CHAPTER II
ECONOMIC POLICY

British economy came under severe strain when the Second World War ended. The War cost her a substantial portion of her overseas investment that paid for nearly a third of her total imports. Balance of payments difficulties crowned the economic crisis. For restoration of normal economy, it required a great structural readjustment in the British economic relationships - a factor that formed the mainspring of her national reconstruction.

By June 1945, Britain sold about £ 1,100 million of her overseas investments - about a third of the pre-war assets. Apart from this, she incurred a debt of about £ 2,900 million; there was also a loss of about £ 150 million of gold and dollar reserves. Her sterling balances amounted to £ 3,700 million, against a reserve of £ 610 million. In short, in 1945, Britain's economic position was very vulnerable. However, it was a blessing for Britain that practically all the debts the United Kingdom had contracted since 1939, were sterling debts.

1 See the speech of Captain Gammans in the House of Commons on 16 August 1945. UK, House of Commons, Parliamentary Debates, vol. 413, Session 1945-46, col. 123.


4 F.V. Meyer, Britain, the Sterling Area and Europe (Cambridge, 1952), p. 46.
was specially advantageous to Britain because, on the one hand, the debt was on Britain's own currency, and on the other, she was the mainspring of the Sterling Area in which there was a full Commonwealth involvement. Therefore she could look to the Commonwealth for sympathy and support to tide over her financial difficulties. This post-war exigency, in a way, compelled her to keep up strong economic and trade links with the Commonwealth. The twin aspects that governed the British post-war external economic policy were (1) the maintenance of Britain's ability to purchase large quantities of food and raw materials from foreign countries and (2) the necessity for selling her finished products abroad. In realising both these objectives, the co-operation of the Commonwealth was indispensable.

It is not difficult to see that the Commonwealth had played a vital role in Britain's post-war economic recovery. During and after the war, Britain almost succeeded in maintaining economic unity with the rest of the Commonwealth. The involvement of the Commonwealth in Britain's economic relations was much deeper than was apparent. The very fact that Britain had strong and stable economic ties with the Commonwealth during and after the war, was a strong reason why she was not eager to enter the European Union, though there were other strong reasons in favour of it. The four bases of her economic relationships with the Commonwealth were, trade, aid, investment and the Sterling Area.

BRITISH TRADE WITH COMMONWEALTH

G.D.H. Cole once expressed the opinion that the United Kingdom was, among the nations, the most dependent, of all, on
foreign trade. The actual value of British imports from, and exports to, the Commonwealth and the description of items Britain imported from the Commonwealth during the period under review are given in the following tables.

**TABLE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Import from Commonwealth</th>
<th>Export to Commonwealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>1946</td>
<td>&quot;</td>
<td>&quot;</td>
</tr>
<tr>
<td>1947</td>
<td>754.5</td>
<td>507.2</td>
</tr>
<tr>
<td>1948</td>
<td>917.6</td>
<td>745.7</td>
</tr>
<tr>
<td>1949</td>
<td>1011.8</td>
<td>905.8</td>
</tr>
<tr>
<td>1950</td>
<td>1096.1</td>
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<td>1951</td>
<td>1566.0</td>
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<td>1952</td>
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<td>1954</td>
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<td>1303.6</td>
</tr>
<tr>
<td>1955</td>
<td>1773.3</td>
<td>1401.7</td>
</tr>
<tr>
<td>1956</td>
<td>1741.1</td>
<td>1457.7</td>
</tr>
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<td>1957</td>
<td>1738.9</td>
<td>1521.9</td>
</tr>
<tr>
<td>1958</td>
<td>1445.0</td>
<td>1255.5</td>
</tr>
<tr>
<td>1959</td>
<td>1543.1</td>
<td>1258.8</td>
</tr>
<tr>
<td>1960</td>
<td>1639.3</td>
<td>1343.2</td>
</tr>
<tr>
<td>1961</td>
<td>1544.5</td>
<td>1303.7</td>
</tr>
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</table>

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TABLE

Main Commonwealth Imports into UK in 1961 (7)

<table>
<thead>
<tr>
<th>Total Imports</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef and Veal</td>
<td>12.6</td>
</tr>
<tr>
<td>Mutton and Lamb</td>
<td>52.2</td>
</tr>
<tr>
<td>Butter</td>
<td>56.3</td>
</tr>
<tr>
<td>Cheese</td>
<td>24.4</td>
</tr>
<tr>
<td>Wheat</td>
<td>73.9</td>
</tr>
<tr>
<td>Sugar and preparations</td>
<td>44.9</td>
</tr>
<tr>
<td>Tea</td>
<td>106.1</td>
</tr>
<tr>
<td>Tobacco</td>
<td>48.1</td>
</tr>
<tr>
<td>Paper Board etc.</td>
<td>30.0</td>
</tr>
<tr>
<td>Cotton yarn and woven fabrics</td>
<td>28.5</td>
</tr>
<tr>
<td>Aluminium and Alloys</td>
<td>26.5</td>
</tr>
<tr>
<td>Leaden Alloys</td>
<td>9.6</td>
</tr>
<tr>
<td>Zink and Alloys</td>
<td>7.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main Suppliers</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>6.8</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.1</td>
</tr>
<tr>
<td>Australia</td>
<td>56.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>48.0</td>
</tr>
<tr>
<td>Australia</td>
<td>14.3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>17.9</td>
</tr>
<tr>
<td>Australia</td>
<td>3.3</td>
</tr>
<tr>
<td>Canada</td>
<td>56.4</td>
</tr>
<tr>
<td>Australia</td>
<td>15.4</td>
</tr>
<tr>
<td>Australia</td>
<td>10.6</td>
</tr>
<tr>
<td>Mauritius</td>
<td>10.5</td>
</tr>
<tr>
<td>India</td>
<td>62.4</td>
</tr>
<tr>
<td>Ceylon</td>
<td>34.4</td>
</tr>
<tr>
<td>Rhodesia</td>
<td>27.9</td>
</tr>
<tr>
<td>Canada</td>
<td>9.5</td>
</tr>
<tr>
<td>Canada</td>
<td>29.8</td>
</tr>
<tr>
<td>India</td>
<td>12.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11.4</td>
</tr>
<tr>
<td>India</td>
<td>12.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11.4</td>
</tr>
<tr>
<td>Canada</td>
<td>26.2</td>
</tr>
<tr>
<td>Canada</td>
<td>26.2</td>
</tr>
<tr>
<td>Australia</td>
<td>6.7</td>
</tr>
<tr>
<td>Canada</td>
<td>2.9</td>
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<tr>
<td>Canada</td>
<td>6.3</td>
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<tr>
<td>Australia</td>
<td>0.7</td>
</tr>
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An outstanding feature of British trade policy was the maintenance of the preferential trade relations between Britain and the Commonwealth, the economics of which was the economics of price discrimination. The system of granting reciprocal trade preferences between Britain and the Commonwealth was in full bloom when Britain passed the Import Duties Act in 1932 and negotiated the Ottawa Agreements with the rest of the Commonwealth countries in the same year. This system which was the legacy of

7 Financial Times (London), 13 September 1962.
8 Meyer, n. 4, p. 119.
the preferential arrangements between the United Kingdom and her self-governing colonies, during the days of Great Depression of 1929-33, had special advantages both to Britain and to the other members of the Commonwealth. Under the Ottawa Agreements of 1932, each agreement between Britain and any other Commonwealth country, as also between other Commonwealth countries, would be bilateral, which could be negotiated again after a period of time. The intention behind it was that the rest of the Commonwealth would provide raw materials and agricultural products in exchange for manufactured goods provided by Britain. For Britain, it was useful in that it gave British manufactured goods an advantage in Commonwealth markets over competing goods from Europe and the United States. Therefore, Britain had a special interest in preserving the Commonwealth Preference. According to Bell, "the existing preferences enable the United Kingdom to protect a declining position, whereas they prevent overseas sterling area members from taking advantage of a strengthened trading position".9

Largely due to this arrangement, the United Kingdom's exports and imports accounted for two-fifths of all Commonwealth trade.10

The Conservative Party acknowledged, in 1949, that "were it not for our Imperial trade, we would never have made such progress as we have made towards closing the dollar gap".11 That was why during the second half of the 1940s, Britain stood in favour of

9 Bell, n. 3, p. 407.
integrated economic growth of the Commonwealth, by way of providing men, skill, and capital for Commonwealth.

At the end of the last War, the United States emerged as a major economic Power, playing the role of an important determinant in international economic relationships. There opened an era of competition between Britain and the United States on the economic plane. An important target of the United States attack on Britain was the Commonwealth Preferences. America wanted Britain to do away with the Commonwealth Preference system. In 1945, when negotiations took place for a loan of £3,750 million to Britain, the United States insisted that Britain should accept the principle of non-discrimination in international trade payments.12 The New York Times wrote that the British were asked to "wipe out their empire preference system as a quid for the financial aid".13 As a result, under Article 17 of The Havana Charter, the British Government agreed, on behalf of Britain, to grant no new preferences, not to raise existing ones, and, in course of time, to eliminate all preferences.14

14 Article 17 of the Havana Charter says: "Each Member shall, upon the request of any other Member or Members, and subject to procedural arrangements established by the Organization, enter into and carry out with such other Member or Members negotiations directed to the substantial reduction of the general levels of tariffs and other charges on imports and exports, and to the elimination of the preferences referred to in paragraph 2 of Article 16, on a reciprocal and mutually advantageous basis". See Havana Charter in "United Nations Conference on Trade and Employment, November 21st 1947 to March 24th 1948", Cmd 7375 (1948), p. 22. Paragraph 2 of Article 16 referred to the existing preferential trade arrangements between countries—Britain and Commonwealth; and between countries and their dependent territories. Ibid., pp. 21 and 79-82.
Thus, the United States scored a point against the Commonwealth Preference when Britain yielded to her pressure and agreed that no new preference would be granted. Therefore, virtually the average margin of trade preference enjoyed between the United Kingdom and the rest of the Commonwealth remained almost static during the post-war period, about 6 to 7 per cent on trade in both directions. The British agreement to this future policy eventually had adverse effects on the cordial economic relationships between Britain and the rest of the Commonwealth, and initiated a competition between them for reciprocal concessions.

