Commonwealth India.

It might also be noted that, although the Australian Government has conducted its recent foreign economic policy mainly through the machinery of Commonwealth consultation and although this suggests first attention to Commonwealth Asia and a residue to the other South-east Asian countries, the ready attempt to assist Burma, Indonesia, and other non-Commonwealth countries suggested the contrary - that Commonwealth machinery was being usedbecause it happened to be in existence, but that this was intended to foreshadow no special attention to Commonwealth Asia, if the co-operation of the other countries in the area could be obtained.

aimed at forming a limited economic alliance. This would mean, not concentrating equally on relationships with all countries in the area, but concentrating especially on relationships with a selected few - for example, the countries of Commonwealth Asia. It would aim at promoting the closest relationships among those selected few, so as to strengthen the alliance - formal or informal - against any threat of aggression originating within or perhaps even outside the region of South-East Asia. This policy is more narrowly conceived than the others and, at first sight, has little to commend it. Nevertheless, it offers certain advantages.

In the first place, it is a more direct, more precise policy, and might flow from a more careful assessment of Australian security risks than that these risks are likely to originate "somewhere in South-East Asia". But, beyond this, it must always be borne in mind that Australian economic resources are small, and that economic policy alone cannot guarantee the friendship of any single country and still less the friendship of all the countries comprising South and South-East Asia. From these considerations arises the incentive for a selective foreign economic policy - for a policy which will build the strongest possible alliance on the basis of mutual understanding and mutual interest, with the hope that this alliance will be strong enough to withstand any attack from countries which do not share this mutual understanding and interest.

At the moment, it seems that Australian policy does not sharply accept any one of these three courses. Rather is policy balanced between an attempt at the first and a practical tendency towards the

third, with a possibility always in the background that it might be further modified if Australian efforts for a regional pact are successful. Policy has been developed on an empirical basis, by people who seem to be without any pretensions to establishing an elaborate basis for it in foreign-policy theory; and by continuing to proceed in this way, it might be possible to obtain the advantages - or some of the more important advantages - of all three approaches. Care will be needed however to ensure that the energies of Australian foreign economic policy in South and South-east Asia are not so dissipated that they bring no significant return. The Menzies Government seems to have rejected appeasement - including economic appeasement, in fact if not in declared policy - in the case of the communist countries, in favour of an alliance system. Having once made this choice, it would be strange if a policy of universal and perhaps futile economic appeasement were applied without discrimination to all non-communist countries, beyond the point justified by a careful assessment of political realities. At the same time, as the Menzies Government has explicitly declared, co-operation with any country will presumably be abandoned only when a continued effort appears clearly to be fruitless.

Despite the most energetic efforts, there can be no assurance that Australian policy in South-East Asia will be wholly successful. To the extent that it falls short of its goal, the importance of the territories lying more closely to the Australian coast will be increased. South and South-East Asia necessarily attracts the greater attention because of its greater economic and military potential, and because it

is the region in which an immediate threat to Australian security might have its origin or in which a threat of remoter origin might most effectively be held in check. But as a defence against these possible threats to security - as a last external remedy for any deficiencies of policy in other regions - Australian policy towards the northern and eastern island perimeter becomes crucial.

This has already been recognised in policy statements, although as pointed out elsewhere, implementation of policy in this region has often seemed to lag. As long ago as March 1946, when he was a member of the Liberal Opposition, Mr. Spender suggested to the House of Representatives that:

> "...our foreign policy must be directed to taking practical steps to safeguard ourselves against the possibility that some day we may again be attacked...there is to the north the Dutch-Portuguese island of Timor, and to the north-east there is New Caledonia. For a long time past I have sought to emphasise that Australia has certain rights in those areas. I say deliberately that the inability of small powers to protect their colonial interests in the South-West Pacific Area is a constant source of danger to Australia. Timor is of vital strategic significance to this country, but Portugal is unable to assist in its defence. Unless these areas are protected by the presence of our own forces, or our own forces and those of other nations on a conjoint basis, they will continue to be a source of danger to this country. We should assert our right in those areas, because Australian forces played a predominant part in their protection during the war. We should assert our right to have bases in Timor. I know it will be argued that such action would be an interference with the sovereignty of Portugal, but sovereignty is something which apparently can be disregarded when it is being destroyed or its destruction is threatened by Russia. If Russia has a right to occupy defensive positions, or to claim interests, in certain areas, how much greater is our right to defensive bases in Timor and New Caledonia". 9

---

9 Parliamentary Debates, 22nd March 1946, Vol. 186, p. 545.

Four years later, Mr. Spender's attitude was substantially unchanged except on the question of interference with existing sovereignty. Speaking now as Minister for External Affairs, he told the House that:

> "Irrespective of whether or not a regional defence pact (covering, especially, South-East Asia) should turn out to be feasible, Australia has a duty to itself which must not be neglected. This is the duty of ensuring by every means open to us that in the island areas immediately adjacent to Australia, in whatever direction they lie, nothing takes place than can in any way offer a threat to Australian security, either in the short or the long term. These islands are, as experience has shown, our last ring of defence against aggression, and Australia must be vitally concerned with whatever changes take place in them. It is not to be assumed by anyone that should fundamental changes take place in any of these areas, Australia would adopt a purely passive role. I have in mind particularly, but not exclusively, New Guinea, which is an absolutely essential link in the chain of Australian defence...
>
> "New Guinea happens to be the largest and most important of those island areas that are of direct concern to us. But in the same way we cannot be passive observers of any developments in Timor, the New Hebrides and New Caledonia that might have unwelcome consequences for Australia. But that is negative; we are prepared positively to join with the governments of these countries in arrangements of mutual economic and security benefit. There is no question of interference in the affairs of others; it is simply a matter of common prudence and mutual co-operation". 10

The main features of this policy are that the territories should at worst remain neutral - a defenceless "no-man's-land" controlled by countries which are not seen as potential aggressors - or at best be strong and certain allies. The recent Australian attitude to Dutch New Guinea is not dissimilar from the Australian attitude to German New Guinea at Versailles in 1919, and the Australian determination that Japan - at that time a formal ally, it must be recalled - should be

---

10 House of Representatives, 9th March, 1950, printed in "Current Notes on International Affairs", February 1950, p. 164.

kept north of the Equator. However, while the Hughes Government and its successors after 1919 were willing to let New Guinea "lie fallow", the declarations and, in limited measure, the actions of the Chifley and Menzies Governments since 1945, in relation not only to New Guinea but also to the other territories in the South-West Pacific, suggest quite the contrary policy for the future. If, for example, we take only Mr. Spender's statement of March 1950 as a guide, we may expect in the future positive Australian efforts to formulate for the South-West Pacific "arrangements of mutual economic and security benefit". So far, however, as concerns any details of the possible arrangements or even the broad lines along which they might be developed, we are still largely in the dark. Mr. Spender has done no more than his predecessor, Dr. Evatt, to clarify the means - and especially the economic means - by which Australia's vital interests in that area might be safeguarded.

It is possible that the solution to Australia's relations with these territories will be found through an organisation already established - the South Pacific Commission. There can be no doubt that in accordance with the agreement between Australia and New Zealand this Commission was intended to promote Pacific security by strengthening the economies of the perimeter territories. The Commission's basic purpose was, therefore, primarily political and strategic. But, although the Commission was inspired by political and strategic motives, the South Pacific Commission Agreement nevertheless did not permit the Commission to consider political or strategic issues. That would be reasonable enough if any suggestion had been made that purely political

or strategic issues be placed before the Commission, rather than issues of either kind which had an important economic or social content. But it seems unreasonable that welfare issues be considered in a technical vacuum, without taking account of political or strategic objectives or springs to action. For example, the history of customs and economic unions suggests that they are usually successful when there is a strong political incentive to union: the drive is political, the sacrifice - in terms of individual or group sacrifice, for the most part - is economic. But the Commission presumably could not suggest customs or economic union for foreign-policy reasons, but could consider any such unions, in their technical aspect, only if requested to do so after a political decision had been taken elsewhere. It could consider customs or economic unions if there were a welfare incentive for them, but this might often be a condition too limiting for cogent Commission initiative.

Nevertheless, the impediments to Commission initiative in formulating a regional "foreign economic policy" might be more formal than real. In any event, with some amendment of the Agreement establishing the Commission, it could assist the declared intention of Australian policy which is to bring these territories into closer economic alliance with Australia and New Zealand. The ultimate result might be some type of economic union with the two Dominions, although that may not be essential, would certainly be difficult, and on balance might not even be desirable on foreign-policy grounds.

However, setting aside anything as ambitious and, perhaps, as impracticable as a more-or-less immediate economic union, it seems clear

that there is a harmony of foreign-policy interest between Australia and the colonial powers of the area which should make a close economic alliance an early possibility. The economic alliance need mean, of course, no more than co-ordinated plans for economic development, formulated with defence considerations in mind so as to give results of a kind and with a speed beyond the reasonable claims of welfare alone. There would be an assurance about an alliance of this kind which might be impossible with some of the countries of South and South-East Asia. There would also be no immediate danger that the alliance would be threatened by any militant nationalism in any of the territories; and there would be a long-term prospect that, if Australian policy were carefully directed now, the danger of hostile nationalisms in the future might be reduced.

