INTRODUCTION

The British in 1945 were justly proud of their major contribution to victory in the Second World War. Indeed, the United Kingdom of Great Britain and Northern Ireland, together with its empire, was the only power to fight for the whole duration of the conflict. But waging war placed an enormous economic strain on the country, which expended nearly 28 per cent of national wealth in the conflict; and this came after losing over 15 per cent in the First World War.[1] Despite such immense exertions, the British were only able to continue thanks to external financial aid. The Lend-Lease Act of March 1941 provided a vital lifeline from the United States, funding approximately half of British war time spending.[2] Britain also received significant economic assistance through Canadian Mutual Aid.

British ministers and officials were acutely conscious of the importance of all this aid and, as the war with Germany was coming to an end in 1944, considered future economic arrangements. Assistance would still be needed after the defeat of Germany to support what was expected to be a significantly longer war with Japan. Talks in Washington in October–November 1944 resulted in agreement on the level of aid in what was called Lend-Lease Stage II. The British were also looking still further ahead. Even after victory over Japan there would be a need for assistance in a period of economic adjustment to peace – Lend-Lease Stage III. The situation was made more uncertain by the death in April 1945 of President Franklin D. Roosevelt and the succession of the largely unknown Vice President, Harry Truman. On 8 May the new president authorized cutting back Lend-Lease shipments now the war with Germany was over. The orders were quickly overturned, following British

[1] R.C.O. Matthews, C.H. Feinstein, and J.C. Odling-Smee, *British Economic Growth 1865–1973* (Oxford, 1982), 129.

[2] Alec Cairncross, *The British Economy since 1945* (Oxford, 1992), 47: Britain accumulated a £10 billion (*c.* $40 billion) deficit in its balance of payments on current account. Alec Cairncross, *Years of Recovery: British Economic Policy, 1945–1951* (London: Methuen, 1985), 4: Lend-Lease aid to Britain totalled £6,700 million less £1,300 million reciprocal aid to the United States, leaving a balance of £5,000 million (*c.* $20 billion); see also R.S. Sayers, *Financial Policy, 1939–1945* (London, 1956), 480, 500.

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complaints and, above all, Soviet protests. Truman wanted to do nothing to risk the Soviets' commitment to enter the war against Japan three months after the defeat of Germany.[3] In the United Kingdom a Labour government was elected in July. British anxieties came into even starker focus in August when the Japanese surrendered. Truman announced on 21 August the abrupt end of Lend-Lease.[4] The new British prime minister, Clement Attlee, told the House of Commons on 24 August how the country faced a 'very serious financial position' and announced that the British ambassador in Washington, Lord Halifax, and the government's chief economic adviser, Lord Keynes, would depart shortly for the United States to discuss the situation. The British negotiators also intended visiting Canada to reach understandings on ending wartime arrangements.[5] In the spring of 1946 a British team visited Ottawa for talks on post-war finance.

The diary of Frederic Harmer, a temporary civil servant in the Treasury and close aide to Keynes, and the Washington reports of Robert Brand, head of the Treasury Delegation in Washington, provide invaluable insights into this crucial period in Britain's relations with North America. These documents reveal the evolving thoughts, feelings, and strategies of the British, and offer commentaries on key US officials, on the Truman administration's approach, and on Congressional and public opinion. The two sources are chronologically complementary. Harmer's journal records Keynes's mission to the United States and Canada between August and December 1945, which resulted in an interim Anglo-Canadian agreement in September on Canadian Mutual Aid, and settlement of Lend-Lease and a loan agreement with the Americans in December. Brand's reports cover the prelude to Keynes's 1945 mission: the closing phases of Lend-Lease in 1944–1945 and the British debates in the spring and summer of 1945 on how to secure US and Canadian post-war financial assistance. His communications during the American loan talks in late 1945 were intentionally limited. As he told Sir Wilfrid Eady, joint second secretary at the Treasury: 'I have deliberately never written you during the negotiations. I thought I should merely create confusion by so doing' (Brand Report, 19 December 1945).[6] Once the loan agreement was agreed, he resumed his detailed reports, covering the response to the

[3] Harry S. Truman, *Year of Decisions, 1945* (New York, 1965), 254–255.
[4] *FRUS*, 1945, VI, pp. 102–103 109.
[5] *Commons*, 5th ser., vol. 413, 24 August 1945, col. 956.
[6] The in-text citations 'Brand Report' and 'Harmer Diary' refer to documents contained within this book.

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agreement, the pursuit of a Canadian loan in early 1946, and the passage of the loan agreement through Congress in 1946.

Frederic Harmer

Frederic Evelyn Harmer was born on 3 November 1905, the younger son of Sir Sydney Frederic Harmer (1862–1950) and Laura Russell Harmer (née Howell) (1877–1956), who had married in 1891. Sir Sydney was a distinguished zoologist who was educated at University College, London and King's College, Cambridge, where he was elected a Fellow. He moved to the Natural History Department of the British Museum and served as its director from 1919 to 1927. He was elected to the Royal Society in 1908, was awarded the gold medal of the Linnean Society in 1934 and was knighted in 1920.[7] Frederic Harmer was educated at Eton and King's College, Cambridge: he was a Wrangler in the Mathematics Tripos in 1926. Recognizing he had reached the limit of his mathematical talent, he transferred to Economics and secured Class I Division I in the Economics Tripos in 1927. In 1931 he married Barbara Susan Hamilton, the elder daughter of Major J.A.C. Hamilton, JP and Lilian Hamilton (née North Row); they had two sons and two daughters. Barbara Harmer died in 1972. He married again in 1973 – to Daphne Shelton Agar.

After Cambridge, Harmer worked in banking. He entered the Treasury in October 1939 at Keynes's behest (Harmer's talents as an undergraduate at King's had led to his being invited to join the Apostles, the quasi-secret discussion society largely run by Keynes) and served as a temporary assistant secretary from 1943 to 1945 in the Overseas Finance Division. He was posted to the United States in March–June 1944; and again in September–December 1945, as personal assistant to Keynes during the loan negotiations. It was during this second period of service in the United States that he kept this diary. His numeracy and mathematical skill were put to good use during the negotiations: at one point 10-figure log tables were needed, but were unavailable in Washington, and so he and a colleague worked all night to compile them. His obituary in the *King's College Annual Report* observes that he was one of the ablest men to transfer from the City to the Treasury, making it 'a more lively place than it had ever been before, and probably since'; but adds that 'he was never a natural civil servant'. When the Washington

[7] Obituary, 'Sir S. F. Harmer', *The Times* (24 October 1950), 8; announcement of death, 'Laura Russell Harmer', *The Times* (25 May 1956), 1.

