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THE ECONOMIES OF THE BRITISH COMPLEX

1539

19 March 1952

CONTENTS

	<u>Page</u>
INTRODUCTION--Captain S. M. Alexander, USN, Member of the Faculty, ICAF.....	1
SPEAKER--Mr. Redvers Opie, Senior Staff Member, Brookings Institution.....	1
GENERAL DISCUSSION.....	14

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RESTRICTED

RESTRICTED

1540

Dr. Redvers Opie, Senior Staff Member, Brookings Institution, was born in England, 20 January 1900. He became a naturalized American citizen in September 1948. He received his education at Rutherford College and University of Durham, England; M.A. from Harvard and Oxford; Ph.D. from Harvard. Dr. Opie has held the following positions: lecturer in economics, University of Durham, 1919-1923 and at Harvard University, 1924-1930. Fellow of Magdalen College, Oxford, 1931-1945 and Bursar of Magdalen 1935-1940; Oxford University lecturer in economics, 1936-1939; and editor of the Oxford Economics Papers, 1938-1945; Senior Staff Member Brookings Institution since 1947; Department of State, seminar on Economic Analysis in Foreign Countries for Foreign Service Officers, 1949; counselor and economic adviser to the British Embassy, Washington, 1939-1946 (on leave from Oxford, 1939-1945). He was United Kingdom delegate to the International Food Conference, Hot Springs, 1943, and to the International Monetary and Financial Conference, Bretton Woods, 1944. Dr. Opie was awarded the C.M.G. (Companion of the Order of St. Michael and St. George) 1944. Since 1947 he has been Senior Staff Member of Brookings Institution, President of American Ligurian Company, Inc., New York, and associated with SOFINA (Societe Financiere de Transports et D'Enterprises Industrielles, Brussels) in an advisory capacity. He is coauthor of "Major Problems in United States Foreign Policy," Brookings Institution, published annually since 1947; "Anglo-American Economic Relations," Brookings Institution, 1950; "The Search for Peace Settlements," 1951, and is the author of miscellaneous articles in American and European economic journals.

RESTRICTED

RESTRICTED

1544

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CAPTAIN ALEXANDER: The British Commonwealth and Empire grew largely for economic reasons and by economic means. It has also been held together in part by economic forces. Now that the United Kingdom and its associates are allies again, it is important for us to appreciate the contribution that their economies can make to the strength of the free world.

That appraisal might best be made by a British citizen. However, to have it absolutely unbiased, it might be better to have it made by an American or even better to have it by an international who could take an objective viewpoint.

Fortunately, we have an individual with us today who is an outstanding economist, educated in both Oxford and Harvard. As economic adviser to the British Embassy during World War II, he played a leading part in the negotiation of the original Lend-Lease agreement. He was also a British delegate to the FAO and Bretton Woods Conferences and helped with the agreements that resulted from those meetings. Now he has become an American citizen and is a senior staff member in the Brookings Institution where he is making a penetrating analysis of United States foreign economic policy.

Mr. Opie, it is a pleasure and a privilege to welcome you to the Industrial College to tell us about the economies of the British Complex.

MR. OPIE: General Holman and gentlemen: I feel slightly apologetic for coming to talk to you this morning when I am so out of date. It is six years since my mind played around the subject which I am talking about today. In the meantime I have been learning, as Captain Alexander has told you, to become an American, and the only thing I can say is that the transition is very easy.

I sometimes feel that I teach what Mr. Churchill likened to the Mississippi flowing on in his speech at Fulton, Missouri, in September 1946 when he startled this country by the plain words he used. Addressing Russia, he said that the great Anglo-American association should flow on and on just like the Mississippi. I hope that Mr. Churchill is going to be proved to be right.

I thought of taking that as the text of what I have to say this morning, but I decided that I would be more prosaic and get right down to business and give you what I have left in my head on the subject of "The Economies of the British Complex."

RESTRICTED

RESTRICTED

154

Originally, I believe it was intended that the British complex should exclude Canada, India, and Pakistan, keeping it narrowly as a group more or less coincident with the sterling area. I have chosen to ignore that limitation and to treat the whole of the complex of British countries. As a matter of fact, it will not make any significant difference to the point I want to make about this group of countries. I am unable to deal in extenso with the economic aspects of the problem and I must say a little about relevant political implications of the complex.