In any event, the establishment of the South Pacific Commission, the continuing support given to it by the Menzies Government, and the slowly increasing attention being given by the Australian Government to Australia's own island territories, all suggest that a progressively more active Australian foreign economic policy is developing in the South-West Pacific. The flow of Australian capital, for various purposes of agriculture, industry and public utilities, may be increased, although, in the immediate future at least, it might remain small in relation to the commitments into which Australia has already entered in South and South-East Asia. Further development and diversification of agriculture, and establishment of industry in the territories is likely, however, to need more assistance than the mere provision of capital: in many cases it might need some long-continuing market guarantees or market preferences.

For example, Portuguese Timor, let us say, might have natural conditions well suited to the growing of coffee but market risks and the probability that production costs, initially at least, would be above world prices might prevent any large-scale project for the development of a coffee-growing industry. In these circumstances, a guaranteed market, or a specially favourable market in Australia might go far towards assisting the economic development and the defence potential of the territories. This sort of development might be a logical projection of the present foreign economic policy of the Australian Government.

Much of this might of course involve some economic sacrifice. This recurring question of sacrifice is one of the issues which will have to be faced both as a matter of general principle, and in terms of sacrifice for particular areas and interests. The notion of economic sacrifice for defence is well-established in the public mind; but the notion of economic sacrifice for foreign policy - which is logically an extension of the same thing and might often be more economical than defence expenditures - has not yet received the same recognition.[11] At least, the expenditures on foreign policy are not conceived as approaching the order of magnitude of expenditures on defence. If however, the present policies of the Australian Government are effectively implemented, a substantial adjustment in public thinking would seem to be called for.

---

11 It has received some, although for the most part an imprecise recognition. For example, in a broadcast of 5th September 1950, Mr. Spender said, in speaking of aid to South-east Asia, that:

> "It may involve some economic sacrifices, let us be clear, and some diminution of national sovereignty. But we in Australia are prepared to join with any and all people of good will who will make these sacrifices and who will co-operate to build the world society, based on humane principles and not befogged by fanatical hatreds" (Current Notes on International Affairs", September 1950 p. 654).

As we have noted before, however, Australia - even if she makes very substantial sacrifices - cannot effectively implement the foreign economic policy to which she is committed if she acts alone. The capital assistance she can offer, for example, is measured in tens of millions while the capital assistance needed is in thousands of millions. We have already noted that close co-operation with the United Kingdom will be essential. But there are two Pacific countries with whom a special relationship is also essential, over the whole field of foreign policy and foreign economic policy. These countries are, to take the smaller first, New Zealand and the United States, with both of whom the Australian Government has consistently and emphatically declared its intention to collaborate closely. Towards the end of the nineteenth century, when the movement for federation of the Australian colonies was reaching its climax, the community of foreign-policy interest between Australia and New Zealand caused a large body of opinion to hold the view that New Zealand should form part of the new federation. The community of foreign-policy interest is just as obvious today, and the need to join forces to achieve common purposes is much more urgent. The Anzac Agreement recognised this, and the two countries have since often consulted together on common problems. Consultation - though it might be improved in points of detail - is now fairly well established in practice. In South and South-east Asian policy, close co-operation has been achieved and no doubt will be continued. What further does Anzac co-operation offer? Opportunities may lie in two fields. First,

there is the possibility of industrial co-ordination which was clearly in the minds of both Governments in 1944, but which seems to have been largely forgotten since. The potential gains from industrial co-ordination, in terms of industrial development and defense potential, might not be great, and could be established only by a careful, technical examination of each industry being developed or proposed for development in either country. In general, however, it seems to offer some prospect of an effective substitute for economic union between the two Dominions. Second, there is the possibility that joint Australian-New Zealand initiative, which has already produced the South Pacific Commission, might be taken further in the South-west Pacific to enable more effective planning for closer integration of the perimeter territories with the two Dominions and a more dynamic approach to territorial development. A joint effort by the two Dominions would achieve greater results in itself, and would be more likely to draw the support of other countries such as the United Kingdom, France, the Netherlands, Portugal, and other countries with interests in the area. There are still plenty of statements on both sides of the Tasman approving co-operation of this general type in principle; but it is still uncertain to what practical lengths this co-operation will be taken.