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talks were over, he resigned from the Treasury in December 1945 and was awarded the CMG in 1946. He then worked in business for the remainder of his working life, first at the New Zealand Shipping Company, becoming chairman in 1953, and then as deputy chairman of the Peninsular & Oriental Steam Navigation Company from 1957 to 1970. He was chairman of the Committee of European Shipowners from 1965 to 1968. He was a government director of the British Petroleum Company from 1953 to 1970, when he was replaced by the Labour government for what he felt were political considerations. Yet, as his King's obituarist attests, 'Freddie was in fact a very tactful member of the various boards to which he was appointed.' In 1970 he became an honorary fellow of the London School of Economics. He was knighted in the Birthday Honours of June 1968.

In the few photographs of him (he did not welcome having his picture taken), Harmer appears as smartly tailored, someone with an unassuming manner but with an alert, intelligent focus. Behind this appearance was a man of considerable talents. His mathematical skills were evident throughout his career in government and in business. During a trip to meet some shipping agents he left his homburg hat in a New York taxi and, when asked if he recalled the five-digit number of the cab, he said he did not but he did know it was divisible by 37. Following a series of calculations the taxi was found and his hat returned. He was also an adept linguist, fluent in German and Serbo-Croat and with enough Russian to have what his *Times* obituarist called 'an impassioned discussion' with Russian shipping officials. The King's obituary notes how he 'combined a capacity for the most affectionate friendship . . . with an innovative, impatient, even combative intelligence. One seldom met him without its being a joy, and at the same time being instantly plunged into an argument. He was a hater of received ideas, and of many institutions . . . but never of people.' His sometimes spiky approach surfaced in response to Robert Skidelsky, who, in the first volume of his biography of Keynes, equated Keynes's remark that 'in the long run we are all dead' with Harold Wilson's phrase 'a week is a long time in politics'; and called them both 'vicious half-truths'. Harmer tartly observed: 'Keynes was the master of the throwaway line. Many of his had wide currency for their style and wit. Some indeed became collectors' pieces, as did this one. Keynes did not care for pomposity. But he enjoyed the grotesque and I am sure he would have been pleased to see it raised to the level of an immoral principle and enshrined in a bower of deathless purple prose.'[8]

[8] Letter to the editor, *The Times* (23 November 1983), 11.

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The diary reveals him as diligent, efficient, focused and hardworking – he often returned to his duties after dinner. He was clearly gregarious, pleased to share meals with British colleagues and American friends and join driving excursions into the local hills. He struck up friendships both with his fellow British colleagues and with Americans, many of whom he had got to know quite well from his previous posting in Washington in 1944. There was more to Harmer than his high intellectual, administrative and managerial abilities. He eagerly embraced and displayed real talent in several physical activities. The account in his diary of the sea voyages to and from the United States conveys Harmer's enthusiastic interest in ships and sailing and helps explain his decision to join a shipping company. He was a keen sailor, part-owning a sailing yacht for many years. He played tennis at school and achieved a standard high enough to qualify for Wimbledon in the doubles, though the bank refused to give him time off to participate. Later in life he turned to golf and was able to reach a single-figure handicap. He was a skilled carpenter: at the onset of war he had to leave behind a partially built dinghy, which was too big to extract from the basement of his house (subsequently bombed) when he moved his family out of London.

He spent the last years of his life in Saxmundham, Suffolk. He had a stroke in 1990 from which he partially recovered, though he was unable to speak. Sir Frederic Harmer died on 24 February 1995 at the age of 89.[9]

Robert Brand

Robert Henry Brand was born on 30 October 1878, fourth son of six sons and three daughters of Henry Robert Brand (later Viscount Hampden), and his second wife, Susan Henrietta Brand (née Cavendish), younger daughter of Lord George Henry Cavendish and Louisa Lascelles. He was educated at Marlborough College, where the tough regime affected his health, but he still managed to play cricket for the school. He read Modern History at New College, Oxford but his health broke down, requiring a year of recuperation. Nevertheless, he took a first-class degree and won a Prize Fellowship at All Souls College in 1901.

Despite his intellectual accomplishments, Brand chose not to devote himself to academic life. His practical bent led him to use his talents in public service. Through his father's intervention, he

[9] *Who's Who 1978*; obituary, 'Sir Frederic Harmer', *The Times* (14 March 1995), 19; obituary, 'Frederic Evelyn Harmer (1924)', *King's College Annual Report* (November 1995), 57–58, at 57; information from James Harmer.

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was recruited in December 1902 by Lord Milner, who was reorganizing and reconstructing South Africa in the aftermath of the Boer War. Brand joined a highly able group that became known as the 'kindergarten'. He remained in South Africa after Lord Selborne succeeded Milner in 1905 and the Boer Het Volk party took office in the Transvaal following the 1907 election. He worked for the Transvaal government, building an excellent relationship with General Jan Smuts, who described Brand as 'the most outstanding of a very able team'. He served as secretary to the Transvaal delegates at the South African National Convention, which created the South African constitution. Brand's book *The Union of South Africa* (1909) captured this process, expressed doubts about, but did not oppose, the constitution's restrictions on the black population, and conveyed Brand's wider commitment to liberal imperialism, which emphasized promotion of economic and social improvements and conciliation in international affairs.

On his return to Britain in 1909 Brand joined the merchant bankers, Lazard Brothers, and began over fifty years with the bank. At the same time, he joined other members of the 'kindergarten' in creating a new quarterly journal, *Round Table*. Over the years he contributed articles to the journal; and, as member of its editorial board, substituted calm practicality for some of the more ambitious ideas of the board. When war broke out in 1914 a weak heart ruled out military service and, instead, Brand put his economic talents to use. In response to the crisis over supplies of shells, he helped to establish and served on the Imperial Munitions Board of Canada, 1915–1918. He also served as Deputy Chairman, British Mission in Washington, 1917–1918. At the end of the war Brand acted as financial adviser to Lord Robert Cecil, who was Chairman of the Supreme Economic Council, at the Peace Conference in Paris in 1919. It was here where he first met John Maynard Keynes and shared his doubts about the Versailles Treaty. In 1917 Brand married Phyllis Langhorne, daughter of a Virginia landowner and auctioneer, Chiswell Dabney Langhorne, and sister of Nancy Astor, who had introduced them to each other in 1912. Phyllis died in 1937. They had two daughters and a son, who was killed in action in March 1945.