The American offensive on the Commonwealth Preferences was by way of advancing the principle of non-discrimination. The 1947 International Conference on General Agreement of Trade and Tariff (GATT) was a major step in this direction. In the form of a rule, it banned new preferences. This was a direct attack on the system of Commonwealth Preferences with a view to its gradual diminution and eventual elimination. Despite restrictions on new preferences, the GATT made an exception to the total preferential arrangements in the form of Customs Union and Free Trade Areas. This formed the basis for the formation of the European Economic Community and, later, the European Free Trade Association. These particular economic groupings posed another direct threat to Commonwealth Preferences.

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The negotiations leading to the establishment of the European Free Trade Area in the 1950s demonstrated how important the Commonwealth was a factor in British economic policy.

Britain and the European Free Trade Area Proposal

In July 1956, two Motions were tabled in the British House of Commons on the questions of Britain's entry into the European Common Market. These motions represented the two broad streams of British public opinion on Britain's membership of the proposed European Common Market. Right from the beginning, Britain made it clear that she would think of joining the Common Market only after giving protection to the Commonwealth interests, including especially Commonwealth Preferences. This meant that the British approach was, by and large, based on an attempt to reconcile the Commonwealth interests with the new possibilities of an expanding market in Europe.16 In exploring the possibilities of such a reconciliation, the United Kingdom pledged that it would keep the Commonwealth countries in close consultations.17

While the six Common Market countries were considering the question of establishing the Common Market, the Council of the Organization for European Economic Co-operation proposed in July 1956, to make a study on the possibility of other European


countries associating in some form with the new Common Market. A Committee of the OEEC was set up in Paris, of which the United Kingdom was also a member. When the new Common Market took concrete shape, the other OEEC countries, who did not agree with the political and economic ideas behind the Common Market, desired to take certain measures to cope up with the new situation. The Scandinavian countries were not prepared to abandon their traditional low tariff policy and the United Kingdom was not prepared to raise tariffs against imports from the Commonwealth.

In the circumstances, Britain devised a new plan of practical co-operation with Europe, without intending to cause serious damages to the Commonwealth. This plan was chalked out in the form of a European Free Trade Area (EFTA) which was designed to associate the six countries of the ECM, with the other eleven countries of the Organization for European Economic Co-operation, in which Canada was also an associate member. The British Government thought that partial association with the Common Market by means of membership of a Free Trade Area covering much of Western Europe would provide "a reasonable compromise" between the conflicting interests of Britain and the European Economic Community. The central idea of the plan was that while trade among all the seventeen countries would flow freely, members would not be compelled to have a common tariff

18 The eleven members were Austria, Denmark, Greece, Iceland, Ireland, Norway, Portugal, Spain, Sweden, Switzerland, Turkey. Canada and the United States were associate members. Yugoslavia participated in certain activities of the Organization.

against the countries outside the Free Trade Area. The new arrangement would have left with her the freedom to determine fiscal and commercial policies, with a freedom to control her own external tariff, a necessary condition to protect Commonwealth interests. To give special protection to goods of Commonwealth origin, Britain suggested that agricultural products should be excluded from the purview of the Free Trade Area. Thus, the British plan was for the creation of a semi-Free Trade Area, in which Free Trade Area countries would compete with the rest of the Commonwealth in the British market only on industrial goods, i.e. 13 per cent of the total Commonwealth trade in Britain. The remaining 87 per cent was agricultural goods and other primary commodities. Undoubtedly, this British scheme was designed partly in consideration of Commonwealth interests and equally to keep the flow of cheap food stuffs for her from the other Commonwealth countries.

In a memorandum to the OEEC for the establishment of a European Free Trade Area, the British Government made it clear that the United Kingdom did not join the EEC because of her interests and responsibilities in the Commonwealth. She did not like the United Kingdom tariff being replaced by a single common tariff with other countries, which would have meant that goods entering the United Kingdom from the rest of the Commonwealth would have to pay duty at the same rate as goods coming from any other non-member country of the economic union.20

20 Cmd 72 (1957), p. 3.
Under the British plan, 87 per cent of Commonwealth trade with Britain would have remained unaffected. The Commonwealth countries which would have been affected by the British plan for an industrial Free Trade Area were India, Pakistan and Canada, whose exports constituted the bulk of the 13 per cent industrial goods to Britain. It would have affected cotton and jute industries of India and Pakistan and also the paper industry, chemicals and synthetic products of Canada. It was argued that while this would be a disadvantage in the realm of trade, in the field of development the Commonwealth would gain from the creation of the Free Trade Area. According to a C.P.C. pamphlet:

Since the war, Britain has been unable to earn the surplus on current external trade required to finance adequate capital investment in the Commonwealth. What investment we have done has, in large measure, reflected either the re-lending of aid received from the USA or else a process of 'borrowing short and lending long' within the Commonwealth which has raised the sterling balances to a dangerously high level. If the European Free Trade Area can maintain a sizeable surplus with the outside world as a whole, this might provide a new source of funds for Commonwealth investment. (21)

On a resolution, moved by a Conservative Member, Julian Ridsdale, on 28 March 1958, the British House of Commons examined the pros and cons of Britain's joining the European Economic Community as well as of the creation of a European Free Trade Area. Moving the resolution, he stressed that Britain's plans for a


22 The resolution said: "That this House, while reappraising the reasons which have led to the formation of the European Economic Community, urges the need for a close association of that Community with other countries who are members of the Organization for European Economic Co-operation". UK, House of Commons, Parliamentary Debates, vol. 585, Session 1957-58, col. 714.
Free Trade Area must be co-ordinated with the Commonwealth interests. "We must make it clear that we cannot make a choice between the Commonwealth and Europe. While we are ready to maintain and strengthen our association with continental Europe, we cannot be expected to make a choice in favour of Europe at the expense of our Commonwealth association." 24

During the debate in the House of Commons, it was pointed out by some members that the British bargaining position in the EFTA negotiations was weak because of the increasing non-discriminatory character of the Commonwealth and the Sterling Area trade, and that it would have been stronger if the Commonwealth remained a strong discriminatory trading area. This was further weakened when Britain made sterling almost a freely convertible

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23 Ibid.

24 Ibid., col. 714. A similar view was expressed by several other members also. E.g. see the speech of John Biggs - Davison in the British House of Commons on 28 March 1958. Ibid., col. 733. Also see the speech of Douglas Jay, Labour Party member, which said: "If ... French intransigence or anything else were to force this against its will, into choosing between membership of the Common Market on the one hand or the Commonwealth and the rest of Europe on the other, I think there is no harm in making it plain that, in that sense, this country would be bound to choose the Commonwealth alternative. That must be so for two reasons, either of which is decisive in itself, one political and the other economic. Politically, it must be so, because the strength of Commonwealth unity and coherence must always be a paramount aim of British policy... Economically ... though trade with Western Europe is extremely valuable to this country, trade with the Commonwealth and the American Continent is absolutely indispensable .... It follows, therefore, that if this country were forced to stop trading with Western Europe altogether, ... it would be extremely unpleasant and inconvenient; but if we were forced to stop trading with the Commonwealth and with the American Continent, we would be faced with starvation in a few months". See UK, House of Commons, Parliamentary Debates, vol. 585, Session 1957-58, cols. 785-86.
currency. Therefore, it was suggested that to strengthen her position Britain should explore the possibility of bringing the Commonwealth as a whole into the Free Trade Area - i.e. as suggested in the Strasbourg Plan.25 But a notable aspect of the whole debate was that the British Parliament did not want the Commonwealth to suffer on account of Britain's getting closer to Western Europe.26

An aspect that was strictly scrutinised was the proposed agricultural policy of the E.E.C. under Article 38 of the Treaty of Rome.27 It was evident that the said Article was not helpful for protecting Britain's agricultural imports from the Commonwealth. Explaining the official policy of the Government, Britain's Paymaster-General, Reginald Maudling, said that the British Government and the O.E.E.C. were studying the question of a Free

25 See the speech of Roy Jenkins, Labour Party member, in the British House of Commons on 28 March 1958. UK, House of Commons, Parliamentary Debates, vol. 585, Session 1957-58, cols. 729-31. The Strasbourg Plan contained proposals for improving the economic relations between Member-states of the council of Europe and the overseas countries with which they have constitutional links. The plan was published by the Secretary-General of the Council of Europe, Strasbourg, in 1952. According to it the food and raw material producing potential of the Commonwealth would be harnessed to the manufacturing capacity of Europe. Instead of advocating a full customs union, it envisaged a system, in which the member-states of a Council of Europe would grant each other tariffs intermediate between those against the rest of the world and those of the Commonwealth preference system. The plan was rejected by the British Government.

26 See the speech of Christopher Boyd, Labour Party member, in British House of Commons on 28 March 1958. Ibid., col. 750.