I am going to begin by reminding you of the constituents and constitution of the complex. We all know that the United Kingdom is the nub of the complex, and in many respects the United Kingdom is the leader, but I would point out that it is becoming increasingly difficult for the United Kingdom to say that it is the leader of the British complex of nations. It is even becoming unfashionable to talk about "the Dominions" as members of the Commonwealth, and in the proclamation of the new Queen, studiously they dropped all reference to dominions; it was just members of the Commonwealth.

There are, of course, the four, what I choose to call, developed Dominions; and Dominions they are in spite of the reluctance to refer to them as such. The four developed Dominions which I might have called, if it hadn't been a little invidious to do so, the white Dominions, are Canada, Australia, South Africa, and New Zealand.

I want you to notice that immediately Canada is in a special position in that group because it is outside the sterling area; it is outside the sterling area partly because it has such close association with the United States.

Then, after the four developed Dominions, we come to what could quite properly be called the underdeveloped areas, consisting of the new Dominions of India, Pakistan, and Ceylon. I would point out to you that, even there, there is a peculiar feature attaching to one of these underdeveloped Dominions. India is a republic. It decided to proclaim itself a republic, but it still recognizes the Queen--which was the King at the time--as the--I don't know what to call it--titular head of the Commonwealth, shall I say?

These seven parts of the complex are as completely independent sovereign powers as the United Kingdom itself. There is no respect in which any one of these seven parts is less sovereign in its power than the United Kingdom. That, of course, is the reason why it is increasingly difficult to refer openly or covertly to the United Kingdom as the leader of the group.

Then let me proceed with the other constituent parts of the Commonwealth, the vast conglomeration of territories that used to be

RESTRICTED

RESTRICTED

1543

referred to as the "Dependent Empire." But the word "empire" is unfashionable now. If I may say so, in passing, we have fallen much too hard for the Marxist propaganda that has given a bad odor to imperialism. We have not yet become conscious--since the German Marxism of the turn of the century began to flood us with propaganda--of the fact that we have been under the influence of this continual stream of propaganda giving quite an unworthy interpretation to the old concept of imperialism. I leave you this to think about and perhaps question me about later if you so choose.

May I remind you of the far-flung characteristics of the dependent empire. In Europe it stretches from Gibraltar to Malta; in Asia, it stretches from Cyprus to Hong Kong; in Africa, it varies from the great state of Nigeria to the small territory of Ascension with a population of 190; in the Americas it stretches from Bermuda to the Falkland Islands. Some of the territories are dependencies of the Dominions--Australia and New Zealand--you see the big fleas have small fleas. These territories are mostly island territories, important not for their economic but for their strategic value. Altogether this vast agglomeration of territories covers an area equal to a quarter of the globe. Geographically varied as they are, the political constitutions are not very much less varied.

There is a great variety in the nearness of the approach to independence reached by the various parts of the dependent empire. There is, for example, the really sovereign, almost completely autonomous territory of Southern Rhodesia. There are, on the other hand, the states in Africa which are developing what the British call "indirect rule," where a native potentate is guided as gently as possible, prodded when necessary by the United Kingdom authorities who retain all real sovereignty.

Even in the Dominions, the constitution varies from a federation of the Canadian type or of the Australian type to the unitary state of South Africa. So the political characteristics as well as the geographic characteristics are most varied, and, of course, these variations are reflected in the economic characteristics to which I now come.

I had an agreement with Captain Alexander and General Holman that I would not try to make myself into a statistical compendium. Therefore, I am not going to try to put a mass of figures before you. But I want to pick out one or two leading characteristics which I think help to stimulate the imagination in painting some picture of this complex.

Let me begin with the population. The total population is 590 million people, but of course the majority of that 590 million is to

RESTRICTED

RESTRICTED

be found in India with 340 million. I may say that I am rounding off figures. I am also relying to some extent on my memory. I could have gotten out Whitaker's almanac and found the latest figures available, but for our purposes these figures are close enough. Pakistan has 90 million; Ceylon, 6 million. In these three territories alone you have the preponderant part of the 590 million.

In the white part of the Commonwealth there are in the United Kingdom 50 million; Canada, 14 million; South Africa, 12 million--not all white by a long shot; Australia, 7 million; and New Zealand, about 2 million. New Zealand, you see, is really a city state. It is equivalent to less than the administrative problem of New York and certainly with less resources than the city of New York. New York has the power to go out into the world and buy all of the resources that are annually produced in New Zeal.

In the dependent territories, there are 70 million people of an almost infinite variety of races and skills--using the word skills in its widest sense, education, level of culture, as well as in the more technical meaning of the word. Throughout the dependent empire especially, but also in the independent parts, there are varying needs for development, economic development in the sense in which this government was applying the term when it introduced the international development bill.