After the First World War, Brand left government service and published *War and National Finance* (1921), a collection of articles he had contributed to *Round Table* in 1912–1920. Although he returned to work at Lazards, he was also interested in playing a larger, constructive role in international finance. In September 1920 he served as Vice-President of the International Financial Conference of the League of Nations in Brussels. He acted as the Financial

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Representative of South Africa at the Genoa Conference in 1922. In the same year, he and Keynes were two of the four-member expert committee advising the German government on stabilization of the mark. Following the Wall Street crash and a slump in Britain, he joined the Macmillan Committee on Finance and Industry in 1930–1931. Brand and Keynes might have been very different in temperaments and in many of their views, but, as David Watt remarks, they 'proved superb foils for each other – Keynes stimulating the liberal, imaginative side of the banker, Brand providing a tough, though sympathetic, resistance which brought out Keynes's most fertile genius'.[10] This was a pattern repeated at various points in the Second World War and in the post-war negotiations with the United States. Brand was also a member of the 'Standstill' Committee, set up in July 1931 to advise on the foreign short-term credits owed by German banks and whose withdrawals were adding to the German banking crisis.

At the outbreak of the Second World War in 1939 Brand was again recalled to government service. He was head of the British Food Mission, Washington, 1941–1944 and senior British representative on the Combined Food Board. In 1942 he took over as chairman of the British Supply Council, rescuing it from internal tensions. He assumed the role of Treasury Representative in Washington in 1944, a post he held until May 1946, working closely with Keynes to address the transition to peace, the settlement of American Lend-Lease and Canadian Mutual Aid, and the negotiation of American and Canadian loans.

To these tasks came a tall, bespectacled, mild mannered man of soft voice and charming demeanour, with an incisive mind, acute judgment, and powers of lucid exposition. He possessed a deep knowledge of finance and wide experience of international affairs. He was an adept diplomat, for he was both a persuasive advocate of his government's case and able to understand the other side's point of view. He possessed a talent for easing personal antagonisms. The American minutes of a meeting in August 1945 record: 'Brand sought to soften the impression Keynes had made.'[11] His understanding of the United States was long-standing and extensive. It began with his work at Lazards and was deepened by his marriage to Phyllis, giving him many social and personal contacts. In consequence, he brought an extra element to his advice to London: a sophisticated grasp of American public opinion. Renowned from a

[10] David Watt, 'Brand, Robert Henry, Baron Brand (1878–1963)', *Dictionary of National Biography* (Oxford, 1981)
[11] *FRUS*, 1945, VI, p. 99.

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young age for the wisdom of his judgment, a profile in *The Observer* noted: 'His sagacity is seasoned with a great sense of humour.'[12]

After leaving government service in 1946, he was ennobled as Baron Brand of Eydon. He was President of the Royal Economic Society, 1952–1953, a member of the BBC General Advisory Council, 1951–1956, and a regular speaker in the House of Lords. He renewed his association with All Souls College, Oxford and served on the board of *The Times* until 1960. He also continued to work for Lazards until 1960. Robert Brand died on 23 August 1963.[13]

Britain, the United States, and war finance, 1914–1941

The British recourse to American assistance during the Second World War was the second occasion on which they had sought vital supplies and war finance from North America. During the First World War, Britain had made purchases worth $12,000 million, paying $8,000 million in cash and borrowing $4,000 million from the US government (repaying $2,000 million by 1933). The British were owed $7,800 million in war debts by their wartime allies, who repaid $346 million of these debts.[14] Britain argued for cancellation of all debts but the United States insisted on viewing the loans as separate contractual obligations. London yielded to Washington, reaching an agreement in January 1923 because it wanted to return to the gold standard[15] and needed American co-operation to achieve this. The debt of $4,600 million would be repaid over 62 years at an interest rate of 3 per cent for the first ten years and 3.5 per cent thereafter, making the rate 3.3 per cent actuarially.[16]

[12] 'Profile: R.H. Brand', *The Observer* (2 September 1945), 6.

[13] *Who Was Who*; K. Burk, 'Brand, Robert Henry, Baron Brand (1878–1963)', *Dictionary of National Biography* (Oxford, 2004); 'Cricket', *The Times* (30 July 1897), 10; obituary, 'Lord Brand', *The Times* (24 August 1963), 8; James Fox, *Five Sisters: The Langhornes of Virginia* (New York, 2000), 160–171, 247, 250, 450–452, 472.

[14] H. Duncan Hall, *North American Supply* (London, 1955), 46 n. 4.

[15] Under the gold standard system gold guaranteed currencies, with the amount of money in circulation fixed by its agreed ratio to the gold reserves. International trade meant movements of gold from buyer to seller. By 1914, some countries held reserves not in gold but in the foreign exchange of other countries (mainly British securities). When countries returned to gold in the 1920s holding foreign exchange reserves (now dollars and pounds) became more frequent.

[16] Nicholas John Spykman, 'The United States and the Allied debts', *Zeitschrift für ausländisches öffentliches Recht und Völkerrecht*, 1:1 (1929), 155–184; Arthur Rathbone (assistant secretary of the Treasury), 'Making war loans to the Allies', *Foreign Affairs* 3:3 (April 1925), 371–398; *Annual Report of Secretary of Treasury, 1922*, 24–27; *Annual Report of Secretary of Treasury, 1923*, 24–29; *Annual Report of Secretary of Treasury, 1924*, 47; Samuel Flagg Bemis, *A Diplomatic History of the United States* (New York, 1936), 716; Robert Blake, *The Unknown Prime Minister* (London, 1955), 483–495; Keith Middlemas and John Barnes, *Baldwin: A*

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By the late 1920s international finance seemed stable but the framework was more fragile than contemporaries assumed. German reparations (agreed in principle in the Versailles Treaty and reduced in severity by the Dawes Plan of 1924) would be paid to France and Belgium, who would repay debts to the United States and Britain, who would repay debts to the United States, while American bankers would provide Germany with loans. But the Wall Street stock market crash of October 1929 arrested the supply of loans to Germany. Congress passed the Hawley-Smoot Tariff in 1930, raising import duties across a huge range of goods, making it more difficult for Europeans to sell goods and earn money to repay loans. American banks succumbed to panic and began redeeming loans to Germany and Austria.[17] By August 1931 Britain was in crisis, as the closures of German banks in July caused a run on sterling. The government decided to leave the gold standard on 21 September.[18] In April 1934 Congress passed the Johnson Act, which forbade loans to governments in default on their obligations to the US Treasury. The US Attorney General interpreted any token payments as breaching debt obligations, thereby placing the British in default. All the Europeans, except Finland, then defaulted completely on 15 June 1934.[19]

Britain's default and its abandonment of the gold standard were joined by a third economic policy. In 1932 the British significantly extended the Imperial Preference trading system, establishing a framework of reciprocal preferential tariffs within the British Empire.[20] Meanwhile, Britain had to adjust to a darkening international climate. Successive governments since the war had restrained defence spending. Alarmed at Adolf Hitler's aggressive policies, British defence expenditure rose from £107.9 million in 1934 to £399.6 million in 1939, representing 37.5 per cent of the total

Biography (London, 1969), 128–147; Harold G. Moulton and Leo Pasvolsky, *War Debts and World Prosperity* (New York, 1932), 80–103.