Co-operation with the United States cannot be built on the same precise identity of interest, but the fruits of co-operation are likely to be infinitely greater. Just as in the eventuality of open aggression from South-East Asia only United States intervention might guarantee Australian security, so with implementation of Australian

foreign economic policy, only with United States participation will sufficient resources be available to make it fully successful. This has been clearly recognised by the Menzies Government. Co-operation with the United States is already close and should be extended under the security pact proposed in connection with the Japanese peace settlement. The future will call, not for agreement on the principle of co-operation, but for joint action on specific projects. Direct American participation in the Colombo Plan is already one objective. Direct American participation in economic-development programmes in the South-west Pacific might be another. But, if one part of the task is to seek the assistance of the United States in carrying through specific tasks, another is to remove any points of friction which might hamper co-operation between the two countries.

One thing to bear in mind is that, to a large extent, Australia might become involved in conflict in the Pacific, not as a direct consequence of its own policy, but through the United States. It is important therefore that there should be a degree of co-operation with the United States such that Australian views and interests can be made known and reasonable account taken of them before any action is set in train which might prejudice Australia's security. To establish the proper atmosphere for an undeviating habit of consultation and co-operation, a sympathetic Australian response to American attitudes on the preference question or to such proposals as that for a Treaty of Friendship, Commerce and Navigation would seem to be desirable. Whether any specific commercial or other agreements are concluded in the future would depend largely, it seems, on the practical importance which the United States Government

attached to them. Since the Australian Government is already committed to a policy of close economic co-operation with the United States for foreign policy reasons, it seems reasonable to assume that some sacrifices in terms of trade, taxation or investment concessions to the United States might be made by the Australian Government if it became clear that they were necessary to maintain or promote the fullest possible political collaboration with the United States.

The place left for the United Nations in Australian foreign economic policy seems to be relatively humble. Broadly, this place will depend on:

> (i) How far the United Nations becomes a purely Western instrument, instead of an organ for universal consultation and co-operation; and
>
> (ii) How far Australian foreign policy becomes an unequivocal bloc policy, depending on relative power rather than co-operation to maintain peace between the two principal blocs.

So far, the Australian Government seems eager to use both methods of policy - a combination which has recently come to be known as the policy of "negotiation from strength". However, the prospects that in Great-Power relations, an even balance will be kept between negotiation and the exercise or threatened exercise of strength are not altogether bright. The consequence might be that the Australian Government, whether it wishes it or not, may have to rely less and less on the consultative processes offered by the United Nations, and more and more on the simple development and studied employment of national and bloc power. In this development, of course, as implied in Chapter III above, the United Nations may completely lose its capacity to apply consultative processes

in any universal sense, and then its place in Australian policy might be extended to assist openly the development and exercise of the power of the Western alliance.[12] Australia would then, in fact, though not in name, have ceased to depend on a world organisation as it was conceived at San Francisco.

There is a broad, underlying issue in this which should be made explicit. That issue is whether, within the United Nations, Australia will use its limited influence to preserve - or perhaps restore - the character of the United Nations as it was conceived at San Francisco, or whether she will allow or actively assist its conversion into an instrument of the Western alliance. Will the Australian Government accept as inevitable and desirable any trend to change the United Nations from an agency for a co-operative peace, or will it - to the very limited extent that it can - resist any such trend?

For welfare reasons, Australia would clearly support international economic co-operation aimed at steady economic advancement throughout the world; but it seems equally clear that, for foreign-policy reasons, the present Australian Government is not prepared to seek this welfare ideal, but will rather concentrate on a more limited welfare within a political bloc. For a number of reasons, this may be regrettable, but the alternative holds many dangers and difficulties. If Australia - or any other country - tried to restore the United Nations

---

12 Some Australian statements already tend to identify the United Nations with the Western alliance. For example, Mr. Spender said on 24th October 1950 that: "...the countries of the free world must help each other to become stronger economically and socially. Australia is participating vigorously in the economic and welfare programmes of the United Nations. I mention the United Nations programme of technical assistance to underdeveloped countries, the work of the Children's Fund and the International Relief /sic/ Organisation..." ("Current Notes on International Affairs", October 1950, p. 740).

as a genuine instrument for a co-operative peace, this should mean, so far as foreign economic policy is concerned, that the decisions and the programmes of the Economic and Social Council and the Specialised Agencies should not discriminate between the Soviet and the Western bloc, or between any other great or small political groupings. But it should go beyond this to attempt to induce all governments, including Australia, to accept restrictions on their right to apply a discriminatory foreign economic policy outside the United Nations. Therefore, if Australia accepted as her policy objective the full restoration of the United Nations as an instrument for a co-operative peace, she should logically support action by the economic organs to achieve economic disarmament - not welfare disarmament, but power disarmament. Capital should go without political distinctions equally to all areas; exports of capital and other goods, including goods in short supply, should be equally available to all countries; and no market preferences, based on political attitudes, should be extended by way of tariffs, licensing controls, or other commercial-policy devices. Economic disarmament of this kind would, of course, have to be soundly based, for agreement on economic disarmament which involved, in effect, only unilateral concessions, might entail security risks for the Western countries, including Australia, almost as great as those attaching to unilateral military disarmament. At the moment, there seems little doubt that the Australian Government has rejected a policy of economic disarmament, in favour of a foreign economic policy of strong support for the Western Powers.