Going with the population, there are also various material resources, material resources of the God-given kind, in the way of land, climate, and minerals. The best way to get an over-all picture of the richness of the material resources is to look at national incomes.

These figures are a little dangerous from the point of view of comparison. We think of our own national income as around 300 billion dollars. The United Kingdom's national income today is about 36 billion dollars--so far as I can guess the comparative figure I would say 36; it may have gone up to 40 billion dollars. Giving the United Kingdom the benefit of the doubt, let us say 40 billion dollars. You have the ratio of something like 8 to 1 in national income against a ratio in population of 3 to 1, which would mean that the average American was 2.5 times as well off economically as the average Englishman.

If you check United Nations income per capita figures against that rough guess of mine, you will see it is pretty near the mark. The United Nations figures are 800 dollars in the United Kingdom and 1,400 dollars in the United States, which makes the ratio per capita less than 2 instead of 2.5. I think the United Nations figures probably underestimate the magnitude of the difference.

The United Kingdom stands out far ahead of any other part of the complex by the national income test. The nearest approach to it is

RESTRICTED

Canada with 13 or probably 14 billion dollars income per annum. South Africa, I guess, has something like 2.5 billion. I haven't worked up a figure and I don't want to guess at a figure for Australia, but the per capita would be analogous to Canada whose population is slightly less than double that of Australia. So you can see what the figure might be. So far as I know, it is not worth while guessing at a total figure of national income for the whole 590 million people, but let me show how relatively unimportant, from the standpoint of national incomes, the rest are.

In India, the per capita national income as measured in dollars by the United Nations is 60. Now that, of course, is a fantastically low level of economic power per man by comparison, not only with the United States, but with the United Kingdom. We must take that into account in assessing the material resources available in time of war from the non-United Kingdom, nonwhite part of the Commonwealth.

Then let us look at the raw materials, and especially the raw materials that are of significance to the United States either as critical materials or as general imports from the British complex. I picked out 8 or 9: Rubber comes first, then jute, wool, copra, diamonds, tin, mica, lead, manganese ore, copper, and, I don't know whether it is last and least or not, tea.

Of course petroleum has been an important raw material resource of the British complex, but most of it has come from what was called, in a false spirit of jocularly before the trouble arose in Iran, the "invisible empire." I think it was a term unfortunately chosen in the light of subsequent events.

Well, those commodities are important commodities. As critical materials, of course, we have rubber, jute, wool, and diamonds for industrial purposes; also tin is very important; lead is not so important because of the quantity available in the rest of the free world, but still it is significant; and Rhodesian copper may be in certain circumstances a very important source of supply.

I would like to mention in a special category, steel. The steel resources of the British complex are quite considerable. The United Kingdom itself is producing about 14 million tons, and there is a certain amount produced now in Australia and also in India. The scattering of those supplies might be more important than the absolute magnitude in time of war.

I must also mention the manufacturing skills of the countries of the complex. The importance of the manufacturing skills of the United Kingdom have frequently been overlooked in assessing the potential for security purposes of the British complex. Of course, our views are bound to be affected by the possibility of atomic warfare preventing

RESTRICTED

1546

those skills from fructifying. Nevertheless, as things are, they are a very considerable addition to the forces of the free world and I don't like to see them overlooked.

Another point that is frequently overlooked is the fact that the United Kingdom has the lowest contribution from agriculture to its national income of any country in the world. The contribution is 4.5 percent. The next lowest is the United States, about 8.5 percent. In time of war, the fact that the United Kingdom uses only 4.5 percent of its forces in producing agricultural products gives it a tremendous potential for conversion to war production, which was shown in the last war. It is one of the anomalies of the British dependence on overseas for agricultural and raw materials, the fact that it has the kind of resources that are highly convertible to war production. That, of course, is one of the implications of the economic characteristics.

Let me proceed now to what I might summarize under the heading of "the bonds of Empire" or "the bonds of the Commonwealth." From what point of view can the complex be regarded as a unit and how accurate is it to rely upon it to act as a unit in all circumstances? This, I think, is the big question that is going to be before us, shall I say, for the next generation. We will be content if we can follow it for the next 10 or 20 years.

Let us look at the political form of the association for a moment. First of all, I would remind you that only Australia is virtually 100 percent British in population. Therefore, we must conclude that race cannot be the bond of the association. The Commonwealth is not bound together by a racial characteristic. As a matter of fact, the very looseness of the association is much prized by the members of the Commonwealth.