27 Article 38 of the Treaty of Rome says "The Common Market shall extend to agriculture and trade in agricultural products ... except where there are provisions to the contrary in Article 39 to 46 inclusive". See The Times, Common Market and Commonwealth (London, 1962), p. 137.
Trade Area since July 1956. So far as agriculture was concerned, Britain was not prepared to expose her, as well as the Commonwealth, to competition, and wanted agricultural protection. He said that Britain was not willing to enter into the Free Trade Area in agricultural products because of her special connexion with the Commonwealth. Therefore, the Government gave a clear understanding to the Commonwealth that Britain would maintain its position in her market for foodstuffs, drinks, and tobacco, which formed the major part of Commonwealth trade with Britain. He said: "it would be a sad thing indeed if we were forced to choose between Europe and the Commonwealth .... It is important for peoples to realize what a sad day it would be ... if Britain were forced into the position of having to make any such choice". 29

In May 1958 The Economist wrote that "Commonwealth backing has to be sought for freer trade between Britain and Europe. And Britain should encourage the development of a closer relationship between the Commonwealth and Europe, if necessary, by the eventual extension of preferential arrangements to European countries". 30 In fact, Britain would have been only too happy if such a development had taken place. In a speech at the Royal Commonwealth Society, the British Paymaster-General warmly welcomed the "expansion of trade between our Commonwealth partners and our


29 Ibid., col. 795.

European neighbours, because it must obviously in the long run be to the good of all concerned".31

During the negotiations for a EFTA, the members of the EEC pointed out that though the Sterling Area and the Commonwealth were important factors for the economic prosperity of all European countries, the United Kingdom had the special benefit of extensive privileged markets outside Europe through the Commonwealth preference. According to them, these privileged markets might disturb conditions of competition for the partners of the EEC.32 When the tariff harmonisation was considered, the representative of the United Kingdom opposed it on the ground that Member countries should retain autonomy over their external tariff. The British contention was that it would raise constitutional problems of special difficulty for her, who was under obligation to admit the bulk of imports from the British Commonwealth free of duty.33 Nevertheless, to accommodate the views of the United States, and other European countries on the subject, Britain compromised to the extent of accepting a proposal for preferential arrangements among less developed countries, though it was not to the best interest of the Commonwealth. The United Kingdom was prepared to extend tariff preferences to all less developed countries to the extent of Commonwealth Preferences,


33 Ibid., p. 138.
if the other developed countries agreed to give compensatory advantages in their markets to the less developed countries of the Commonwealth, which would suffer losses from the generalisation of Commonwealth Preferences to all less developed countries. In the opinion of Harry Johnson, this offer was made with a cynical confidence that the other developed countries - especially the United States - would never agree to co-operate. According to him, "if implemented, it would mean the end of discrimination between Commonwealth and non-Commonwealth less-developed countries in the import trade of the United Kingdom and the transformation - at least with respect to the United Kingdom - of the Commonwealth preferential system into a preferential trading system for less developed countries designed to promote their development through trade". Obviously, Britain was prepared to go to a great extent to accommodate the views of America and Europe within the purview of the GATT principle.

Britain proposed a Free Trade Area partly also to avoid a division of Western Europe between the "inner Six" within the treaty of Rome and the rest. More important was the British fear that the six countries in the Common Market might pursue a group policy more protectionist and more restrictive than they were doing individually. If they pursued this policy in agriculture, it would have jeopardized the Commonwealth trade.

substantially. Similarly, the Commonwealth countries also thought that the "inner Six" might put up greater barriers against the import of wheat, meat, butter and cheese from the rest of the world than they did individually. Therefore, it was a matter of grave concern to the Commonwealth, and hence, Britain in her negotiation with Europe on European Free Trade Area, took the Commonwealth into confidence. In fact, Harold Macmillan, the Chancellor of the Exchequer, and Peter Thorneycroft, the President of the Board of Trade, discussed the objections to a European Free Trade Area with the Commonwealth Finance Ministers, as early as September 1956. Since then, Britain had kept the Commonwealth Governments fully informed, and got endorsed the policy she was pursuing by the Commonwealth Finance Ministers. As mentioned earlier, the basic understanding was that Britain would maintain the preferential position in the United Kingdom markets for Commonwealth food stuffs. It was on this basic understanding that the Commonwealth endorsed the idea of a Free Trade Area. In Brief, Britain wanted to continue to be a member of the Commonwealth, with Commonwealth preferences, and at the same time, become a member in the European Free Trade Area. But with regard to the Commonwealth, Britain sought to limit preferences only to agricultural goods. This was the firm stand taken by Britain throughout her negotiations with the E.E.C.

35 Cmd 648 (1959), p. 3.
36 Maudling, n. 31, p. 52.
European Free Trade Association

However, on 14 November 1958 the negotiations for a European Free Trade Area broke down. The talks failed mainly due to the British efforts to protect Commonwealth interests. This was revealed later by Britain's Chief negotiator, Reginald Maudling, the President of the Board of Trade, in a speech at Leeds on 13 May 1960. He said: "The most difficult problem, undoubtedly, was that posed by the existence or non-existence of a Common Tariff - the fundamental difference between the Customs Union of the Six and the Free Trade Area of the Seven. It would be wrong to underestimate this difficulty. Particularly, the outstanding problem for the United Kingdom is that of the duty free entry for Commonwealth products. This has for many years been a foundation of our world-wide trading policy, and I think reflection must show all the formidable difficulties that would stand in the way of any modification of it".37 Thus, it was the realization of the fact that Britain would not be able to protect Commonwealth interests and UK duty-free imports from the Commonwealth, if she lost her autonomy in fixing her own external tariffs, that put a stop to the negotiations. Britain started a new search for an alternative economic association with Europe to safeguard her trade interests as well as the Commonwealth interests against the possible onslaught from the EEC.

The treaty of Rome entered into force on 1 January 1959, and from then onwards, the Common Market countries began to lower their tariffs and admit more imports from each other. This development and the failure to form a European Free Trade Area led seven OEEC countries – Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom – to examine the possibility of forming a European Free Trade Association amongst themselves. The efforts achieved its successful culmination in the signature of the Stockholm Convention in 20 November 1959, which established the European Free Trade Association. The most important aspect of the Convention, which involved British interests in the Commonwealth was that, while the member countries would progressively abolish their tariffs on imports of industrial goods originating in the area, a process which was stipulated to be completed by 1 January 1970, the member countries were free to retain or change the differing level of their tariffs against countries outside the area. In other words, there will be no common external tariff of the group.

BRITAIN AND THE EUROPEAN ECONOMIC COMMUNITY

The British attitude to Europe during the post-war years was one of indifference to the movement for a United States of Europe. The basic attitude adopted till late 1950s was that Europe should unite itself without British participation. The main objective was to put an end to the internecine quarrels in Europe, which twice brought sorrow to Britain through two World Wars. For both political and economic reasons, she did not favour active participation in the European Union movement. Attlee believed that
Britain's destiny lay in the Commonwealth and not in Europe. Economically, it was not at all a viable proposition in view of the intimate economic relationship between Britain and other Commonwealth countries.

The strong trade connexions, promoted by the system of Commonwealth preferences, the pattern of trade prevalent then by which the Commonwealth provided a stable market for British manufactures, and the existence of the Sterling Area were strong economic considerations inhibiting Britain from making Europe a focus of her economic system. She refused to become a member of the European Coal and Steel Community, the forerunner of the European Economic Community. Similarly she did not show any inclination to join the EEC when it was formed in 1957, even though certain new political and economic forces in the world were slowly drawing her closer to Europe and European affairs.

One of the factors precipitating this trend was the progressive loosening of the economic fabric between Britain and the rest of the Commonwealth. Important ties like the Sterling Area and the Commonwealth Preferences were progressively weakened and became less relevant in her trade with other Commonwealth countries. Besides, the Commonwealth countries failed to function as an effective economic bloc in promoting intra-Commonwealth relations. Coupled with this was the British failure to evolve a satisfactory arrangement to meet the new challenges posed by the EEC. In that situation, in the late 1950s, Britain's future relations with Europe were widely discussed in Britain.
Adverting to this new trend, Reginald Maudling, Paymaster-General, said in the House of Commons, on 12 February 1959: "We must recognize that to sign the Treaty of Rome would mean having common tariffs which, in turn, would mean the end of Commonwealth free entry, and I cannot conceive that any Government of this country would put forward a proposition which would involve the abandonment of the Commonwealth free entry". But this firmness was progressively diluted by the Government's attitude from 1961 onwards.

In 1961, Britain made a significant advance in the direction of entry into the European Economic Community. In a speech on 27 February 1961, Edward Heath, Lord Privy Seal, expressed Britain's readiness to accept common external tariff in principle. In his speech to the Western European Union, he said that if the Common Market countries "can meet our Commonwealth and agricultural difficulties, the United Kingdom can consider a system based on a common or harmonized tariff on raw materials and manufactured goods imported from countries other than the Seven or the Commonwealth". This was a basic shift in the British position, in that, never before, she had envisaged adopting a common tariff over a sector of the economy. This new outlook in respect of an organic relationship to Europe also found expression in the 1961 Conservative Party Annual Conference, in Brighton.

39 The Times, 28 February 1961.
A resolution of the Conference observed: "That this Conference notes the strong political and economic links being forged between the Six countries of the European Economic Community, believes that it is in the interests of Britain that we should lose no time in negotiating a form of closer association with the Six compatible with our Commonwealth and European Free Trade Association responsibilities - economic, political - and our pledges to British agriculture". Britain formally applied for EEC Membership on 10 August 1961.

Britain decided to move closer to Europe partly due to the change in the pattern of Commonwealth trade. To illustrate this change in the pattern during the period under review, it is relevant to have a glimpse into the change in the trade relations that had taken place in individual Commonwealth countries. In 1945 Australia had only 11 per cent of her trade with Asia. But in 1960, it had risen to 30 per cent. In 1961 Japan emerged as one of Australia's largest customers for her main export, raw wool. Similarly, in 1950, the British market took about 40 per cent of Australia's exports. But in 1960, it had fallen to 26 per cent. Australia's imports from the United Kingdom also fell from 45 per cent in 1950 to 35 per cent in 1960. Of her total exports valued $5,250 million, in 1960, about 60 per cent went to the United States, 18 per cent to the United Kingdom and about 8 per cent to EEC countries. Similarly, in 1960 Britain

was taking 30 per cent of India's total exports 16 per cent of Pakistan's and 30 per cent of Ceylon's. 80 per cent of Pakistan's export to the United Kingdom was comprised of raw cotton, raw jute and raw wool and 80 per cent of Ceylon's export tea. The special effect on India's trade was her growing exports of manufactured goods. Her trade would have been adversely affected if Britain joined the EEC, because her goods would have had to face a tariff of 19 per cent on textiles, 23 per cent on jute bags and fabrics and 32 per cent on woollen carpets in British market.