Whatever Australia's broad attitude to the United Nations,

Australian policy will certainly be in part independent of any universal security system, and this "independent" sector now seems likely to be easily the most important part of Australian policy. Especially if the United Nations showed itself able to maintain stability in South and South-east Asia, the Australian Government might be able to relax its bilateral and group attempts to ensure Australian security in that region. If the United Nations proves ineffectual, the "independent" sector of policy will grow in importance. The imperatives of the Australian position must be met, if necessary through "independent" Australian action, if, and so far as, possible with United Nations assistance.

Finally, we may note that the exercise of an active foreign economic policy must have its impact on the domestic Australian economy and on the political philosophy of Australian Governments. Effective policies of economic stability are an essential foundation for the policy; large-scale external expenditures, the return on which might be negligible in economic terms, are involved; special supply and market arrangements might be necessary within the Western bloc and within the more limited security areas of South-east Asia and the South-west Pacific. How great the impact will be depends on the energy with which Australian foreign economic policy is pursued; and, it must be acknowledged, Australian preoccupation with foreign policy and security does not yet seem so great that any sudden revolutionary interference with welfare policies is in prospect. But, though the impact of foreign economic policy might be gradual and though the results are difficult to foresee in any detail, it seems that that

impact must, over a period, be significant in its general effect. An active and effective foreign economic policy must, it seems, involve a further decline in the liberal opposition to government economic control, and a further decline also in the sovereignty of the criteria of economic return. To both these developments, a Liberal Government might, by a perverse twist of fate, make a handsome contribution.

Part III - Conclusion

Chapter VIII. Conclusion

When Dr. Cunningham said, in 1882, that the United Kingdom had "reverted from the pursuit of power in [its] economic policy to the pursuit of plenty", he looked back on the comparatively recent decline and fall of the mercantile system. As time went on however - as he himself suggested might happen - the essential power-element which marked mercantilism began slowly and hesitantly to return. The policy of power having given way to a policy of plenty, the pendulum then began to swing back slowly towards a policy of power. The changes in other countries than Great Britain were not the same in degree, but, for the most part, they were the same in general direction. Germany and France, for example, did not move as far away from the essence of mercantilism as did Great Britain, and Germany especially replaced the power element in economic policy more quickly and completely than the Anglo-Saxon countries. But, for virtually all countries, an economic policy of power is now strongly re-established. This policy will, in many respects, be very different from the old mercantilism. The heritage of liberalism, the greater interdependence among national economies, the wide sweep of modern political alliances and potential military conflicts, the more dynamic nature of modern economies as compared with the mercantile period, and the consequent emphasis on steady economic advancement, all these factors must help to make the later economic policy of power distinct from, and much more complex than, the old. Nevertheless, since the essential element of power marks the later policy as it did mercantilism, the present period of international economic relations appears as what may be called for the sake of brevity the period of the new mercantilism. Under this

new mercantilism, a policy of plenty will still be pursued within limits - indeed, a policy of plenty, both internally and externally, will often be essential to the policy of power - but, whether or not there may be an incidental gain in economic welfare, the ultimate criterion for economic policy is likely to be whether or not it promotes or endangers national power. The means may or may not be plenty, but the end is power.

The new mercantilism, we may expect, will use virtually every segment of economic policy to achieve its objectives. One principal objective will not be merely to build up national defence potential, but also to strengthen political alliances and the defence potential of friendly countries. This is likely to call for a flow of international capital along the channels of political alliance or potential alliance. Special efforts are likely to be made to direct funds to friendly countries: special restrictions and prohibitions are likely to withhold them from potential enemies. Commercial policy is likely to follow the same general lines: supply and market concessions for friendly countries, and passive or active "sanctions" against the less friendly. Assurance about supplies and markets will be an essential objective of policy, and, underlying all, will be the need to ensure that economic distress or economic frictions do not induce any party to an economic alliance to secede. Full employment, economic stability, and economic development must consequently be the constant concern of the new mercantilism. The comment made only recently that

> "In war, the control by the State over employment is dominant and regardless of economic values; in peace, it is supplementary to a system in which economic values are dominant" 1

---

1 D.H. Macgregor, "Economic Thought and Policy", London 1949, p. 173.

is already taking on an odd ring. Economic values are universally becoming of less consequence in peace as well as in war, and are being superseded more and more by values derived from security, defence, political ambitions, and so on.