I don't know whether you know it, but I would like to remind you of the fact that deliberately the members of the Commonwealth rejected the idea of federation, for the idea of federation was mooted before 1931. But in 1931, the statute of Westminster laid down what I might call a loose form of the constitution and rejected forever the idea of federation. I must remind you that Ireland seceded from the association; that Burma refused to join; and that all the Dominions, perhaps especially Canada, have asserted their independence in foreign policy. As a matter of fact, if I may say so without injuring the feelings of any of my Canadian friends, they have flaunted that independence not only of the United Kingdom but of the United States.

The association of countries is much more like an informal group or club than a corporation. A club has a certain cohesive power but nobody signs a constitution. I am a member of a group, the Harvard Club of New York. It has a constitution consisting of only two articles of association. The first article is that the association can be

RESTRICTED

amended only by a certain procedure--I have forgotten what it is. The second article is that this group is perpetual and can never be abolished.

Now there are many groups which are as simple as that and which are as eternal as the Harvard group in New York hopes to be. The association of the British Commonwealth is very much like that. There is no political bond binding the members to stay together.

In all of this the Crown is a symbol. That is the official link. The Crown is a symbol of the unity of the Commonwealth. I would say--if I may paraphrase in my own words--that the Crown is a symptom of the cohesion existing in the Commonwealth and not a cause of it. There is a very important difference. It is not because there is a Crown that there is cohesion in the Commonwealth. It is not because there is a Queen Elizabeth II of England that India continues to recognize--for whatever it is worth--the Queen of England as the head of the Commonwealth. It is because there is already cohesion that India takes the step of going through that form of recognition. I hope I have made myself clear that there is no political constitution or political form of association giving unity and cohesion to the Commonwealth complex. It just exists.

Now what about economic ties. There are certainly economic ties binding the parts of the Commonwealth together. But, if without quibbling I may make a subtle distinction, a tie or even a binder is not necessarily a bond. The bonds or the ties, perhaps I should say, do not go beyond the realm of national interest. This is especially true in the Dominions which have become independent sovereign states. No independent member of the Commonwealth is prepared to accept an arrangement of an economic nature that doesn't suit its national interest.

Apropos of this, I am going to draw your attention in a moment to something I read in this morning's paper, but I want to re-emphasize the fact that it is only if it suits the national interests of the member states that they will agree to retain certain economic ties within the Commonwealth complex.

From this point of view I want to examine three of the ties. The first is Imperial Preference, which was introduced very late in the day (1932) after the United Kingdom adopted for the first time in modern history a general tariff. It was not possible to have imperial preference before the United Kingdom had a general tariff because imperial preference means giving the members of the British system certain privileged tariff reductions by comparison with countries not members of the group. So there must be something to give away before that kind of privileged position can exist.

It was not until 1931 that the British had a general tariff, and it was not until 1932 that imperial preference was very much advertised

RESTRICTED

154

as one of the bonds of empire. It had proponents, especially in the Dominions, but very strong ones in the Conservative Party in the United Kingdom.

I jotted down these notes last night and I put down a note "dead duck," suggesting that this describes imperial preference and that it was not likely to be prominent in the future as it has been in the past, even in the view of those people who want to support it as providing bonds of Empire. In a moment I will show you how mistaken I was.

The reasons why I had this idea last night--not only last night, for I have had it since 1941 when I first began to be officially interested in these problems--are several. The first is that India never joined. India, whatever it may be otherwise, is very important to the trade of the Commonwealth, and yet India never joined. It has had tariff autonomy since 1921, long before it became a Dominion. Furthermore, the motive behind imperial preference was a mixture of false sentiment, resorted to during the days of the depression of the thirties and of political hypocrisy. I said this when I was a British official broadcasting in Canada so I make no apology for repeating it here.

I call it political hypocrisy because an attempt is made to defend imperial preference on the ground that it is entirely a British Commonwealth affair, the attitude to the outside world being, "It's none of your d--- business," that it is something politically in the family. It is argued to be just like free trade among the 48 American states; the analogy is drawn between the political--I emphasize political--nature of the imperial preference and the political nature of the association that led to the United States of America. This is hypocrisy because it is, of course, hypocritical to draw the analogy between the 48 states and the British Commonwealth at a time when the constituent members of the Commonwealth are already independent or asserting their independence in foreign economic and political policy, and when the declared objective of the United Kingdom is to put the other constituent parts of the Commonwealth in a position so as to assert their independence. Therefore, I say no one capable of thinking a problem through can with intellectual honesty continue to insist upon an analogy between free trade within the United States of America and free trade within the British Commonwealth of Nations.