More or less the same was the position in respect of the African Commonwealth countries, which enjoyed preferential market for their goods like cocoa, oil, oilseeds, coffee, tea and cotton and sisal in the British market. For Ghana, cocoa constituted 60 per cent of her exports. For Nigeria 63 per cent of her exports was oil and oilseeds and cocoa. 50 per cent of Kenya's exports was coffee, tea and sisal. Tanzania's 3/5 of exports comprised of sisal, coffee and cotton. While most of these items entered Britain duty free, British entry into the EEC would have made such a favourable British market for these goods impossible. For example, EEC's common tariff for cocoa was 9 per cent.

Malaya was the least affected by British entry into the EEC. Malaya's main export items were rubber, tin and iron valued £ 290 million in 1961 of which £ 43 million went to the UK, Malaya's single largest market. There was no EEC import duties
for rubber and tin. But it would have affected her export of tropical food stuffs like vegetable oil and pineapple. On the whole, in 1960, sterling free trade accounted for about 40 per cent of Britain's external trade and with Canada another 7 per cent. Thus, the British trade with the rest of the Commonwealth accounted for about half of Britain's total foreign trade. Against this, she took more than half of the food exports of the Commonwealth.

The membership in the EEC carried with it some specific obligations. It not only implied a special relationship among its members, but also showed discrimination against non-members. In the opinion of Lord Casey:

The two big problems for the Commonwealth countries arising out of the entry of Britain into the E.E.C. would be the loss of preferences, including the guarantee of free entry over a wide range of products - and the ultimate creation of preferences in Britain in favour of the Common Market countries against those of the Commonwealth. But the fact should not be overlooked that the creation of Common Market (even without British membership) in itself constitutes a threat to Commonwealth trade. The establishment of this huge preferential area, in which trade between its constituent parts will be free and which will continue to have barriers against those outside its confines must adversely affect its normal suppliers, including the Commonwealth countries. (43)

This made it difficult for Britain to protect the economic interests of the Commonwealth countries which depended largely on British markets. Of all the members, New Zealand was most concerned and

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active in urging Britain to keep aloof from the Common Market, unless it guaranteed protection to Commonwealth exports. New Zealand would have been the worst sufferer, because she would have lost the British market for her wool, meat and dairy products, which constituted the backbone of her economy. Obviously, she could not diversify her trade with British market, since it was mostly food and dairy products. British entry into the Common Market without proper safeguard for these products would undoubtedly shatter New Zealand's economy. Almost 60 per cent of her exports were temperate foods - mutton, lamb, butter, and cheese - 90 per cent of which went to British market - so great was New Zealand's dependence on British economy and market. Britain was appraised of the repercussions on New Zealand if the former entered into the EEC without proper safeguards. While in London, for the 1961 Commonwealth Prime Ministers Meeting, Prime Minister Holyoake had discussed the problem with Reginald Maudling, President of the Board of Trade, and Edward Heath, Lord Privy Seal, and secured the assurance that his country would be consulted in every move Britain might make.  

Expressing his grave concern, Prime Minister Holyoake stated later in May 1962: "We are fighting for our very livelihood, because 91 per cent of our exported butter, 94 per cent of our cheese, and 94 per cent of our mutton and lamb is sold in the British Market. This presents the greatest problem affecting the future of our country".  

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44 The Times, 21 March 1961.

45 New Zealand, External Affairs Review (Wellington), vol. XII, No. 5, p. 22.
Therefore, in 1961, protection of Commonwealth interests was one of the most crucial points of negotiation between Britain and the European Economic Community and Britain was insistent that she would not enter unless special arrangements were worked out to protect essential Commonwealth interests.

Every influential element in British politics - political parties, trade unions and newspapers - asked the Government to stand by the Commonwealth. In 1958, on Britain's Commonwealth trade vis-a-vis European trade, a Conservative Party pamphlet wrote: "Enlightened self-interest and a study of the hard facts of potentially expanding markets would of themselves direct Britain to the Commonwealth, even supposing she had no ties either of kinship or affection". Further, it explained the dilemma Britain faced immediately after the formation of the European Economic Community: "The very challenge of this enterprise [EBC] ... has forced all to take stock. For Britain, entry would mean leaving the Commonwealth since the British Isles could hardly join even the beginnings of a continental federation without undermining Commonwealth sovereignty". The Party's 1961 annual conference endorsed the policy of the

46 It continued: "If the Commonwealth countries want to expand their wealth, develop their power, and spread their combined influence, they must make sustained efforts to do more trade with each other. By allowing it to leak away outside the Commonwealth, we may disperse and dissipate its influence". See Conservative Political Centre, The Commonwealth: Expanding Opportunity (London, 1958), p. 8.

47 Ibid., p. 12.
government towards the EEC, and adopted a motion, which said:

That this Conference notes the strong political and economic links being forged between the Six countries of the European Economic Community, believes that it is in the interests of Britain that we should lose no time in negotiating a form of closer association with the Six, compatible with our Commonwealth and European Free Trade Association responsibilities, economic and political, and our pledges to British agriculture. (48)

But the Labour Party did not approve the idea of Britain's entry into the EEC and their basic loyalty was towards the Commonwealth. (49) The Trade Union Congress also demanded that satisfactory arrangements should be made to protect Commonwealth interests. On 5 September 1961 the T.U.C. stated: "The General Council therefore agree in principle with the Government's decision to open negotiations with the EEC with a view to joining, but insist that satisfactory arrangements must be made to meet the special needs of the United Kingdom, the British Commonwealth, and the European Free Trade Association". (50)

The British Press generally thought that British entry into the EEC would help the Commonwealth. The Guardian thought that in joining the EEC, Britain "shall be better placed to help the Commonwealth find new markets". (51) The Financial Times, also thought that with the increase of Britain's wealth and influence, "the links which bind the countries of the Commonwealth together

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48 National Union of Conservative and Unionist Associations, n. 40, pp. 46-60.


50 The Times, 6 September 1961.

would be considerably strengthened". But the Daily Express asked: "How can a Britain which has lost her sovereignty remain a member, still less the leader, of the British Commonwealth of Nations? It is utterly impossible ... No Party will ever win the people with the cry 'Britain, Part of Europe'."  

The British attempt to join the European Economic Community was a turning point in the economic relations among the Commonwealth countries. This enabled the other members of the Commonwealth to review the problems relating to the Commonwealth Preferences. The old and new members took a united stand against Britain. In 1961, when the Commonwealth Economic Consultative Council met in Accra, it openly raised a series of objections to the course which Britain intended to pursue. In strong phrases, the Canadian delegate expressed the view that Britain had to make a choice between the Commonwealth and the EEC. The communique expressed "the grave apprehension and concern" of all overseas Commonwealth representatives regarding the "possible results of the initiative taken by the United Kingdom".

Though Britain formally applied for membership of the EEC, it would be wrong to assume that Britain was not concerned with Commonwealth interests. On the eve of the British application to the EEC, Mr Macmillan sent personal emissaries to Commonwealth

52 Financial Times, 1 August 1961.
capitals "just to know how far these countries would be affected if Britain joined the ECM".Obviously, the spirit behind the application was not to choose between Commonwealth and Europe but to strengthen the Commonwealth, while entering into European Community. This good intention was very much there when Mr Macmillan and Mr Douglas Home broached the idea of applying for EEC membership with the British Parliament. In June 1961, British Foreign Secretary, Lord Home, expressed his belief:

Britain in the Common Market might be able to give more help to the Commonwealth than Britain remaining outside. Therefore I would conclude that while we should maximise our Commonwealth trade in every way we can – and I would commend my Commonwealth colleagues and partners that they should study again the results of the Montreal Conferences – at the same time we should increase our earnings in Europe. It would be difficult to do that unless we were inside the Community ... The condition of entry, therefore, will play a very large part in the final reckoning. (56)

However, the impact of the EEC on Britain was great. It gave birth to a desire in Britain to get closer to Europe, while keeping her relations with the Commonwealth intact. However, while initiating the move, neither Mr Macmillan nor Lord Home wished that they should do so at the expense of Commonwealth relationship. On more than one occasion they made this clear. In a speech to the Conservative Political Centre on 23 March 1961, Foreign Secretary, Lord Home, said:

It would not make sense if we sought interdependence within Europe at the sacrifice of the Commonwealth structure, but from our study of the problems, that

55 John Hare (now Lord Blakenham), one of the British emissaries, in an interview with the author, on 6 October 1970, in London. According to him, Ghana was particularly suspicious over British intentions in EEC.

ought not to be the choice. It should be possible to arrive at a political and economic arrangement with the European Economic Community which would greatly add to the wealth and strength of the whole. The greatest need of the Commonwealth today is for capital for development. Europe could be the decisive source of such capital and perhaps the best guarantee of expansion for the Commonwealth in the years to come. (57)

In his historic address on Common Market in the House of Commons on 2 August 1961, Macmillan, the Prime Minister, listed the reasons why Britain wanted to be in the European Economic Community. Initiating the debate on the EEC membership, he moved the resolution: "That this House supports the decision of Her Majesty's Government to make formal application under Article 237 of the Treaty of Rome in order to initiate negotiation to see if satisfactory arrangements can be made to meet the special interests of the United Kingdom, of the Commonwealth and of the European Free Trade Association; and further accepts the undertaking of Her Majesty's Government that no agreement affecting the special interests or involving British sovereignty will be entered into until it has been approved by this House after full consultation with other Commonwealth countries, by whatever procedure they may generally agree".58

In his speech, Mr Macmillan said that the questions underlying were of European unity and of the Commonwealth. He said that after the war, "the process of reconciliation in Europe


was itself a deliberate and positive act in which forbearance and even forgiveness played their part.\(^{59}\) He thought that the division in Western Europe between the inner Six and the outer Seven was not congenial to the political strength and unity of Western Europe. Therefore, one of their objectives was to resolve the cause of potential political division, which plunged the world twice into war. And also, he wanted to stop the policy of isolationism Britain was practising since the Second World War, and foster the unity of Europe to stand up against the Soviet challenge.\(^{60}\) But, he was categorical that no damage would be done to the Commonwealth on account of British entry in the EEC. He said:

I ask myself a question: how can we best serve the Commonwealth? By standing aside from the movement for European unity, or by playing our full part in its development? By retaining our influence in the New World, or by allowing it to decline by the relative shrinking of our own political and economic power compared with the massive grouping of the modern world. Britain in isolation would be of little value to our Commonwealth partners, and I think that the Commonwealth understands it. It would therefore be wrong in my view to regard our Commonwealth and our European interests are conflicting. Basically, they must be complementary. (61)

His main concern was how to preserve the Commonwealth influence and its economic strength, while negotiating for membership of the EEC. "We recognize to the full our duty and our obligations to the Commonwealth. In the words of the Motion, our aim in these negotiations is to make satisfactory arrangements to meet the

59 Ibid.

60 Ibid., cols. 1482-83.

61 Ibid., cols. 1484-85.
special interests of the Commonwealth, particularly, of course, in the economic field". 62 However, it was Macmillan's conviction that Britain's entry into the EEC would not weaken Britain's Commonwealth connection. He said: "If I thought that our entry into Europe would ignore our relations with, and influence in, the Commonwealth, or be against the true interest of the Commonwealth, I would not ask the House to support this step". 63

On 31 July 1961, the British government announced its intention to apply for British membership of the EEC under Article 237 of the Rome Treaty. 64 Britain's formal application for membership, and hence for the opening of negotiations, was transmitted to the Chairman of the Council of the EEC on 10 August 1961. Edward Heath, Lord Privy Seal, represented Britain at the EEC meeting in Paris on 10 October 1961. 65 And the negotiations began on 8 November 1961. However, the role Macmillan hoped in the EEC was that: "Britain would be the chief spokesman of the Commonwealth in Europe and the interpreter of Europe to the Commonwealth, reconciling the interests of these very different systems and acting as a bridge between them". 66

62 Ibid., col. 1485.
63 Ibid., cols. 1493-94.
64 Article 237 of the Treaty of Rome said: "Any European State may apply to become a member of the Community ... The conditions of admission and the amendments to this Treaty necessitated thereby shall be the subject of an agreement between the Member-States and the applicant State. Such agreement shall be submitted to all the contracting States for ratification in accordance with their respective constitutional rules."
To a meeting of the Council of European Economic Community on 10 October 1961, Edward Heath, Britain's chief negotiator with the EEC, told that the Commonwealth trade was a strong element of Commonwealth relationship. Therefore Britain's entry into the EEC should neither force other members of the Commonwealth to change their whole pattern of trade nor their political orientation. Since the economies of most of the Commonwealth countries were depended upon the British market, Britain would not join the EEC under conditions in which jeopardized her trade connections with other Commonwealth countries. Therefore, he said; "full regard should be paid to the interests of the Commonwealth producers concerned, and that they should be given in the future the opportunity of outlets for their produce comparable to those they now enjoy". 67

It may be mentioned that, long before Britain decided to apply for EEC membership, The Times in an editorial pointedly expressed a prophetic warning. It wrote: "It is no use Britain incurring all the strains and stresses which negotiations with the Treaty of Rome powers are bound to set up if at the end of it all France is going to make Britain's joining impossible". 68

Thus, it could be seen that Britain's trade policy was intrinsically interwoven with the Commonwealth trade preferences. And the existence of that system was a key factor in close


68 "Common Sense", The Times, 14 June 1961. It welcomed Macmillan's decision to send special emissaries to go to Commonwealth to acquire Commonwealth opinions in the matter. Duncan Sandys, Thorney Croft and J. Hare went to Commonwealth for the purpose.
economic relationship between Britain and the Commonwealth and vice versa. The system was seriously eroded by the change in the British attitude towards Europe in 1961. It was estimated that the U.K. imports and exports accounted for two-fifths of all Commonwealth trade.69

BRITISH AID TO COMMONWEALTH

Aid to Commonwealth countries is another important aspect of Britain's external economic policy. It took the forms of grants, loans and technical assistance. Being the most developed country in the Commonwealth, the United Kingdom had a special position in the economic development of the Commonwealth. During the period under review, Britain was the leading donor within the Commonwealth of financial and technical aid to the Commonwealth countries.

69 Percival Griffiths, n. 10, p. 173.
The following table shows the extent of British Government's financial aid to the other Commonwealth countries between 1945 and 1961.

**Table**

The Growth of British Government Bilateral Aid to the Commonwealth countries (70)

<table>
<thead>
<tr>
<th>Year</th>
<th>Grants (£ million)</th>
<th>Loans (£ million)</th>
<th>Total (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945 to 1953</td>
<td>Not available</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>1954/55</td>
<td>0.6</td>
<td>2.8</td>
<td>3.4</td>
</tr>
<tr>
<td>1955/56</td>
<td>0.6</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>1956/57</td>
<td>0.6</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>1957/58</td>
<td>2.7</td>
<td>2.0</td>
<td>4.7</td>
</tr>
<tr>
<td>1958/59</td>
<td>5.0</td>
<td>20.8</td>
<td>25.8</td>
</tr>
<tr>
<td>1959/60</td>
<td>5.0</td>
<td>34.7</td>
<td>39.7</td>
</tr>
<tr>
<td>1960/61</td>
<td>10.2</td>
<td>35.4</td>
<td>45.6</td>
</tr>
<tr>
<td>1961/62</td>
<td>12.5</td>
<td>32.0</td>
<td>44.5</td>
</tr>
</tbody>
</table>

The table shows that the British aid to independent Commonwealth countries since 1954-55 was on the increase during the period. The decision of the Commonwealth Trade and Economic Conference at Montreal in 1958 to introduce a system of Commonwealth Assistance Loans had an important bearing on the

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increasing size of this aid. There, the United Kingdom announced a new policy of Commonwealth Assistance Loans, designed primarily for the less developed countries of the Commonwealth, administered under section 3 of the Exports Guarantee Acts of 1949 and 1957, and used for the purchase of goods, equipment and services from Britain. Loans made or announced in 1958 and 1959 included £ 50.5 million to India, £10 million to Pakistan, £2.25 million to Malaya and £12 million to Nigeria for utilisation after independence. Earlier loans made under the 1949 Act to Commonwealth countries consisted of £10 million to Pakistan for the purchase of equipment and plant to assist agriculture and £15 million to India to assist the financing of the Durgapur Steel Works. In 1961, Ceylon received a similar loan of £2.5 million. Thus the largest recipients of the said loan during the period under review were India and Pakistan. A peculiarity of these British loans was that the bulk of it was made, not for individual projects, but for general purposes connected with development plans, so as to make it flexible in its utilization.

Section 3 of the Act said: "The Board of Trade may, with the consent of the Treasury, acquire any securities which the Board have guaranteed in the exercise of their powers under this Act... and may with such consent as aforesaid, -
a) hold any such security so acquired for such period as they think fit and collect any sums falling due, whether by way of principal or of interest, in respect thereof; and
b) dispose of any such security so acquired at such time and in such manner as they think fit". See UK, Bills, Public 1948-49, vol. II (London, n.d.), p. 166. (The page numbering is of British Museum Library) The objective of the Act was to encourage trade with places outside the United Kingdom.
The United Kingdom Exchequer funds for Commonwealth development was channelled through the United Kingdom's sterling subscription to the International Bank for Reconstruction and Development and from credits under the provisions of the Exports Guarantee Acts. In 1953 the United Kingdom Government announced that it aimed at making up to £60 million available, over a period of about six years, for lending by the International Bank to Commonwealth countries in the sterling area out of the United Kingdom's subscription to the capital stock of the International Bank. By January 1960 most of the United Kingdom's sterling subscription had been released. This included £18 million towards loans to India for iron and steel production, electric power and railway development, and about £9 million towards loans for electric power and other projects in Pakistan.

A factor that weighed in favour of giving aid to the Commonwealth was the increasing indebtedness of the developing countries of the Commonwealth to the United Kingdom and their foreign exchange shortage. About half of the total bilateral aid was outright grants and about a third of the aid to independent Commonwealth countries was in the form of loans. 72 The terms of these development loans have been progressively softened in recent times. Since 1958 the maturity period has been extended from an average of 15 years to between 20 and 25 years.

Interestingly enough, Britain also received loans from one of the Commonwealth countries, Canada. In 1946 Britain negotiated an export credit loan of $1,250 million from Canada on the understanding that it would be drawn at the rate of $250 million, per year, over a period of five years. But when there occurred a delay in obtaining a similar loan from the United States, and when there was greater demand in the United Kingdom for Canadian food supplies, Britain could not stick on to the annual ceiling of $250 million. In 1946 United Kingdom withdrew $540 million and in the next year $423 million. Thus by the end of 1947 the British withdrawals totalled $963 million. By the end of August 1947, bulk of it was exhausted and the loan had lasted for only a fraction of the time originally intended. This export credit loan from Canada went a long way in assisting the United Kingdom during the worst stage of post-war adjustment. It eased Britain's dollar problem to a considerable extent. This financial assistance from Canada was a testimony to the deep Canadian interest in the stability of British economy during the difficult post-war years. Apart from this, Canada made arrangements to sell wheat to Britain for four years at prices far below those prevailing in world markets.


75 This as well as the help received from Australia and New Zealand immediately after the war, by way of pricing very low for food products, was gratefully acknowledged by British statesmen; e.g., see Hugh Gaitskell's speech at the 1962 Labour Party Conference, on 3 October 1962. See Labour Party, Britain and the Common Market (London, 1962), p. 16.
Colombo Plan

In a study of British aid to the Commonwealth countries, the Colombo Plan merits special mention. The novelty of the Plan was that it comingle almost all forms of foreign aid. As a result of the Second World War, many countries in South and South East Asia had suffered economic instability. The utilisation of external assets of the Commonwealth countries of the area formed a source of financial assistance to these countries.

The Colombo Plan, ushered in by the Colombo Conference of the Commonwealth Foreign Ministers in January 1950, was designed to promote the economic development of the countries of South and South East Asia. The essential characteristic of the Plan was that each country in the region would prepare and implement its own development plan, while donor countries would provide capital aid and technical assistance, negotiated bilaterally between the recipient and the donor countries. Britain played an important role in moulding this plan. The beneficiaries in the Commonwealth included India, Pakistan, Ceylon, Malaya and Singapore. The conference set up a Commonwealth Consultative Committee on Economic Aid to South and South East Asia.