[17] David M. Kennedy, *Freedom from Fear: The American People in Depression and War, 1929–1945* (New York, 1999), 37, 49, 58–67.

[18] Harold James, *Europe Reborn: A History, 1914–2000* (Harlow, 2003), 108; Herbert Hoover, *Memoirs: The Great Depression* (New York, 1952), 81–82.

[19] Kennedy, *Freedom from Fear*, 390–391; Hoover, *Memoirs*, 67–80; Henry L. Stimson and McGeorge Bundy, *On Active Service in Peace and War* (New York, 1948), 201–219; Bemis, *Diplomatic History of US*, 719–721.

[20] British overseas possessions (except Canada) and some Middle Eastern and European countries pegged their local currencies to the pound and conducted international transactions in sterling. This group became known as the sterling bloc with trade denominated in sterling within the Imperial Preference area. In 1939 Britain introduced exchange controls, ending convertibility, and the bloc's dollar earnings were pooled. By 1945 the bloc was called the sterling area.

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budget. Once war began in September 1939 British purchases in the United States stopped, because the Neutrality Act of 1937 banned sales by Americans to belligerents. President Roosevelt was sympathetic to the British, managing to secure in November 1939 an amendment to the Neutrality Act to allow sales on a 'cash and carry' basis.[21] To fund these purchases, Britain was forced to sell investments in the United States at knock-down prices. By the war's end overseas assets worth £1,118 million were liquidated.[22] Britain also persuaded sterling area countries, India and Egypt in particular, to accept credits in British banks to be redeemed after the war – the sterling balances – as payment for British expenditure. Despite these measures, by November 1940 Britain faced a crippling insufficiency of dollars for purchases. The prime minister, Winston Churchill, appealed to Roosevelt, who suggested a creative solution. The Americans would boost their production and then lend or lease to the British the supplies they required. When the war ended, the British would return, in good repair, those supplies it still possessed and would replace those it had used.[23] Despite some strong objections and sometimes heated discussions, Lend-Lease passed Congress on 11 March and was signed into law on 24 March.[24]

Lend-Lease was a huge psychological boost to the British but it was not a wholly disinterested initiative, for it helped the Americans to build up their industry. For all its generosity, Lend-Lease had a contractual aspect reminiscent of the attitude to the First World War debts. As one historian notes, 'by asserting U.S. property rights in the articles and services that were transferred, and by looking ahead to some form of repayment, helped to fix in many American minds the notion of being owed something.'[25] The British, like all recipients of Lend-Lease aid, had to sign an agreement. Negotiations proved troublesome, because the Americans wanted a consideration in return: Article VII of the American

[21] Walter A. Morton, *British Finance, 1930–1940* (Madison, WI, 1943), 286–288; *Commons*, 5th ser. vol. 343, 15 February 1939, cols 1730–1731; G. C. Peden, *British Rearmament and the Treasury, 1932–1939* (Edinburgh, 1979), 207; Hall, *North American Supply*, 72–80; John Morton Blum, *From the Morgenthau Diaries II: Years of Urgency, 1938–1941* (Boston, MA, 1965, 101–103.

[22] Cmd 6707, *Statistical Material Presented During the Washington Negotiations* (London, 1945), 9–10; Hall, *North American Supply*, 275 n.

[23] Warren Kimball, *Forged in War* (London, 1997), 69–73; Roosevelt's press conference, 17 December 1940, available at www.presidency.ucsb.edu (accessed 11 March 2020).

[24] Warren Kimball, *Most Unsordid Act*, 132–229; Leon Martel, *Lend-Lease, Loans and the Coming of the Cold War* (Boulder, CO, 1979), 1–5; Edward R. Stettinius, *Lend-Lease: Weapon for Victory* (Harmondsworth, 1944), 74, 100, 118.

[25] Christopher Thorne, *Allies of a Kind* (Oxford, 1978), 110–111; Hall, *North American Supply*, 255; Stimson and Bundy, *On Active Service*, 360–362.

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draft required, in effect, the termination of Imperial Preference when the war ended. Roosevelt broke the deadlock by accepting Britain's future commitment to negotiate in good faith to abolish empire preference.[26] On 23 February 1942 the two governments exchanged Mutual Aid Agreement documents.[27]

Allies in war

Following the Japanese attack on Pearl Harbor and other territories on 7 December 1941, Britain and the United States became allies in war and in 1942 established various joint bodies to prosecute the war and organize logistics.[28] Anglo-American co-operation also looked beyond the hostilities to the post-war world. In 1943 British and American officials (together with the Soviets) established the United Nations Relief and Rehabilitation Administration (UNRRA) to help rebuild the war-torn world.[29] The United States and Britain also collaborated in framing a new global economic order. Keynes and Harry Dexter White, assistant secretary at the US Treasury, led the discussions. Both were extremely able economists, whose massive self-confidence veered towards arrogance and made them prone to blunt comments and rudeness of manner. Both were prodigious workers and creative thinkers, though Keynes's work was also internationally influential, transforming economic thinking. While both possessed incisive intellects, Keynes had a lightning quick mind. Brand observed he had never known anyone 'whose brain worked with the same extraordinary facility and clarity and power' (Brand Report, 6 May 1946). White understood that the United States was in a more powerful position in negotiations and was ruthless in exploiting this. He shared with Keynes and Secretary of State Cordell Hull recognition of the need to build a better global economic structure but, unlike Hull, had a more nationalist agenda too: he wanted to end the power of sterling.[30] The

[26] Richard Toye, 'The Attlee government, the Imperial Preference System and the creation of the GATT', *English Historical Review*, 118:478 (2003), 912–939, at 915–918.

[27] Warren Kimball, ed., *Churchill and Roosevelt: The Complete Correspondence*, 3 vols (Princeton, NJ, 1984), I, 357–358; Anglo-American Mutual Aid Agreement, 23 February 1942; Master Lend-Lease Agreement, 1942; both available at https://avalon.law.yale.edu/ (accessed 28 February 2020).

[28] Hall, *North American Supply*, 340–393, 463–471.

[29] *FRUS*, 1942, I, pp. 89–162; *FRUS*, 1943, I, pp. 851–1028; George Woodbridge, *History of the United Nations Relief and Rehabilitation Administration*, 3 vols (New York, 1950).