That, I think, was a pretty good argument for suggesting that imperial preference was a "dead duck," but when I opened my Washington Post, I find a UP from London, "British People's Trade Bloc." "High government sources said today that the budget of Chancellor of the Exchequer, R. A. Butler, is the first step in a plan to weld the sterling area and west Europe into one huge economic unit, independent of American markets."

RESTRICTED

"The eventual result, these sources said, would be to squeeze United States business out of much of its trade with more than one billion customers in world markets.

"The Butler budget, based largely on decisions of the Commonwealth Finance Ministers' meeting of last January, was said to be aimed at intensive development of the sterling area and a revival of empire preferences.

"High sources close to the Chancellor said his plans were to set the British Isles, and later the entire sterling area, on an economic constancy which would make them independent of American buying and selling."

Now I almost despaired of progress in the British Conservative Party when I read that.

I can foresee the possibility of a very serious obstacle to the development of closer and smoother Anglo-American economic relations if this conservative view is pushed over the next year. And in conjunction with what is said about the sterling area, I am inclined at this moment to feel worried. I only hope that the story from London is a typical, premature statement, a misinterpretation of the facts, which will be corrected tomorrow. True or not, there is undoubtedly one section of the British public and the present government that leans in this direction and it augurs very ill for the future.

The second point I want to take up about economic ties consists of the direct monetary and administrative economic controls of the dependent territories exercised by the United Kingdom. Well, this, there is no doubt about, is a tie, and the dependent empire is tied to the United Kingdom economically and politically because the United Kingdom has full control over all foreign policy, whether economic or political, of the dependent territories. So I need spend no further time elaborating on the importance of that tie. Of course, it does not affect the independent parts of the Commonwealth.

Now I come, finally, under the economic ties, to the sterling area. The sterling area, which is referred to in this dispatch from London, is a group of countries within which the pound sterling circulates freely with a minimum of restrictions on the movements of current or capital funds. I say "current" because there are pound sterling funds arising in current trade, and in contrast there are pounds sterling which are capital funds in the various banks of the different countries, and those funds are able to move from country to country in the sterling area with a minimum of restrictions.

But in contrast to that free movement within the sterling area, there is a wall built around the sterling area, protecting it from the

RESTRICTED

outside world and stopping the movement of funds from the sterling area, say, to the United States, or to Canada--which is outside the sterling area--or to any other country outside the sterling area.

Now from that point of view I would like you to think of the sterling area as consisting of a bundle of regulations. Its defining characteristic is simply a bundle of regulations laid down by the Bank of England with the consent of the monetary authorities in the other members of the sterling area, and the purpose is to control all movements of funds between the sterling area and the outside world.

We are still struggling--I say we, I mean all people, economists, bankers, government officials outside of London--to get our thoughts trained on the true significance of the sterling area. There has been a good deal of misrepresentation arising out of the view taken by London of the nature of the sterling area in 1939.

The sterling area as it now exists in the form of a bundle of regulations really came into being on 2 September 1939 when the Defense (Finance) Regulations were introduced on the eve of war. They became operative on 3 September 1939. When war was declared, in interpreting the meaning of the sterling area, as it came to be called, the area that was subject to these regulations, London tried to make out that it was simply the continuation or perhaps the projection of the old sterling bloc into the wartime conditions.

The old sterling bloc was the name given to a group of countries that used London as their international banker. They kept their reserves largely, in some cases almost exclusively, in London--their banking reserves for all of their international business. When London went off gold in 1931 and the pound depreciated, this group of countries went off gold and depreciated their currencies because their trading relations were so intimately tied in with Britain that it was the sensible thing to do. They were all in the pot together and they had to stew together; they had this affinity of interest which kept them operating together.

But, mind you, they were always free to take their pounds away from London whenever they wanted to do so. There was never any question of their not being able to convert their pounds in a London bank into dollars, in a New York bank, or a Canadian bank.

When the war came and the general exchange resources of Britain had to be harbored and conserved for buying munitions of war--mostly here--they clamped down on all withdrawal of funds, and that was the beginning of the bundle of restrictions which characterizes the sterling area. It became very awkward for some of the members. They couldn't get their pounds out of London to get dollars. They wanted dollars to finance their current trade. Some of it was wartime trade, trade for war purposes.

RESTRICTED

RESTRICTED

1551

So the organization of the sterling area was increased. A central dollar pool was set up, managed by London. All the members of the sterling area paid whatever they earned in dollars into the dollar pool and they drew out, with the consent of the Bank of England, what their requirements were for paying their dollar debts.