Having drawn that stark picture, it is necessary to admit some qualifications to it. Firstly, it describes an extreme position in foreign economic policy, which has not yet been adopted by many countries. The postwar policy of the United Kingdom, for example, suggests that the attempt will still be made to maintain an economic policy of welfare, or at least to avoid the more extreme forms of an economic policy of power. Secondly, some even of those countries which have adopted extreme mercantilist policies in recent years may still hold an attachment to more liberal principles which will assert themselves strongly whenever a change in political conditions allows. In other words, an economic policy of power might still be a policy which has been forced on these countries and which might be as fundamentally repulsive to them as the economic policies adopted in the crisis of war. This very real possibility - in the case, for example, of the United States - must always be borne in mind. Thirdly, it has been only the liberal, democratic countries which have in the past completely or almost completely rejected an active, discriminatory foreign economic policy, and this rejection has often weakened their defensive position vis a vis countries which have applied an aggressive, hostile foreign economic policy to further their political ambitions. The change, therefore, is not from rejection of mercantilist policies by all countries, to acceptance by all countries, but rather is the change to be found in universality and intensity of acceptance. Although acceptance of

mercantilist policies by the liberal democracies might involve real welfare sacrifices, it might also bring real power gains.

With that as background, we may recount some of the broad features which have emerged from the preceding chapters. The origin of the trend for universal and intensive application of an active foreign economic policy can be traced to the sharp convergence, during the 'thirties, of the collapse of the self-regulating economic system, and the emergence of conditions of international political instability. In Germany, the Great Depression ended any semblance of economic liberalism, and the instruments which were used to protect the national economy rapidly became instruments to promote those political ambitions which never lay far beneath the surface of German policy. Much the same trend established itself in the United Kingdom and the United States after 1945, although the political objectives of these two countries were very different from those of inter-war Germany. For purely economic reasons, the United Kingdom was forced into a complex system of commercial and exchange controls which, although modified from time to time, have continued without any prolonged material change up to 1951. As the political conflict with the Soviet deepened, these controls tended to operate almost imperceptibly as foreign-policy instruments by assisting agreements with friendly countries and concealing passive discrimination against potential enemies. The political agreements which were concluded to meet the Soviet threat also contained their economic clauses - they established not merely a political and military alliance but an economic alliance as well which was intensified within OEEC. These were the active element which, with the passive attitude to

economic relations with potential enemies and some deliberate restriction of economic relations with these countries, produced one political bloc within which the United Kingdom's economic relations were increasingly intimate and another with which her economic relations tended to decay. However, the United Kingdom has appeared to resist this division more strongly than some other countries. A continuing desire to trade with the world as whole, a greater dependence on international trade than most other countries, and a serious disequilibrium in payments which has made international trade not less but even more important than formerly, have probably been factors in British resistance to the formation of two completely closed economic blocs.

Meantime, however, the United Kingdom has been under pressure from France and other Western European countries for closer economic co-operation or integration, and from the United States for more active discrimination against the Soviet bloc. In the light of its inter-war policy, the policy of the United States after the Second World War showed the most sudden and complete reversal. With the abandonment of isolation and the recognition of an external political threat, the United States rejected any policy of economic appeasement through, for example, the United Nations and the Specialised Agencies, and instead exercised her economic power directly to strengthen her own defensive position and that of friendly countries. For reasons of reconstruction of war-devastated and war-strained economies, the United States was called upon after the War to make tremendous outlays by grant or loan, bilaterally or through multilateral agencies. Initially, these outlays were made for the

purpose of universal welfare, at least so far, for example, as UNRRA was concerned. But, as the United States came to identify the Soviet as a probable enemy, the opportunity was open to direct outlays, conceived for welfare purposes, to the purposes of resistance to Soviet ambitions. In recent years, both investment policy and commercial policy have been directed against the Soviet bloc, not merely since the outbreak of hostilities in Korea, but, for "investment", as early as the decision of August 1946 to terminate UNRRA, and, for commercial policy, at least as early as the imposition of security export controls in March 1948.

Nevertheless, United States policy was essentially defensive. It was an answer to a threat already believed to exist, and, though in its turn it has undoubtedly been provocative, it does not seem to have initiated the provocation. Soviet foreign policy after 1945 amply justified a strong United States reaction; but, more than this, Soviet foreign economic policy itself seems clearly to have been directed to the rapid increase in the industrial war potential of Eastern Europe and the formation of a closely integrated Soviet economic bloc. In other words, the change in the Soviet position from the enforced isolation of inter-war years to leader of a group of countries after 1945 affected Soviet policy in much the same way as similar changes affected the post-war policy of the United States.