[30] R. Bruce Craig, *Treasonable Doubt* (Lawrence, KS, 2004), 17–40; Theodore A. Wilson, *First Summit*, (Lawrence, KS, 1991), 155–156; Randall Bennett Woods, *A Changing of the Guard* (Chapel Hill, NC, 1990), 74; Robert Skidelsky, *Keynes: III: Fighting for Britain*,

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endeavours of Keynes and White resulted in the Bretton Woods conference in July 1944, which created the International Bank for Reconstruction and Development (IBRD, later the World Bank) and the International Monetary Fund (IMF). In agreeing to join the new institutions the British committed themselves to multilateralism and to convertibility of sterling but with transitional arrangements.[31]

Meanwhile, the British anxiously considered arrangements for Lend-Lease Stage II. Brand told the Secretary of the Treasury, Henry Morgenthau, on 24 August that Britain's population could not tolerate 100 per cent mobilization. It needed shorter working hours and more consumer goods. The country also needed to reconvert for export trade. As a result it would continue to require food, oil and shipping under Lend-Lease. Roosevelt and Churchill agreed in September that Britain would continue to receive food, shipping and munitions through Lend-Lease 'on a proportionate basis, even though this would enable the United Kingdom to set free labor for rebuilding, exports, etc.'[32] Keynes, assisted by Brand, held difficult but successful discussions with the Americans in Washington between 25 October and 27 November 1944. Britain sought $3,000 million in military aid and received $2,838 million; wanted $3,000 million in civilian assistance and received $2,569 million.[33]

The imminent defeat of Nazi Germany in the spring of 1945 intensified British focus on Stage III, the transition to peace after defeat of Japan. In the course of six months Keynes wrote authoritative assessments of the British financial position and engaged in a lively discussion of his ideas with Brand. In 'Overseas Financial Policy in Stage III' of 18 March, Keynes explained how the country faced a deficit of £1,400 million ($5,600 million) per year. There were three possible alternative responses. 'Austerity' (later renamed 'Starvation Corner') involved Britain acting without American financial help and applying controls and rationing. 'Temptation' meant receiving a significant amount of US credits, unfreezing international payments arrangements and introducing convertibility. Keynes

1937–1946 (London, 2000), 110, 151–154; D.E. Moggridge, *Keynes: An Economist's Biography* (London, 1992), 726–727, 780.

[31] *Proceedings and Documents of the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1–22, 1944*, 2 vols (Washington DC, 1948).

[32] TNA, CAB 65/43, WM(44) 92nd Conclusions, 18 July 1944; Sayers, *Financial Policy, 1939–1945*, 434, 463–468. FDRL, Morgenthau Presidential Diary 6:1386–1388, 19 August 1944; Morgenthau Diary, 765:107–108, 118–123, 771:223–225; Blum, *From the Morgenthau Diaries III: Years of War, 1941–1945*, 307–313.

[33] Churchill College, Cambridge, Robinson Papers, ROBN 3/1/5 and ROBN 3/8/1; JMK CW, XXIV, pp. 185–192.

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rejected the insular siege economy approach of 'Austerity' and the heavy debts and financial vulnerabilities in 'Temptation'. He favoured, instead, his third option, 'Justice', which combined a commitment to multilateralism and financial help. There should be cancellation of Lend-Lease and Canadian Mutual Aid debts; reduction of wartime debts owed mainly by sterling countries; a substantial credit from the United States, involving a loan of around $5 billion and a free grant of $3 billion (the amount Britain spent on American purchases before US entry); and a loan from Canada.[34] In response Brand accepted that justice was appropriate but felt the Americans were unlikely to embrace the argument that the aid being sought would be justice because the Americans ought to have entered the war when Britain did. He doubted it would be easy to obtain a free grant of $3 billion (Brand Report, 5 April 1945). Brand recommended 'very private talks in London with one or two leading Americans'. Assistant Secretary of State William L. Clayton, who was 'an entirely reliable man', was due to visit London for a meeting of UNRRA (Brand Report, 14 May 1945). Keynes welcomed the proposal.[35]

While corresponding with Keynes, Brand had also been busy dealing with Lend-Lease problems. Truman decided to cut back on the agreement of November 1944: munitions supplies would be strictly related to the war against Japan and the definition of war excluded occupation of Axis countries. Keynes expressed sympathy for the 'hectic time' Brand had been facing. He also thanked him: 'You have been a great correspondent over the last few months. It has been an enormous help to have so much of the background and to feel that one has known what is in your mind . . . it is high time that you should come here in person.'[36] Brand joined various discussions at the Treasury on 20, 23, and 30 July, helping to shape Keynes's thinking. Keynes abandoned his proposal in March of a gift of $3 billion and a credit of $5 billion and suggested asking the Americans for a free grant of $4 billion. By August he recommended that they seek a grant of $5 billion, which the Cabinet endorsed on 16 August.[37]

When Keynes, Eady, and Brand held informal talks with Clayton and other US officials on 3 August, Clayton made clear that the

[34] JMK CW, XXIV, pp. 256–295; CAB 66/65, WP(45) 301, 15 May 1945 contains minor revisions to 18 March version; *DBPO*, 1st ser., III, p. 2 n. 4. L.S. Pressnell, *External Economic Policy Since the War* (London, 1986), 237–241.

[35] JMK CW, XXIV, pp. 339–343.

[36] JMK CW, XXIV, pp. 372–376, at 372, 376.

[37] JMK CW, XXIV, pp. 377–398, 398–411; CAB 129/1, CP(45) 112, CAB 128/1, CM(45) 23rd Conclusions, 16 August 1945.

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Article VII commercial policy issue should be tackled. He suggested that official opinion in Washington seemed to be settling on $3 billion credit, though he omitted any mention of interest or repayment of the principal. At a further meeting on 17 August the Americans spoke of the need to end Imperial Preference and the pooling of dollar earnings.[38]

On 17 August Truman decided to end Lend-Lease, giving the British formal notice on the 20th.[39] Brand, who returned to the US on 27 August, discovered that the decision was taken by the President with Foreign Economic Administrator Leo Crowley and Secretary of State James Byrnes present, but after Treasury Secretary Fred Vinson and others had left the meeting. Brand believed that Vinson had 'argued at length and strongly that notice should be given to each country' and left the meeting believing that this had been accepted. He also reported that Truman and Byrnes were 'furious' at Attlee's statement in response to the decision. He added: 'If so, the fury must have arisen very largely from a bad conscience.' (Brand Report, 30 August 1945.)

During his visit to London Brand offered sage counsel on how to pursue the negotiations. In a memorandum of 20 July he repeated some of the central points he had made in correspondence with Keynes. The British case should rest not only on grounds of justice or American generosity. It was 'in the interests of the United States as well as the U.K. and of the rest of the world' that the Americans played 'a very large part' in easing Britain's burdens and allow it to take 'its proper place in an ordered world'. Any free grant should be 'wrapped up to look so far as possible unlike a free grant and an act of generosity. The U.S. is the last country the U.K. should take gifts from if they can be avoided.'[40] Brand told ministers on 23 August that he was 'perhaps less hopeful' than Keynes. He thought that asking for a grant in aid was 'undesirable' because it could leak and 'be represented to our disadvantage'. Rather, they should 'let it appear from the strength of our case, as we developed it . . . we should let the Americans come to this, rather than make the suggestion ourselves.' This suggestion 'met with general approval'.[41] The next day Attlee announced the Keynes-Halifax mission.