I said with the consent of the Bank of England. It was a bilateral arrangement. The Bank of England didn't lay down the law. It just offered its fatherly guidance. When Egypt was a member of the sterling area, there were a great many requisitions upon the Bank of England by Egypt and the foot of the fatherly adviser was put down very heavily. The amount that Egypt was allowed to withdraw was restricted. But I have said enough to show you that there are certain awkward facets of the sterling area arrangements.

The members are not perfectly satisfied with the arrangement covering their powers to obtain command of foreign exchange when it is needed. Now we have reached the point where the attitude of Australia to membership in the sterling area is very much like the attitude of Canada expressed during the war to imperial preference. There is a restlessness in the air. Australia wants to have free intercourse between the pound and the dollar in order that Australia may appeal to the American capital market for dollar funds for developing the underdeveloped Australian continent; the Australians are wondering whether it is worth their while to accept the bundle of restrictions implied by remaining a member of the sterling area.

I haven't time to go into all the details of that situation, but the signs of the day are that the sterling area may be a disruptive rather than a binding force and that divergent economic interests may make Australia and other members of the sterling area assert their independence of the United Kingdom, and, without flaunting their independence, quietly insist upon following their own national interests rather than remain a member of an association in which burdens and responsibilities as well as rights are shared. So I think that may be a very important subject of discussion in the immediate future among the members of the Commonwealth.

But more important is the probability that the sterling area may be a bone of contention between the United States and the United Kingdom. It may quite well be that the United States will have to consider whether it is not necessary to urge that in its economic agreements with the United Kingdom steps shall be taken to get rid of the bundle of regulations and to get the convertibility of the sterling area currencies on the same basis as existed before 1939. I can't go into all of the implications of this question of restoring convertibility, but it goes to the heart of the problem of what we are trying to do in one of the most important objectives of American foreign economic policy, to restore a wider area of relatively free trading and payments than we have at the present time.

RESTRICTED

RESTRICTED

1552

Finally, I would like to say a few words about the implications of what I have said up to this point for our judgment or evaluation of the British complex as a suitable member of a military coalition.

In the first place, the far-flung territories imply a wide range of resources, and this aspect also is obviously important from the point of view of bases and communications. It would be presumptuous if I were to say anything to you gentlemen further about that aspect of the problem.

Secondly, the political association, loose though it may be, is significant because it is the only existing group of countries that would be likely spontaneously--I emphasize spontaneously--to take common action against aggression. But I emphasize also that there is no guarantee that every member of the association would spontaneously take action against aggression. We can't have our cake and eat it too. If there is to be independence of each individual unit in foreign policy, then there must remain that element of doubt, as there was in 1939, about which member of the association will declare war.

Thirdly, the United Kingdom and the rest of the complex have great power to mobilize. Now this is the core of the British power system. I believe, looking back, we can say that the influence of that cliché, the polarization of power, was only possible because of the undue neglect of much of this British power system, especially if we think of western Europe as almost an appendage of the British system.

But there is an adverse factor in thinking of the implications for a military coalition. The very complexity of the British complex is an obstacle to partnership. During the last war the fact that there were Commonwealth relations made United States-United Kingdom relations very much more complicated than they would otherwise have been. Without telling you anything that American officials who have dealt with British officials don't already know, there was also a tendency for the United Kingdom to lean heavily on the necessity of consulting the Commonwealth when it was to its advantage to do so, just as the American officials resorted to the political difficulties of getting things through Congress when it suited their purpose to do so.

This complex also--this is another adverse factor--has shown itself to be an obstacle to European integration. I am afraid that leads too far afield for me to take up in the few minutes that remain for me. It leads far afield because if I were to examine whether this is really a weakness in the British complex I would have to go into a very critical examination of the nature of this American policy objective of bringing about integration in Europe. And if I were to come to the conclusion that it is a phony objective--and there is an awful lot of arrant nonsense talked about integration in Europe--then, of course, I would not

RESTRICTED

judge this a weakness in the British complex. And I would not be surprised if I came to that conclusion.

It was a great comfort to me to find out that when Mr. Acheson came back from Lisbon and told us all about the negotiations, he never used the words integration or unification. He talked about developing strength and unity, and I would settle for that way of explaining what we are trying to do in Europe.

Finally, may I say a word about the economic weaknesses of the United Kingdom today, because I am sure many of your minds must have said, "This is all very well talking about the British complex in these general terms, but what about the weakness in the Empire? Is the weakness temporary or is it an indication of an actual decline that has set in, and is it something like the fall and decline of the Roman Empire?"

