During the long cold winter of 1947 the British Government were faced with an economic crisis. The real costs of the Second World War were being felt and the British Empire was nearing its end as a direct result. From March 1941 to August 1945, the USA had underwritten the British war effort through the Lend Lease Agreement. It began before America’s formal entry into the war and meant that the British (along with other allied nations such as the Republic of China and the USSR) was supplied with food, fuel and arms. When Franklin Roosevelt met Winston Churchill at Placentia Bay in August 1941, the order of business was first and foremost the liberal democratic values that both sides wished to see prevail at the end of the war. However, the meeting also involved teams of treasury officials from both sides asking searching questions about how American generosity would be repaid. The Americans sought to undo the British economy’s seemingly unfair advantage over the its rivals, they demanded convertibility of the pound. Britain’s
currency was not fully convertible into other currencies, meaning that if an investor in London wished to remove their wealth from the British economy by selling their pounds to buy dollars and invest it in the USA, they were unable to do so. The British knew full well that if full convertibility were permitted, investors would exchange their pounds for dollars in vast quantities, causing the value of the pound to collapse. Churchill in 1941 intervened in the discussions and said that as convertibility was a matter for the whole British Empire he could not make any promises and instead had to defer to the other heads of the dominions (Canada, Australia, New Zealand and South Africa). Two weeks after the defeat of Japan, and less than two months after the 1945 General Election, the Lend Lease Agreement was terminated; Britain’s debts were owing and it was time to pay. The problem for the new Labour Government was immense. Not only had Labour committed to huge new state expenditure in the guise of the NHS, a raft of nationalisations, house building and other key social reforms, but Britain also still had a huge overseas presence. The British were fighting a communist uprising in Greece, helping France to re-take control of Vietnam and the Dutch to take back Indonesia. They fought Zionist terrorists in Palestine and faced the possibility of civil war in India. A large military contingent had to be committed to Germany as one of the four occupying powers. John Maynard Keynes was dispatched to Washington DC to ask for a gift of $5 billion dollars for the British economy. He believed that Britain’s lone struggle against Germany from 1939-41 entitled them to a reward. The American treasury negotiators had no intention of gifting money to Britain and did not seem to realise that the British were bankrupt. They suspected that the British would use the money to prop up their empire, which in America’s opinion was simply a vast trading bloc designed to shut out US imports. They also were suspicious of Britain’s shift to the centre left and many congressmen looked at the Labour government with suspicion. Instead of a gift, a loan was organised for $3.5 billion, with an interest rate of two percent. However, the real achievement of the Americans was the inclusion of convertibility into the deal. Keynes and his negotiators accepted that this was a bad deal but the alternative was even worse and they had to persuade a reluctant cabinet in London to back them and accept America’s terms. Convertibility finally came into effect in 1947 and by December that year the country was in crisis; bread, which had never been rationed during the war, was rationed from 1946 onwards and all rationing finally ended in 1954. Labour was forced to continue with rationing because food stuffs and raw materials had to be exported in order to boost Britain’s foreign currency reserves and to keep the value of the pound as buoyant as possible.

It was an economic crisis with major implications:

- Labour’s decline: One of the key reasons for Labour’s reduced majority in 1950 and the defeat of Labour to the Tories in 1951 was the issue of
rationing. Labour’s failure to end rationing and return the country to affluence led middle class swing voters who had decided to give Labour a chance in 1945 to shift back to the Conservatives.

- The Truman Doctrine: The British announced that they would be withdrawing from Greece and Turkey where they had stationed troops to prevent communists from seizing power. They could no longer afford to fight the emerging Cold War. Harry Truman, realising how serious the threat of a communist Greece was, asked Congress and the American people to back him in sending $350 million in aid to the Greeks and Turks. His speech called on the USA to defend ‘democracy’ wherever it was threatened. America had, in effect, taken on the role that Britain had since the 19th Century of global policeman (this happened at a time when a tendency towards returning to isolationism was growing in the US).

Questions:

1) Why was convertibility such a threat to the British economy?
2) What was the impact of economic crisis on Britain?
3) What was the impact of British decline on the USA?

Sources:

An extract from the US State Department website on the Truman Doctrine:

‘Truman justified his request on two grounds. He argued that a Communist victory in the Greek Civil War would endanger the political stability of Turkey, which would undermine the political stability of the Middle East. This could not be allowed in light of the region’s immense strategic importance to U.S. national security. Truman also argued that the United States was compelled to assist “free peoples” in their struggles against “totalitarian regimes,” because the spread of authoritarianism would “undermine the foundations of international peace and hence the security of the United States.” In the words of the Truman Doctrine, it became “the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures.”’

Historian Corelli Barnett writes scathingly about Britain in 1945

“Great Britain, as one of the 'Big Three' along with the United States and the Soviet Union, emerged from World War Two with the psychology of a victor but with her economic circumstances more resembling those of a defeated country. Despite the victory over Hitler, Britain was literally bankrupt, and faced the prospect of unbridgeable balance-of-payments deficits for years to come.
It was this victor's psychology that deluded both Labour and Conservative politicians into believing that Britain - at the centre of the Commonwealth and the Sterling area - could have a future that was similar to her past. British politicians saw the United Kingdom as a first-class power in the same league as the United States. And certainly Britain looked in many ways like a global power, with more than two million men in fleets, garrisons and air squadrons sprawled across the world, from their bases at home to those in Japan.”

4) Read the two sources and answer the following question using the sources and your own knowledge:

‘The USA was the only power economically capable of being a world leader by 1947.’ How valid is this statement?