[38] *FRUS*, 1945, VI, pp. 79–87, 97–101, 103–105; Pressnell, *External Economic Policy*, 250–251; Sayers, *Financial Policy, 1939–1945*, 483.
[39] *DBPO*, 1st ser., III, pp. 55–58.
[40] *DBPO*, 1st ser., III, No. 1(i).
[41] *DBPO*, 1st ser., III, pp. 72–77.

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Keynes mission, August–December 1945

Keynes, accompanied by Harmer and Edmund Hall-Patch of the Foreign Office, sailed to North America on 27 August, arriving in Quebec on 1 September. They flew to Ottawa the next day and held talks on 2–5 September, securing interim understandings. There would be no return of remaining Canadian goods supplied under Mutual Aid and, pending a settlement, the Canadian government would continue to provide supplies to Britain until the end of the year, which Hall-Patch estimated to be worth $300 million.[42]

Keynes left Ottawa by train on the 6th, reaching Washington the next day. Harmer flew to Washington on the 7th and joined Keynes and Brand and other officials that evening as they held a meeting at Keynes's hotel. Halifax arrived by plane on 8 September and, together with Brand, met Keynes and his party on 10 September. The Ambassador, Harmer observed, was initially 'very annoyed at having to cut short his time in England' for something that 'isn't exactly his subject' (Harmer Diary, 10 September 1945). Yet, for all that, Halifax proved a valuable part of the negotiating team. As Skidelsky notes, 'Halifax's main role was to calm the increasingly frayed nerves of the Mission, and relate their concerns to the big picture of Anglo-American relations. When Keynes was abrasive he was emollient. Late at night he would tone down Keynes's increasingly angry telegrams to London, and talk him out of resignation.'[43] Halifax had arrived in 1941 as an improbable representative of Churchill, given his role as foreign secretary in Neville Chamberlain's government as it pursued a policy of appeasement. The 'thin, awkward . . . shy, courtly peer with a withered left arm' seemed the epitome of the stuffy Englishman with his bowler hat and umbrella. Yet, despite initial missteps with the American public and with key officials, he developed an impressive feel for the currents of US opinion and established good relations with Cordell Hull and other senior figures.[44]

The two key members of the American team were Treasury Secretary Fred M. Vinson and Assistant Secretary of State Clayton, both of whom wished to help Britain. Vinson was a conservative Democrat from Kentucky with what McCullough calls 'a

[42] *DBPO*, 1st ser., III, p. 117; Moggridge, *Keynes*, 798–799; Pressnell, *External Economic Policy*, 343.

[43] Skidelsky, *Keynes III*, 410.

[44] Brand Papers 197/2, 'He Did What Nobody Thought He Could Do', *Evening Star* (11 May 1945); Nicholas J. Cull, 'Lord Halifax', in Michael F. Hopkins, Sean Kelly, and John W. Young (eds), *The Washington Embassy, 1939–1977* (Basingstoke, 2009), 33–51.

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weary hound-dog look'.[45] He was diligent, affable, versatile, shrewd, and valued by Truman – and not just as his favourite poker-playing companion. In his diary Truman called him 'a straight shooter, knows Congress, and how they think, a man to trust'.[46] He was, as Moggridge remarks, someone who 'set high store on discovering the popular will and turning it into policy'.[47] Keynes declared Vinson's 'most conspicuous gift was the accuracy with which he could spit into a distant spittoon.'[48] Clayton was a six-foot-six self-made Texas cotton broker, who was an enthusiastic internationalist and a zealot about free trade. Someone who worked for Clayton described him as 'old-fashioned and gracious, very much like Cordell Hull . . . his perception of heaven was a world without trade barriers.'[49] Marriner Eccles, Chairman of the US Federal Reserve Board, was the third but much less influential member of the American team, though his interventions, wishing to treat Britain as though it were a bankrupt company, frequently irked the British. Harmer noted, at a crucial point in the talks, 'Eccles was again incredibly trying' (Harmer Diary, 8 November–19 November 1945). Leo Crowley was involved with Lend-Lease discussions until his resignation on 27 September.

The British and American delegations first met on 11 September. Clayton promised 'thoughtful and careful consideration' of British problems, while Halifax spoke of proceeding in 'a spirit of confident partnership'. The meeting then agreed on how to organize their negotiations. There would be a US-UK Top Committee and a series of committees to tackle the main topics: Finance; Lend-Lease; Commercial Policy; Surplus Disposal; and Military. Each would produce a single set of agreed minutes.[50] These committee discussions were supplemented by conversations between British and American individuals. On 12 September Halifax and Keynes held a press conference, where Keynes spoke for over an hour in characteristically compelling style on the British balance of payments problems, the sterling balances, and possible solutions.[51] In three meetings of the US-UK Top Committee on 13, 14 and 17 September, Keynes laid out in detail the grim balance of payments problems, estimating that Britain would face a cumulative deficit over the next three to five

[45] David McCullough, *Truman* (New York, 1992), pp. 404, 507.
[46] Robert H. Ferrell (ed.), *Off the Record: The Private Papers of Harry S. Truman* (New York, 1980), 46; Clark Clifford, *Counsel to the President* (New York, 1991), 70.
[47] Moggridge, *Keynes*, 799.
[48] Hugh Dalton, *High Tide and After* (London, 1962), 75.
[49] Skidelsky, *Keynes III*, 409; Martin Weil, *A Pretty Good Club* (New York, 1978), 203.
[50] *FRUS*, 1945, VI, pp. 122–126.
[51] JMK CW, XXIV, pp. 460–466.

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years of close to $6 billion. Britain's external difficulties, he concluded on the 17th, were 'the direct consequence of the absorption of national energies in the prosecution of the war.'[52]

In response, Clayton noted that they would have to consider the difference between Lend-Lease aid and the solely monetary assistance of the sterling-area countries, seeming to imply that future American assistance might be tied to how Britain handled the sterling balances. He also observed how some aspects of the British standard of living had got better during the war.[53] On 19 and 20 September the Finance Committee heard Keynes's proposals for tackling the problems he had outlined. They also witnessed the first sharp comments by the Americans. On the 19th Keynes said there were two possibilities, what he had called 'Starvation Corner' and 'Justice' in his Cabinet memoranda. He made clear he did not wish to pursue austerity, which would hamper progress to multilateral trade. He wanted to eliminate discrimination in the sterling area, to make sterling earnings in the sterling area on current transactions freely convertible. By doing this, the British would be able to bring into force the IMF agreement on convertibility; and would do so by the end of 1946. This would be achieved through a mixture of cancellation, immediate release, and longer-term releases, though Keynes resisted requests for precise figures.[54] Harmer did not feel the meeting 'went at all well' and that there was a 'somewhat frigid atmosphere'. Keynes had 'skated very delicately and rather cautiously round the whole subject' (Harmer Diary, 19 September 1945).