I think the answer will be clearer in a couple of years, but I think I would be more optimistic if it were not for this kind of dispatch from London that set me back this morning.

Meanwhile, however optimistic one may be, there is no doubt that the quality of leadership in the United Kingdom has weakened--and when I say this I hope that nobody will think that it is possible for me to be anti-British. I say it after an examination of what I have been able to observe in Britain since, not 1939, but the First World War.

There have been many great changes and rapid changes taking place in Britain since 1914. I think it is fair to say that the quality of leadership flourishes with difficulty in a period of changing social structure, especially when the changes are taking place on top of the weakening effects of war in a relatively stable population. I needn't elaborate on that. The losses of war make much greater inroads on a relatively stable population than on one that is increasing.

I think all of you who know Britain will agree that there has been prevalent in this last generation a greater social stratification in the United Kingdom than in the United States. I think it is fair to say that such a condition is always at the expense of resilience. A great deal of the prevailing social stratification is now being broken down. Temporarily, I think, a great deal of the valuable side of that kind of social structure, the side that provided leadership, is being lost, and it will necessarily take time before new sources of leadership appear.

However that may be, there is nothing, literally nothing, that the outside world can do about it. I would like, without appearing to preach, to end with a note almost of warning: The United States cannot

RESTRICTED

1554

mold the British, or, I may add, the Europeans. We--if I may put myself, young as I am as an American, with you--in the United States can provide leadership. I think we are providing leadership. But this means avoiding the imposition of conditions in giving mutual assistance that appear unreasonable to our allies, including the British.

As I see it, the great problem, really the crucial problem confronting the United States today is to have the wisdom of true friendship, and perhaps keep a steady hand on the reins, because that is what foreign policy means, but, to avoid all of those propositions that make for bad relations among allies by appearing to dictate when one really ought to be doing no more than give, perhaps heavy, fatherly advice.

QUESTION: You alluded to the hidden empire in the name of Iran. I wonder if you would touch upon the Protectorate?

MR. OPIE: I am not an oil expert. Of course, there is no doubt that British material economic interests and strategic interests are vitally affected by the continuation of that part of the invisible empire whether the contractual relations are changed or not in the direction of a more nearly fifty-fifty deal on royalties. That seems to be of minor importance in comparison with the great importance to Britain, especially over the next 5 or 10 years, of continuing to have access to the oil of that region.

Now more than that I cannot say. I cannot judge of the position without knowing much more of the facts, but there is not the slightest doubt that access to Iranian and other Middle Eastern oil is an important element in British strength.

QUESTION: Mr. Opie, I can see where imperial preference is something which might run counter to the economic interests of the United States but I am not too usre in my mind or from what you said this morning whether or not it might not be of advantage to the British complex, particularly to the United Kingdom, and, if so, would it not be to our advantage to let them go ahead and do it because in the long run we might have to put out less in aid if they could get on their feet economically?

MR. OPIE: I think that is a very good question. Let me be the devil's advocate. The people who think that imperial preference is in the interest of the United Kingdom, and the other members of the Commonwealth, say in support of the device that it is no worse inherently than a tariff. They say that there is no difference in degree of iniquity between imperial preference and the tariff. The British will not accept the American view that there is a greater degree of iniquity in the preference system that gives favors, which are denied to

RESTRICTED

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1555

nonmembers, to members of the group. The British say that our tariffs, whether preferential or not, are equally bad or equally good.

Now that I might be willing to accept, but I would still argue that there is one difficulty even then from the point of view of the British. Canada or Australia--they are the two important members outside the United Kingdom--may at any time take a different view from that taken by the United Kingdom regarding the desirability of giving or not giving preferences to other members of the group. Why? Because Canada suddenly finds that it is much more important for it to lower its tariffs in return for equal concessions by the United States on the flow of Canadian-United States trade than to continue to maintain by the preference system the flow of trade between Canada and, say, Australia or the United Kingdom.

Now, when that situation arises, Canada has to get the agreement of each other member of the imperial preference group to give the United States a concession which abolishes or reduces the preference within the British group. If the other members don't agree, Canada is stymied.

A situation like that arose during the war. Australia had two negotiators coiling their heels for about two years in Washington trying to negotiate a trade agreement with the United States, because the members of the imperial preference group were unwilling to give up their rights in order to allow Australia to make concessions to the United States.

You see what I am getting at. It has a divisive influence potentially, to say nothing of the greater importance of lowering tariffs with the rest of the world, the trading relationships with which are very important.