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77 Donor countries: Australia, Britain, Canada, Japan, New Zealand and the United States.

September 1950 the Committee met in London to consider the six-year development plans prepared by the Governments of India, Pakistan, Ceylon, Malaya and Singapore and others. The total expenditure of the plans envisaged by these Governments was £1,868 million over six years, for which the external finance required was £1,084 million.

Though the plan was ostensibly mooted and initiated within the Commonwealth, it had enough potential to widen the scope and bring non-Commonwealth countries also within its ambit. The United States joined the plan in 1951 and Japan in 1954. Since most of the countries at the receiving end belonged to the Commonwealth the lion's share of the aid organized through the plan went to the Commonwealth. From 1950 to 1961, British economic aid to Commonwealth countries under this plan amounted to £175.99 million.

Technical Assistance

A significant British contribution to the Commonwealth countries through the Colombo Plan was in the field of technical assistance, under the Technical Co-operation Scheme, which provided assistance by the provision of training places, of equipment for training and research and by the supply of experts.

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79 Cmd 8080 (1950), p. v. The decision to prepare these plans were taken in the first meeting of the Consultative Committee in Sydney in May 1950.

80 Ibid., pp. 41 and 58.

81 The figure is inclusive of grants and loans for 1961-62 also. India, £99,677,000; Malaya, £49,775,000; Pakistan, £22,038,000; Singapore, £3,320,000; and Ceylon, £1,183,000. See UK, Aid to Developing Countries (H.M.S.O.), Cmd 2147 (1963), p. 45.
Under this Scheme, the United Kingdom bilaterally gave help to India, Pakistan and Ceylon and to other non-Commonwealth countries of the region. To assist this kind of operation, in 1961, the British Government set up a Department of Technical Co-operation, which had done substantial work to provide experts for the countries which needed them. However, it is a fact that the British contribution, by way of technical assistance to Commonwealth countries, was more important than the capital aid given by her. The benefits the Commonwealth countries in the region derived from Britain in this respect could be gauged from the fact that between 1951 and 1960 Britain, under the Colombo Plan, sent about 324 experts to the Commonwealth countries.  

To quote the official report:

These experts have between them covered a wide range of subjects, the main categories being transport and communications medicine and health, engineering, industry and trade, and education. As examples of the type of services rendered, India has been advised on the cost structure of the Indian Airlines Corporation and on the steel re-rolling industry, in Pakistan a United Kingdom expert has advised on an Exports Credits Guarantee Scheme and a United Kingdom firm has provided consultancy services for a town plan of Dacca; while Ceylon has received United Kingdom experts on the conduct of family budget surveys and on the revision of the cost-of-living index. (83)

The initial survey of the Durgapur Steel Plant (India) was carried out by a consortium of British steel firms. The funds for that initial survey were made available from the Colombo Plan technical assistance funds. This was an important gesture of

82 Total number of experts sent to the whole area including the Commonwealth was 380.

83 Quoted in Percival Griffiths, n. 10, pp. 185-86.
British participation in Commonwealth development. Apart from this, on two occasions, teams of highly qualified surgeons from Britain had gone round the countries of South and South East Asia actually demonstrating particular operations to the doctors and students of those countries.\textsuperscript{84} The other important aspect of technical assistance to the Commonwealth countries was the arrangements for the training of Commonwealth technicians in Britain. Under this head Britain spent about £1.47 million until 1961.\textsuperscript{85}

**Special Commonwealth African Assistance Plan**

The Special Commonwealth African Assistance Plan was launched at the meeting of the Commonwealth Economic Consultative Council in September 1960. All financial and technical aid to Commonwealth countries in Africa were considered as given under this Plan. The purpose of the Plan was to focus attention upon the assistance which Commonwealth countries were providing bilaterally and through international organizations to the less developed Commonwealth countries in Africa. Part of this assistance was in the form of capital aid, but it was expected that most Commonwealth countries would contribute mainly in the form of technical assistance. During the period under review, Britain continued to bear the main responsibility for assisting the development of the Commonwealth African countries. Capital


\textsuperscript{85} The figure is inclusive of the expenditure for 1961-62 also. See Cmd 2147 (1963), p. 48.
assistance provided by Britain under the Plan included a tied loan of £5 million to Ghana towards the cost of the Volta hydro-electric scheme; Commonwealth Assistance Loans of £12 million to Nigeria, to aid its five-year economic programme between 1956-1961. The technical services that Britain provided to the Commonwealth countries in Africa included experts and advisory missions, including consultancy by British firms; advanced training in Britain in technical subjects and equipment needed for scientific and technical instruction. The British expenditure under this scheme up to 1962 is given in the following table.

**British Expenditure under the Special Commonwealth African Assistance Plan for 1960-62 (87)**

<table>
<thead>
<tr>
<th>A Capital Aid</th>
<th>1960-61</th>
<th>1961-62</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Grants</td>
<td>19.828</td>
<td>25.944</td>
</tr>
<tr>
<td>(b) Loans and Investments</td>
<td>31.715</td>
<td>41.008</td>
</tr>
<tr>
<td>II Supply of equipment</td>
<td>..</td>
<td>0.024</td>
</tr>
<tr>
<td>B Technical Assistance</td>
<td>..</td>
<td>11.774</td>
</tr>
</tbody>
</table>

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Encouraging private investment in the Commonwealth was a key factor of Britain's economic policy. An adverse effect of the War was that it gave a big blow to the continued capacity of Britain for overseas investment. During the pre-war years, Britain used to invest abroad about 8 per cent of her national income without any difficulty. Her investment abroad was confined mainly to the Commonwealth countries. But the Second World War crippled her ability to play this traditional role, and, during the post-war years, she could not invest even one per cent of her own resources abroad. It was always the desire of Britain to sustain the flow of capital from London to other Commonwealth countries for economic development. Besides, being a commercial country, her overseas investments constituted her main source of income from abroad.

The general guidelines governing British investment abroad were: (1) the maintenance of the strength of the Sterling and the successful development of the United Kingdom's economy to provide resources for investment in the Commonwealth; (2) the requirement of capital for the Commonwealth from outside to increase the general economic activity of the Commonwealth as a whole; and (3) her capacity to provide technical know-how to the less developed Commonwealth countries. It was her genuine belief that the members of the Sterling Commonwealth had a vital interest in strengthening Sterling. Through the

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investment of privately owned funds, Britain had made her most valuable contributions to the development of other Commonwealth countries, and forged the most permanent trading links with them, by opening up opportunities for the exchange of technical skills. 89

The 1952 Commonwealth Economic Conference emphasized the need to pursue common objectives in the economic development of the Commonwealth. The communique issued after the Conference said:

The Conference agreed that the sterling area countries' development should be concentrated on projects which directly or indirectly, contribute to the improvement of the area's balance of payments with the rest of the world. Such projects should strengthen the economy of the countries concerned and increase their competitive power in world markets and so, by improving their balance of payments, by increasing prosperity to their peoples. In some countries of the area, however, development plans have been, or are being, made to provide for some basic improvement in the standards of living, which is a necessary foundation for further economic development. Some social investment is also urgently needed in the more developed countries, certain of which have rapidly increasing population. The Conference recognized the need in such cases for these types of investment. (90)

At the Conference, the United Kingdom took up the responsibility "to make a special effort to provide additional capital for Commonwealth development by facilitating the financing of schemes in other Commonwealth countries, which will contribute to the improvement of the sterling area's balance of payments". 91

These commitments were reiterated in the communique issued after the Commonwealth Finance Ministers Conference in 1954. It

89 Ibid.
90 Cmd 8717 (1952), p. 3.
91 Ibid., p. 4.
was made clear that the Sterling Area Commonwealth Governments could borrow in the London Market for general development programmes as well as for specific projects, and conditions to raise private capital were also relaxed that, before 1953, permission to borrow for investment overseas was given only for proposals likely to be of direct assistance to the United Kingdom, whereas, in 1953, this condition was made liberal so as to include projects designed to help the Sterling Area's balance of payments generally. In the same year, the United Kingdom Government authorized loans and grants totalling £120 million for investment in the Sterling Commonwealth.92 However, it is estimated that between 1945 and 1961, about 70 per cent of the external investment in the Sterling Commonwealth came from the United Kingdom.93 And its annual rate of net investment rose nearly 2 1/2 times between 1948 and 1961.94

Commonwealth countries had easy access to the United Kingdom for borrowing money. Public investment which used to constitute an important part of the British capital had more or less disappeared or was replaced by public capital obtained from international financial agencies like the International Monetary Fund and the International Bank for Reconstruction and Development.

92 See the statement of R.A. Butler, the Chancellor of the Exchequer on 2 February 1954. UK, House of Commons, Parliamentary Debates, vol. 523, Session 1953-54, col. 206.


From time to time Governments and semi-governmental bodies raised money in London, but the operation was negligible in comparison to those which were undertaken by private enterprise.