When, at the meeting on the 20th, Vinson again pressed him to be more specific, Keynes responded and proposed cancelling $4 billion of the estimated $12 billion of sterling balances, releasing $800 million, and making staged releases of the remaining $7,200 million at 2 per cent per year over 50 years. For this scheme to work, Britain would need an interest-free grant of $5 billion.[55] Harmer had 'the impression the Americans liked his [Keynes's] plan' (Harmer Diary, 20 September 1945). Keynes had given the figures orally and hoped to go further by submitting to the Americans a paper laying out these details of debt cancellation but London rejected his request. Ministers hesitated to present a more precise plan, lest it leak and anger the sterling area countries, which had not been

[52] National Archives and Records Administration, College Park, Maryland [hereafter NARA], RG59, State Department, Central Decimal File, 1945–1949, box 2727, 611.4131/5-1446 contains the minutes of all the meetings of the different committees.
[53] JMK CW, XXIV, pp. 479, 483.
[54] JMK CW, XXIV, pp. 488–489.
[55] JMK CW, XXIV, pp. 493–494.

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consulted. They wanted, instead, the Americans to indicate that large-scale assistance would be 'conditional upon our coming to terms with each of our main creditors'. In other words, London 'wanted to use the Americans to put pressure on its sterling creditors'.[56]

After several days' reflection, Vinson and Clayton told Keynes and Halifax, on the 25th, that the proposals on sterling balances were acceptable and that assistance of about $5 billion was possible but Congress would not accept a loan without interest. Halifax and Keynes made clear that London would not agree to a loan with interest. Arguments 'continued for some time without visible progress'. At the discussions on the 27th the Americans re-stated their position but they were willing to have special conditions in a general Anglo-American concordat. In reporting to ministers Keynes and Halifax concluded that a grant was 'not on the map' but an interest-free loan of $5 billion amount 'may prove possible'.[57] Keynes went further and on 1 October sought London's approval to discuss a loan without interest. He had already, on 26 September, sent London a detailed account of his thinking. He conceded that their idea of seeking a gift based on 'retrospective lend lease corresponding to what we spent here is, most certainly, not a good starter'. He explained that a $5 billion loan over 50 instalments starting in five or ten years would involve annual payments of $100 million. Adding annual repayments of sterling balances of $150 million would make a total of $250 million, or less than five per cent of the export target for breaking even. It would be difficult to argue Britain could not meet these payments. But the chancellor of the exchequer, Hugh Dalton would not countenance a loan with interest 'however it is dressed up'.[58]

Thus far, commercial policy had not been addressed. Keynes recognized that aid and trade were connected but had hoped to keep them distinct in the initial phase of discussion. But he had already linked them at the 20 September meeting, when he had gone beyond his instructions and considered the possibility of *quid pro quos* on sterling balances for commercial policy. In fact, Clayton in London in August had stressed that it was 'essential that we discuss both finance and trade simultaneously'.[59] L.S. Pressnell and D.E. Moggridge think the British had made a tactical mistake in not sending commercial policy specialists with the Keynes mission. Robert Skidelsky suggests

[56] JMK CW, XXIV, p. 500; *DBPO*, 1st ser., III, pp. 149–150; Skidelsky, *Keynes III*, 415.
[57] *DBPO*, 1st ser., III, pp. 153–155, 157–159.
[58] JMK CW, XXIV, pp. 512 n, 502–508, at 505; *DBPO*, 1st ser., III, p. 169 n.
[59] *FRUS*, 1945, VI, pp. 103–105, at 104; Moggridge, *Keynes*, 801; Pressnell, *External Economic Policy*, 273–274; Skidelsky, *Keynes III*, 414–415.

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an extra reason: 'London was clearly frightened by the thought of Keynes being set free to agree commercial principles with the Americans on their own.' On 21 September a team of commercial experts, led by Sir Percivale Liesching, second secretary in the Board of Trade, and Lionel Robbins, head of the War Cabinet Economic Section, sailed to the United States and arrived on 27 September.

Commercial policy talks began on 1 October and in eleven days of discussions there was rapid progress until there remained one main issue. Clayton and Vinson maintained that Congress would expect complete abolition of Imperial Preferences as a condition of aid, something that was not acceptable to the British. But the two sides showed willingness to compromise and reached a preliminary understanding that would allow financial talks to move forward. Final agreement on preferences and, therefore, on commercial policy overall was achieved in November and marked a significant victory for the British.[60] Britain would support an American call for an international trade conference in 1946 and, meantime, there would be 'no commitment on any country in advance to reduce or eliminate' any preference, and that reduction or elimination must be reciprocated elsewhere by 'reduction of tariffs and other barriers in the world'.[61]

As Liesching and Robbins were reaching broad agreement on commercial policy, differences on finance persisted not only between the British and Americans but also between London and the team in Washington. Such was the pressure, Keynes had a slight heart attack (Harmer Diary, 7 October 1945). On 8 October Dalton suggested two negotiating alternatives: a $2 billion grant plus credit of $3 billion to $4 billion at 1 per cent; or, if this failed, an interest-free loan of $5 billion. The next day Keynes and Halifax dutifully put these proposals to Vinson and Clayton, who rejected a $2 billion grant but, after some prompting, explained what would be acceptable to them: $5 billion loan of fifty annual instalments beginning in five years, meaning payments of $100 million each year; and interest at 2 per cent, meaning annual payments of $50 million. Clayton added, in a vague formulation, that interest might be waived in years when Britain demonstrated incapacity to pay.[62] Harmer regarded the prospects as 'pretty hopeful' and raised the possibility that they could

[60] Toye, 'The Attlee government, the Imperial Preference System and the creation of the GATT', 912–939, at 937–938.

[61] *DBPO*, 1st ser., III, pp. 181–183, 191–193, 200–204, 205–207, 292–297, at 295, 297; Susan Howson and Donald Moggridge (eds), *The Wartime Diaries of Lionel Robbins and James Meade, 1943–1945* (Basingstoke, 1990), 225–233; Pressnell, *External Economic Policy*, 276–279, 326–329; JMK CW, XXIV, pp. 538 n.