QUESTION: I must submit I was personally surprised to hear you indicate your comment on the UP dispatch. Maybe it was because I don't understand the impact of what it meant, but to me it seems as if it was an attempt by England to sort of declare its economic independence from the United States and to that extent I think it would be a good idea, and I think maybe Senator Tom Connally might figure the same way on this economic aid. Could you straighten me out on that, please?

MR. OPIE: Yes, I think I can. There is not the slightest doubt that it is a good thing for the United Kingdom to want to achieve its independence and to assert its independence economically, but it is a question of the method by which it does it. This country, since 1934, has been trying to take the lead in persuading the world that in the long run it is much better to have a world trading system which does not consist of a series of blocs of countries grouped together fighting one another. The United States says it is much better to have the 70-odd

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1556

countries acting as individuals, giving one another the same rights and imposing the same duties, without any consideration of favors, but to have a framework, if you like--a set of rules, which govern the fight just as you have rules for boxing.

Now the United Kingdom has been arguing that this is all very well for the United States because it is big enough to take the raps, but other countries must combine together and have some special protective measures, such as the British have in imperial preference or in the sterling area. The British take that viewpoint against the whole of the rest of the world.

According to this dispatch, they are now exempting western Europe from it. They are saying, "We are going to get together with western Europe. We will have a group which will be exclusive. We will have all of those rules and apply them to all other countries like the United States and all other countries." That makes for bad feeling. Worse than that, it makes for restrictions on trade which amount to killing the goose that lays the golden eggs.

A far greater volume of trade is possible with complete freedom of international payments than under a restrictive, water-tight compartmental system. A system whereby the European payments--Europe being western Europe--and sterling area payments are in one compartment; other countries are in other compartments, one such consisting of Canada, the United States, Switzerland, and two or three other countries which are in the dollar area. Then you have a few big blocs fighting one another. Worst of all, from the point of view of the British interests, there is this problem of trying to agree on a common economic policy for several countries instead of each sovereign state formulating its own policy. We know how difficult it is for one country to forge a uniform foreign policy. It is immeasurably more difficult for a dozen countries to forge a common economic policy acceptable to all.

QUESTION: You mentioned the fact that the United Kingdom and western Europe were dependent on each other and more or less in the same economical unit or system. You are indicating now there shouldn't be any economic unity between the United Kingdom and western Europe. Could you tie that up, for instance, with the Schuman Plan?

MR. OPIE: I think the United Kingdom and western Europe are certainly dependent on one another. A striking example of that is the effect upon the British and other western European countries' position of the failure of Germany to recover economically between 1945 and 1950. The volume of intra-European trade was very great.

But that doesn't mean to say that the interdependence among the European countries diminishes in importance the relations between the

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European countries and the outside world. The danger is that an excessive, undue emphasis on the interdependence of the European countries will cause people to underestimate the importance of developing their relations with the outside world.

I am against the European Payments Union as a long-run permanent form of organization on the ground that it is disruptive of European relations with the rest of the world. I would rather see complete freedom in the payments, stretching out over the whole world because that is the way to get the maximum volume of international trade and it is the volume of international trade that counts. Whether it is for the purpose of developing underdeveloped areas or what not, it is the volume of international trade we have to rely on in order to raise the standard of living in Britain or in other countries.

So, while admitting the interdependence of European countries, I also emphasize the interdependence of European and non-European countries. Therefore, it makes no more sense to me to talk about the economic unification or federation of western Europe than it does to talk about the economic federation of western Europe with other members of the Atlantic Union or with the Far Eastern group of countries, because exactly the same set of principles apply to the relations between European and non-European countries that apply to the relations between European countries.

QUESTION: Mr. Opie, in regard to the United Kingdom being a member of General Agreement on Tariffs and Trade (GATT), this little clipping that you read this morning isn't consistent with the objectives of GATT.

MR. OPIE: No.

QUESTION: I was thinking of the protective tariff of this country against imperial preference.

MR. OPIE: It certainly isn't consistent with the objectives of GATT. Of course, neither is our own action, in shutting out imports into the United States from certain members of NATO, consistent with our membership in GATT. Two blacks don't make a white. We have fools on both sides of the ocean and we can't expect to get rid of them very quickly.

CAPTAIN ALEXANDER: Our time has run out, Mr. Opie, and you have given a splendid presentation and a very clear insight into international economic relations. I express the appreciation of the Commandant and the College for your excellent presentation this morning.

(9 June 1952--350)S/cvh