The lion's share of the capital from the United Kingdom that went for investment in the Commonwealth came from privately owned funds. Private borrowing above £10,000 in the London Market required the consent of the Treasury. Since 1952, consent on private borrowing from the London Market for investment in the Sterling Commonwealth had been running at a rate ranging from £35 million to £40 million a year.95 According to Reginald Maudling, Britain's Paymaster-General, the ability of the city of London and the British economy as a whole to provide capital for the development of the Commonwealth was an increasingly important factor. He observed at every Commonwealth Finance Ministers' Meeting, a scramble for capital.96 His speech at the Royal Commonwealth Society, on 29 January 1959, was an evidence of Britain's keen interest in fostering Commonwealth economic development. He said that much needed to be done to develop the standard of living and... potential of these vast areas of the world where so many hundreds of millions of people live. They have the physical ability, they have the brain power, they need the organization, they need the capital. And we supremely in the United Kingdom are looked to provide both the know-how of organization and also the savings in the form of capital which will enable them to speed up their development of their physical resources. (97)

96 Reginald Maudling, n. 31, p. 50.
97 Ibid.
Adverting to British investment in the Commonwealth, then Economic Secretary to Treasury, Reginald Maudling, said that it would be difficult to give an estimate of the rate of investment in the Commonwealth, because much of the investment in the Commonwealth took place in the Sterling Area, which had no exchange control. However, he said that, the average level of the United Kingdom investment in the Commonwealth was encouraging and growing. In 1961 British investment in Canada stood at £ 3.385 million compared with £ 1,750 million at the end of the World War II. In Australia, between July 1947 and June 1964, British private investment amounted to £A 1,071 million, which was 54.4 per cent of the total private overseas investment. In South Africa in 1962 it was R 1,670 million representing 64.2 per cent of the overseas investment. With regard to India, the United Kingdom was the largest single source of private external investment accounting for Rs 419.00 crores out of Rs 528.4 crores of non-banking foreign investment at the end of 1961. This accounted

for nearly 80 per cent of all direct foreign investment. Investment in Pakistan was confined to oil and natural gas and engineering. Banking investment in India and Pakistan have been undertaken by the National and Grindlay's Bank. However, the fact remains that there had been a steady increase in the flow of British capital into these countries during the post-war period. Undoubtedly, these investments helped those countries to increase their national income and build up their own indigenous economic structure. It is estimated that the average annual flow of capital from Britain during the post-war years was of the order of £ 150 million.103

There were two forms in which private capital flowed from London to the Commonwealth. (1) Direct investment; (2) Portfolio investment. Of the two, the major one was the direct investment by the United Kingdom companies and their branches, subsidiaries or, associates in Commonwealth countries. It covered various methods of providing capital, including the transfer of new funds from Britain, the provision of equipment on credit, and the ploughing-back locally of profits made in the Commonwealth. Portfolio investment included the purchase by British residents of loan stock issued by Commonwealth Governments or local authorities and of the securities of companies registered in the Commonwealth. They were made through the issue of securities on the London capital market and with the

development of capital markets in Commonwealth countries through the purchase of securities issued abroad. A substantial volume of loans was raised on the London capital market by Commonwealth Governments and public authorities. The total British investment abroad, excluding oil, insurance and banking, in 1962, is given below:

**British investment abroad at the end of 1962 excluding oil, insurance and Banking (104)**

£ million

<table>
<thead>
<tr>
<th>In the Commonwealth</th>
<th>Outside the Commonwealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>607</td>
</tr>
<tr>
<td>Australia</td>
<td>401</td>
</tr>
<tr>
<td>India</td>
<td>171</td>
</tr>
<tr>
<td>Malaya</td>
<td>140</td>
</tr>
<tr>
<td>Rest of the</td>
<td>917</td>
</tr>
<tr>
<td>Commonwealth</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,236</strong></td>
</tr>
</tbody>
</table>

Upto 1958 public borrowing by external bodies on the London capital market was confined to Commonwealth and colonial governments. But after the Montreal Conference in 1958, Britain allowed subordinate authorities from the developing Commonwealth countries, such as local authorities, to have direct access

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104 Financial Times, 8 July 1964.
to the capital market. But access to the London market by private overseas borrowers was limited to investment projects which were likely to be of benefit to the Sterling Area. Amounts exceeding £ 50,000 in any twelve months required the consent of the United Kingdom Treasury, which was guided in its decisions by the Capital Issues Committee.

**Commonwealth Development Finance Company**

An important agency of investment of private capital in the Commonwealth was the Commonwealth Development Finance Company, set up in 1953. The Company's capital was subscribed by 91 business concerns in the United Kingdom and the Bank of England. The object of this Company was to assist in the provision of finance for development in the Commonwealth. It was expected to lend for schemes for which adequate capital could not be raised from ordinary sources. At the beginning, the Company had an authorized capital of £ 15 million — £ 8.25 million from private industrial, commercial and financial houses and £ 6.75 million subscribed by the Bank of England. It was empowered to borrow twice this amount. In 1959, the authorized capital of the Company was doubled and since then the central Banks of six other Commonwealth countries had subscribed to the Company's shares. As on 31 March 1960, the

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105 In 1960, it was suggested by a Conservative source that one of the cardinal features of Britain's Commonwealth economic policy was to maintain and increase investment in developing Commonwealth territories. Conservative Political Centre, *Wind of Change: The Challenge of Commonwealth* (London, 1960), p. 62.

106 Bell, n. 3, p. 388.
Company's investments and commitments totalled £16.2 million in seven projects in five Commonwealth countries.\textsuperscript{107} The projects included electricity supply undertakings, production of agricultural fertilisers and uranium mining. The countries benefited by these projects included Canada, New Zealand, India, Pakistan, and South Africa. The United Kingdom Government attached great importance to the operation of this Company in the Commonwealth.\textsuperscript{108}

Time and again, the British Parliament had shown deep interest in Britain's ability to provide capital for Commonwealth development. More than once, it showed dissatisfaction about a number of Commonwealth countries borrowing from elsewhere partly because of the non-availability of adequate capital in the United Kingdom and partly because of the exorbitant rates of interest charged in Britain.\textsuperscript{109}

THE STERLING AREA

The Sterling Area formally came into existence when a group of countries were exempted from the British exchange control. It consisted of members of the Commonwealth except Canada,\textsuperscript{110} British colonies and a few other countries outside the Commonwealth, like Burma, Iraq, Jordan, Iceland and the Irish


\textsuperscript{108} Cmnd 237 (1957), p. 7.


\textsuperscript{110} Canada is a dollar area country.
Republic. All members of the Commonwealth other than Canada are members of the Sterling Area. Because of this fusion of these two complementary groupings, the meetings of the Commonwealth Finance Ministers often discussed Sterling Area problems. Being the Banker of the Sterling Area, common membership in the currency bloc became the mainspring of the financial relationship between Britain and the Commonwealth. As already mentioned, a consideration governed the supply of British capital for Commonwealth development was the possibility of the improvement of the balance of payments position of the Sterling Area. That was also a reason why the British Government encouraged free flow of capital from the United Kingdom to the Sterling Commonwealth.

The present day Sterling Area is more or less a product of the Second World War and the banker customer relationship was the essence of this financial arrangement. These arrangements emanated from a particular pattern of trade, which in simple terms, could be said as export of manufactured goods in exchange for imports of food and raw materials. During the pre-war years, Britain had carved for herself the dual role of both a money-lender and the chief capital exporter of the world, especially to the countries with which she had trade relations. In this way, Britain made her export surplus available for investment for economic development abroad, and a regular supply

111 Cmd 237 (1957), p. 5.
112 J.S.G. Wilson, n. 76, p. 503.
of Sterling was made available for world-wide use. Thus, London became the nerve centre of its operation, since it had an established international banking and financial mechanism.

The Sterling Area, the largest currency area during the post-war period, was an out-growth of inconvertibility and rested upon two principles. (1) For countries belonging to the Area, it was made easier to transfer the currency concerned among themselves. (2) The right to transfer the currency outside the Area was conceded more readily to members than to non-members of the Area.\(^{113}\) Brinley Thomas, aptly described it as "common house-keeping in regard to supplies of hard currency, freedom from controls in their dealings with one another; and a joint policy in their transactions with countries outside the group. The exchange equalisation account in London was to keep the pool of gold and hard currencies for the whole area, and each member was to have access to it according to its needs".\(^{114}\) The method adopted for the mobilisation and husbanding of Sterling ensured maximum freedom of transfer within the Area and an absolute control over external transactions.\(^{115}\)

The value of the Sterling-Area-Commonwealth for Britain has to be appraised against the background of the large debts, incurred by the United Kingdom as a direct result of the war,


\(^{115}\) Gordon Walker, n. 12, p. 259.
usually referred to as the "sterling balances". By December 1945, Britain's Sterling balances amounted to £3,700 million against a reserve of £610 million.\textsuperscript{116} Of this, £3,700 million, £3,000 million were in the Sterling Area.\textsuperscript{117} What obsessed Britain mainly was not the debt, but the balance of payment difficulty, because the debt was largely in the Sterling Area, with which she had strong economic ties, whereas the balance of payment difficulties was with the non-Sterling Area countries.

In overcoming this difficulty Britain sought and got the full co-operation of other Commonwealth countries who were members of the Sterling Area. To find a solution to the problem, Britain convened the first Commonwealth Finance Ministers Conference in July 1949. The most important outcome of the conference was that members agreed to deposit as many dollars as possible and restrict their dollar drawings. In addition, they undertook to cut their dollar expenditure by 25 per cent.\textsuperscript{118} This enabled Britain to get out of the dollar crisis.\textsuperscript{119} On 11 March 1952 R.A. Butler, the Chancellor of Exchequer, gratefully acknowledged the co-operation extended by other Commonwealth countries to Britain to overcome the difficulty. He said: "The striking manner in which our fellow members of the Commonwealth

\textsuperscript{116} Bell, n. 3, p. 20.
\textsuperscript{117} Roy Harrod, n. 94, p. 121.
\textsuperscript{118} F.V. Meyer, n. 4, p. 75.
\textsuperscript{119} 1952 Commonwealth Finance Ministers' Meeting was also convened to meet a similar situation in Britain to stop the drain of gold reserves from London.
have answered my further appeal to economise dollar expenditure. It reminds one of their moving response in more than one war. Together we shall win through again." 120

However, countries like South Africa and Pakistan abolished dollar discrimination in 1954 and 1955. Other Commonwealth members also relaxed their discrimination against the dollar. Britain returned to de facto Sterling convertibility in 1955, though strict import restrictions were still there in the United Kingdom. 121 At the Commonwealth Trade and Economic Conference, held in Montreal in September 1958, the delegates expressed happiness over the progress that had been made in line of restoring fully the convertibility of Sterling. 122 At this conference the United Kingdom announced her intention "to proceed with the removal of controls of imports from dollar sources". 123 It is to be noted that in 1957 the United Kingdom Government had freed over 60 per cent of all her dollar imports from restriction. 124 By 1959 full convertibility of Sterling for non-residents of the Sterling Area was introduced and all formal distinctions between members and non-members of the Sterling Area had disappeared. Pound Sterling was as freely convertible by non-Sterling countries as by Sterling countries.