The Australian experience illustrates the way in which the small countries, as well as the Great Powers, have come to pay increasing attention to foreign economic policy, to align their foreign economic policy with that of one or other of the major contestants, and to pay

special regard to areas of immediate security concern. The Australian experience seems more typical than exceptional in the general trend towards economic regionalism, based not on economic but on political necessities. That does not mean that there will not be many variations from the characteristics which have marked Australian policy. Neither does it mean that there are not still some countries, for example in South and South-east Asia, which have so far avoided any final alignment with one or other of the major blocs. This diversity within a general trend must always be acknowledged, and given its proper significance.

Several broad conclusions may, however, be drawn from the general trend. Firstly, although there has always been some tendency to use economic policy to assist foreign policy, recent changes in the degree and the universality of use of economic policy for political ends amount to a change in the fundamental nature of international economic relations. Secondly, the advent of this era of the "new mercantilism" introduces a new and specialist science into international affairs - the science of foreign economic policy - with a variety of means and methods at its disposal. In addition to the old procedure of development of national resources behind a protectionist wall, there are now the methods of economic alliance, of economic co-operation and co-ordination, of group development and protection of allied resources, and of multilateral economic support. Foreign economic policy largely determines the flow and direction of long-term and short-term capital, and the composition and direction of commodity trade. There is no longer any need for a sharp choice between a fully independent national economy and economic union. A blurred stage of economic alliance, approaching economic union,

offers most of the political advantages of complete union, and contains also the advantages of preferred markets and supply sources, financial support, and perhaps even industrial co-ordination. Between the "brave experiment" of Benelux and the Organisation for European Economic Co-operation, the differences, so far as foreign-policy advantages are concerned, are rapidly becoming more formal than real. Thirdly, although the present intensity of national foreign economic policies has grown largely out of the Anglo-American conflict with the Soviet, the practice of a foreign economic policy is established for virtually all countries; and there seems no longer to be any substantial opposition to interference with international economic relations where important foreign-policy issues can be alleged to be at stake. Fourthly, the system of economic control to maintain economic stability and full employment, which has made a foreign economic policy much easier to sustain, has in turn been affected by the adoption of a foreign economic policy. Economic stability, full employment, and economic development are now a vital part of foreign policy. The foreign-policy stimulus for their achievement greatly enlarges the chances that they - the basic welfare objectives of our age - will be achieved. In other words, the somewhat paradoxical position emerges that the objectives of Article 55 of the United Nations Charter are more likely to be realised, because of the breakdown of the Charter's major objective "to unite our strength to maintain international peace and security".

What are the implications for the multilateral economic agencies? Professor Meade suggested in 1940 that:

> "It is probable that the main purposes of the International Organisation will be military and political, in order to prevent conflicts between the Member States, or between the Member States and non-Member States. Nevertheless, important economic considerations arise in the formation of the International Organisation. In the first place, to a certain extent, the causes of international conflicts are economic in character; and for this reason only an International Organisation which is based upon a stable, just, and efficient economic foundation can hope to succeed in its primary political tasks. But, in the second place, the International Organisation will undoubtedly have as important subsidiary objectives the promotion of human welfare in various ways, to help in the freeing of men's minds and bodies from ignorance, poverty, disease and hatred". 2

This was broadly the approach of the League of Nations, and it was initially the approach also of the United Nations, with its Specialised Agencies. Both were intended to promote welfare as an end in itself and as a means to peace. The United Nations and the Specialised Agencies have overcome many of the organisational weaknesses of the League; they have been endowed with material resources tremendous by comparison with those of the League; and they have induced members to accept commitments in a manner resoundingly successful by League standards.

Though by no means entirely, this success has partly been due to the need for the Western world to promote economic stability and economic development, in its own sphere, for reasons of foreign policy. Moreover, the very attainment of economic stability makes it much easier for individual countries to apply a discriminatory foreign economic policy, upon which the United Nations and the Specialised Agencies make no attempt to place any curb. Although they have courageously faced the welfare problems of the League, they

---

2 J.E. Meade, "The Economic Basis of a Durable Peace", London 1940, p. 11.

have left untouched the newer and perhaps even more intricate problem involved in the exercise of a discriminatory foreign economic policy. Largely as a result, the United Nations and the Specialised Agencies have lost their original role as organs for universal economic co-operation, and have become instruments of the numerically strongest political group. That is, they are, at the moment, agencies of the Western world not very different from the O.E.E.C. and the withdrawal of Soviet countries from the Specialised Agencies - though not yet from the United Nations - helps to round off this development.