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121 Roy Harrod, n. 94, p. 147.
123 Ibid., p. 7.
124 Ibid.
Thus, partly due to external pressure on Britain and partly due to indifference on the part of the Sterling Commonwealth, Sterling Area based on London lost its original significance as an indispensable link between Britain and the Commonwealth. Though its importance waned in 1950s, the Commonwealth dominated by the Sterling Area was an additional source of strength for Britain. Britain was cautious and conscious of this balancing factor of her economy during the post-war period.

Devaluation

Britain's call at the 1949 Commonwealth Finance Ministers' Conference, for restrictive measures on dollar expenditure, while increasing the dollar resources, was also a precaution to meet the strains of a possible devaluation. Two months later, on 16 September 1949, she announced the devaluation of pound sterling from $ 4.03 to the pound to $ 2.8.125 Except Pakistan, the other members of the Commonwealth within the Sterling Area took similar steps to devalue their currencies. The Canadian Government also made necessary adjustments in respect of the exchange value of the Canadian dollar. Thus, except Pakistan, other members of the Commonwealth declared their solidarity with Britain. According to Gordon Walker, "the underlying reason for the solidarity of the sterling area at this time was that

the members derived on balance considerable real advantages from it".126

It may be noted that when the Sterling was devalued, there took place no previous consultation between Britain and other members of the Commonwealth in the Sterling Area. They expressed resentment over the secret manner in which Britain did it unilaterally without consulting them. In the House of Commons, the Chancellor of Exchequer stated on 18 October 1949 that either directly or through the International Monetary Fund, Britain "informed" all Commonwealth Governments.127 But to a question on the nature and extent of Commonwealth consultation before the announcement of devaluation on 20 October 1949, the Secretary of State for Commonwealth Relations, Patrick Gordon Walker said that "information about exchanges between Commonwealth Governments cannot be given because they must be confidential in their very nature".128

However, it would be unjust to find fault with Britain or any other country, for that matter, for not consulting other nations on steps like devaluation, which had deep repercussions on the nation's economy. As Michael Stewart states: "Because of the nature of things, you can't really consult with anyone about devaluation. There has to be only a very short time, indeed,

126 Gordon Walkor, n. 12, p. 262.
128 Ibid., col. 735.
between the final decision to do it and doing of it. You don’t really consult with anybody about devaluation. But as a matter of courtesy we inform certain countries, particularly Commonwealth countries, very shortly indeed what we are going to do". 129

Though some of the Commonwealth countries took the devaluation of sterling as "a courageous and positive step"130 to check the drain of gold and as an attempt to achieve a balance between non-dollar and dollar areas, there were strong notes of disapproval of the manner in which the decision was taken. Since the announcement came immediately after the 1949 September Washington Conference of the British Chancellor of the Exchequer, the US Secretary of the Treasury and the Canadian Finance Minister, and without reporting the nature of talks to the Commonwealth, certain Commonwealth countries felt hurt over the fact that they were ignored while taking decision on "the need of devaluation, the extent of devaluation and the time of devaluation". 131 The Indian Finance Minister complained that British representatives in the Washington talks "exceeded the brief that the Commonwealth Ministers gave the British Chancellor of the Exchequer at the 1949 July Conference". 132 He said that

129 Michael Stewart, Foreign Secretary of the Wilson Government, in an interview with the author on 9 September 1970, in London. In the opinion of Philip Noel-Baker: "Devaluation is something which almost obliges statesmen to tell lies up to the moment when the devaluation happens". Noel-Baker, in an interview with the author on 29 September 1970, in London.

130 See the speech of Canadian Minister for Finance, D. Abbot, in the House of Commons on 19 September 1949. See Nicholas Mansergh, n. 78, p. 1022.

131 See the speech of the Indian Finance Minister, John Mathai, on 5 October 1949, India, The Constituent Assembly of India (Legislative) Debates, Part II, vol. 5, No. 1, p. 12.

132 Ibid.
the Commonwealth countries were not represented at that Conference, on the understanding that the British Chancellor of the Exchequer would argue the case for the sterling countries on the brief prepared by the Commonwealth Finance Ministers Conference.\footnote{133}{Ibid., p. 9.}

He pointed out that at the Commonwealth Finance Ministers' Conference, there was no reference to the subject of devaluation at all, and that Britain could have taken other Commonwealth members into confidence through a secret meeting of the Commonwealth Finance Ministers, by way of reporting the results of Washington talks, the Chancellor of Exchequer held, on the brief the Commonwealth Finance Ministers prepared earlier.\footnote{134}{Ibid., p. 12.}

Though Britain gave advance information to the Commonwealth on her decision to devalue, at no stage was there any consultation with them in taking such a decision. That was a serious lapse on the part of Britain which could only be excused in view of the delicate situation that prevailed at that time.

Thus, the interest of the Commonwealth was an important factor in Britain's economic policy and relations. The investment, the trade relationship, the system of Commonwealth Preferences, the Sterling Area, financial and other aid kept Britain and other members of the Commonwealth a fairly well-knit economic entity until recently. Britain's genuine interest in the development of Commonwealth countries could be seen in the nature of her aid to them. A notable feature was that, about
one-third of it constituted outright grants. In comparison with loans from other countries, the British loans to the Commonwealth were free from "strings", and was flexible enough to utilize them either for projects or were untied. Through the International Bank for Reconstruction and Development, and the Commonwealth Development Finance Company, she kept the flow of capital into the Commonwealth constant. Her investment in the Commonwealth, which annually earned her rich dividends, was also a key factor in her consideration for the Commonwealth.

It would not be correct to assume that economic relations between Britain and the Commonwealth was uniformly alike throughout the period under review. As the years went on, the economic cohesiveness began to diminish, and the Commonwealth countries slowly began to free themselves from full dependence on Britain for markets and aid. This was partly due to the growing industrialization of developing countries, and partly due to the revival of domestic agriculture in Britain. These developments helped to effect a change in the pattern of trade between Britain and the Commonwealth. The traditional pattern of trade was that the Commonwealth countries provided Britain with raw material first, and subsequently, markets to her finished manufactures. When other Commonwealth countries also established manufacturing industries, producing basic industrial goods indigenously, the pattern of trade had changed. The newly-established industries in Commonwealth countries needed encouragement and special protection. Therefore, a revision of
The tariff schedule of developing Commonwealth countries also became necessary. Apart from this, some of these countries wanted to expand their trade with non-Commonwealth countries also. Thus the traditional pattern of agricultural trade, between Britain and the Commonwealth, was slowly being replaced by industrial trade. Every fresh contact the Commonwealth countries established had a disenchancing effect on Britain and vice-versa.

Similarly, Britain's post-war revival of her domestic agriculture providing about a half of her requirements also compelled some Commonwealth countries to diversify their exports outside the British market in order to maintain their balance of payments and reduce their total dependence on the British market. This development took place at a time when duty free and preferential arrangements were in full force. Naturally it affected British exports also which came down from 50 per cent in 1951 to 40 per cent in 1961.

While Britain sympathetically responded to the basic economic needs and stability of the Commonwealth during the post-war years, the Commonwealth countries also reciprocated adequately in declaring solidarity with her in times of financial crises. They also contributed decisively to the stability of the British economy. Britain's confidence in the Commonwealth was so deep that she used to look towards it for help when she faced difficulties. In the face of acute dollar shortage, immediately after the war, it was the sterling-dollar pool in the Commonwealth,
and the Canadian dollar loan that bailed her out from the crisis. Commonwealth countries wholeheartedly co-operated with her to increase dollar earnings and reduce dollar expenditure. The purpose of 1949 Commonwealth Finance Ministers' Conference was to find out ways and means of achieving this objective. Further, in an effort to help Britain, from 1945 to 1949, Canada sold wheat to her at prices far below those prevailed in world market.

The establishment of the European Economic Community had its repercussions in the economic relationship between Britain and the Commonwealth. This new economic grouping in Europe attracted British statesmen, who desired to establish some formal arrangement with the Community, as early as 1957 when 50 per cent of her exports received tariff preference in the Commonwealth, as against 55 per cent of Commonwealth exports to Britain. But, it may be noted that throughout the negotiations with the EEC for a European Free Trade Area, she had made it abundantly clear that adequate protection to Commonwealth interests would be a pre-requisite of such an arrangement. This was also the spirit with which Harold Macmillan approached the EEC for Britain's membership. He sincerely believed that the British entry into the EEC would strengthen the British financial position to help the Commonwealth more effectively. In his opinion, the main problem was "how to reconcile the strong historical structure of the Commonwealth and the new developing structure of the Continent of Europe". 135 Though at

a stage of the negotiation for a European Free Trade Area, Britain agreed to do away with the Commonwealth Preferences for industrial goods, she was all out to protect the preferences for agricultural goods. Perhaps, during the period under study, this was one occasion in which Britain had more or less compromised the Commonwealth interest with European interests.

As has been observed, apart from the normal pulls and pushes of national interests of the individual members of the Commonwealth, there was one major external element that featured in Britain's economic policy vis-a-vis Commonwealth. This was the hostile attitude of the United States towards the Commonwealth Preferences and the Sterling Area, which eventually had a weakening effect on Britain's economic relations with the rest of the Commonwealth.

But all these developments failed to shy Britain away from her basic loyalty to the Commonwealth. As a matter of fact, because of her basic weakness of a declining world Power, and also that the pressures were applied on her weak moments, she unwillingly yielded to some pressures. Similarly, in view of her delicate economic position, the volume of her multiple aid to the Commonwealth, during the period under review, was undoubtedly disproportionately small. However, in a broader perspective, one feels sympathy for Britain that, against great odds, she declared solidarity with the Commonwealth and made it clear that protection of Commonwealth interest was the touchstone of her economic relationship with the outside world.