If the United Nations and the Specialised Agencies are to be effective in their originally intended role, they must induce Member States to accept some restraint on the exercise of national foreign economic policies, they must define more closely the complete freedom for foreign economic policy represented by Article 99 of the ITO Charter, and they must apply more effectively the link between political and economic action of the United Nations intended under Article 65 of the United Nations Charter. Economic disarmament would be extremely difficult to achieve, and, unless carefully devised, could be almost as dangerous for Western countries as unilateral military disarmament; but, unless the United Nations and the Specialised Agencies face the problem, they must resign themselves to the position of bloc organs, without any effective economic role for world-wide co-operative peace.

So far, however, the United Nations and the Specialised Agencies have themselves applied and the prospect is that they will continue to apply discriminatory economic policies. During the war, it was assumed that a large measure of governmental and multilateral investment would

help stabilise the international movement of capital at a high level. Establishment of the International Bank for Reconstruction and Development was a token of this belief. But, when governments, instead of private individuals, lend abroad, political as well as commercial considerations tend to affect their lending. In the same way, if international agencies control a part of investment and short-term lending, their activities will almost unavoidably be in part directed by the political attitudes of a majority of their members or those of their members who have effective control of the agencies' decisions. Multilateral lending might therefore help stabilise international investment, but the greater the proportion of international investment taken over by multilateral agencies, the greater is likely to be the proportion subject to foreign-policy manipulation.

This is not the place to attempt any ethical judgement of the policies which governments have found it desirable to apply, or to attempt any precise statement of "profit and loss" for the present trend of international economic relations as compared with other possible alternatives. Nevertheless, it is useful to note that, in the face of a grave political situation and a difficult economic atmosphere, there is an assurance and a clarity in the response of democratic countries that was absent in the 'thirties. On the one hand, although the economic position of most western countries involves urgent and continuing problems and anxieties, the consciousness that governments have accepted - so far successfully - full responsibility for the maintenance of a high and stable level of economic activity removes one of the major sources of interwar frustration. In the political field, the democracies have shown

a readiness to take speedy national action in response to an external threat, without any unjustified reliance on the possibly spurious acceptance of general obligations by the potential enemy, and without a shifting of blame to a vaguely-understood, vaguely-personalised, and, in relation to the individual citizen, seemingly uncontrolled international organisation. The United Nations has never received the unjustified reliance that was too much for the League and which may have helped stultify democratic foreign policies between the wars. Therefore, against whatever disadvantages the present situation may contain, must be set the confidence which comes from an informed and, for the most part, progressive economic policy, and from an active and realistic policy in international affairs.

But to say that this is a better world in some respects than it could be is not to give it any final or unqualified commendation. Under existing foreign economic policies, security gains are made at some - perhaps substantial - welfare loss, and, although an active and discriminatory foreign economic policy might add to a country's defensive strength, it is also likely to intensify the political conflict which called it forth and to enlarge the prospect of ultimate war. So long as the United Nations continues to exist and purports to aim at the ideal of a co-operative peace, these are issues which it should face, however difficult solutions may be and however remote the chances of success. In the meantime, however, individual nations must frame their policies to fit a world which falls far short of the ideal and, while seeking to come as near as possible to the ideal of a co-operative peace, might ultimately find security only through

policies of force and power. If the result then be war, it might at least not be subjugation.

THE BRITISH LIBRARY

BRITISH THESIS SERVICE

TITLE	FOREIGN ECONOMIC POLICY: A STUDY OF THE USE OF ECONOMIC MEANS TO PROMOTE FOREIGN-POLICY OBJECTIVES SINCE 1918, WITH SPECIAL REFERENCE TO AUSTRALIA
AUTHOR	J W C CUMES
DEGREE	Ph.D
AWARDING BODY	London University
DATE	1951
THESIS NUMBER	DX187414

THIS THESIS HAS BEEN MICROFILMED EXACTLY AS RECEIVED

The quality of this reproduction is dependent upon the quality of the original thesis submitted for microfilming. Every effort has been made to ensure the highest quality of reproduction. Some pages may have indistinct print, especially if the original papers were poorly produced or if awarding body sent an inferior copy. If pages are missing, please contact the awarding body which granted the degree.

Previously copyrighted materials (journals articles, published texts etc.) are not filmed.

This copy of the thesis has been supplied on condition that anyone who consults it is understood to recognise that it's copyright rests with its author and that no information derived from it may be published without the author's prior written consent.

Reproduction of this thesis, other than as permitted under the United Kingdom Copyright Designs and Patents Act 1988, or under specific agreement with the copyright holder, is prohibited.

DX

187414