[62] *DBPO*, 1st ser., III, pp. 196–199, 210–214.

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'force the whole thing to a settlement in a couple of weeks' (Harmer, 8 October 1945).

But this mood changed with Dalton's message of 13 October rejecting an interest-bearing loan and instructing Keynes to reiterate the request for an interest-free loan with annual payments no greater than $100 million. Keynes presented this to Clayton and Vinson on the 16th but 'made no progress whatever' amid an atmosphere that was 'gloomy and unconstructive'. Keynes carefully reviewed the situation, drafted a telegram and discussed it with all key members of the mission before sending it on the 18th. Harmer called it a 'superb work. One of the best pieces of writing he has ever done.' (Harmer Diary, 17 October 1945.) Keynes wanted to accept the US offer of 9 October, saying this was the view of Halifax, Brand, Liesching, Robbins, and Hall-Patch. He warned that the Americans might make a counter offer of a smaller amount while keeping payments at $100 million.[63] This is exactly what happened at a meeting on 18 October. Vinson said that their best offer was a loan of $3,500 million at 2 per cent and Lend-Lease clean-up on 3c loan[64] terms of 2⅜ per cent. Keynes was furious, saying he could not imagine ministers agreeing to this and wondering whether it might not be better to halt talks and return to London. Vinson managed to reduce the temperature by saying 'In Kentucky we never ask our guests to leave.' Keynes then returned to Clayton's 9 October proposal of $5 billion over 50 years after 5 years with an annuity of $150 million, which Vinson and Clayton maintained would not pass Congress. The Americans urged Keynes to keep the figure down to $4 billion plus Lend-Lease clean-up; and Keynes believed that there was 'nothing better than this on the map'.[65] Negotiations were suspended for nearly three weeks as London considered the situation.

Eventually Dalton replied on 27 October asking Keynes to offer two alternatives to the Americans. Alternative A involved $2,500 million loan for 50 years at 1 per cent and the option of a further $2 billion interest-free. If this was not acceptable, then he proposed Alternative B: open credit up to $2,500 million plus Lend-Lease at 2 per cent for 50 years, repayment beginning after five years.[66] Harmer noted that Keynes was 'white with rage and talked about resigning' (Harmer Diary, 27 October 1945). Keynes prepared

[63] *DBPO*, 1st ser., III, pp. 219–222, 223–224, 227–232.

[64] A 3c loan referred to clause 3c of the Lend-Lease agreement relating to supplies in the pipeline after the termination of Lend-Lease, which the Americans expected to be funded through a 30 years' loan at 2⅜ per cent; Sayers, *Financial Policy, 1939–1945*, 482.

[65] *DBPO*, 1st ser., III, pp. 243–247; Halifax Diary (18 October 1945).

[66] *DBPO*, 1st ser., III, pp. 255–256, 257–261.

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'two vitriolic drafts' of his response before producing a very good one, 'good tempered but merciless in pointing out where London had gone wrong', but he was persuaded to send a reply that gave London 'at least a chance of second thoughts' (Harmer Diary, 28 October 1945). He told London that they 'fatally misunderstood' the position in Washington, that all of the negotiating team were convinced Alternative B 'has to be ruled out altogether'. But the team was ready to advocate Alternative A to 'the best of our ability'. In fact, Keynes delayed presenting Dalton's alternatives to Vinson and Clayton. Robbins returned to London for consultations on the commercial policy talks and took with him a letter from Keynes to Dalton. Robbins returned to Washington on 7 November, saying ministers were under considerable pressure and muddled. It appeared Dalton was not reading the papers. But, on 6 November, London abandoned Alternative B and suggested a revised Alternative A, which involved pursuing a $2,500 million loan at 2 per cent, if the original version was not feasible. Keynes put this to Vinson and Clayton, who considered it for three days before rejecting it on 9 November but they dropped the idea of covering Lend-Lease by a separate 3c loan. The Americans, Keynes predicted, were likely to offer $4,500 million including Lend-Lease at 2 per cent over 50 years after five years.[67]

On 15 November the Americans sent their written proposals to Keynes, who was, Harmer observed, 'very shaken and white; and all he could say was that we had better pack up and go home'. At this point Halifax took charge and it was decided that 'we should refuse to discuss the draft and merely offer to send it to London for instructions' (Harmer Diary, 8–19 November). At the US-UK Finance Committee Halifax explained that the American text had taken them to the precipice. It contained proposals that London would not accept; and if they were the final word by the United States, then the British had no option but to return home. And this would mean no ratification of the Bretton Woods agreement or participation in International Trade Organization talks. This, said Harmer, 'caused something of a stir' but Vinson and Clayton declared that 'it was a draft put forward for discussion, not an ultimatum, and urged us to discuss it' (Harmer Diary, 8–19 November 1945). After two hours of rather fruitless and sometimes tense discussion of the draft, it was agreed to hold technical discussions, which took place on 16–17 November.[68]

[67] *DBPO*, 1st ser., III, pp. 269–271, 289–292, 300–302, 315–316; Skidelsky, *Keynes III*, 430.

[68] *DBPO*, 1st ser., III, No 104i; Skidelsky, *Keynes III*, 433–434.

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The US-UK Finance Committee met again on 19 November with Halifax again taking the lead but with Keynes 'much more himself' and in an atmosphere that was 'less dramatic and much more temperate' (Harmer Diary, 8–19 November). The Americans tabled a text proposing a loan, with the amount left blank, at 2 per cent interest and to be repaid over 50 years, starting on 31 December 1951, and with a waiver of interest under certain conditions. In return, Britain would complete arrangements to make freely convertible sterling receipts from current transactions of all sterling area countries by the end of 1946. The meeting made no concrete progress but there were signs of a willingness on both sides to find solutions. A telegram to London on 21 November from the entire mission maintained that a loan of $4 billion seemed possible. It also reported that the Americans were 'troubled among themselves' about whether Lend-Lease clean-up would have the same terms as the loan or the less generous 3c terms.[69]

Following a discordant meeting of ministers on 23 November, Attlee sent instructions to Washington. The government agreed with American loan terms, but for an amount not less than $4 billion and including Lend-Lease; accepted the proposed form of sterling liberalization but would not agree to complete liberalization by the end of 1946 or to abrogation at the end of 1946 of transitional rights on convertibility under Bretton Woods (whose article XIV(3) placed no time limit); and opposed formally ranking the American debt ahead of other debts. Keynes met Vinson and Clayton at the US-UK Top Committee on 24 November and they were 'considerably taken aback' by Attlee's position but Keynes seemed more hopeful. There was a friendly tone to a meeting of the Finance Committee on 26 November with Vinson using 'most generous and sympathetic language'. The Americans dropped a 3c settlement of Lend-Lease, which would now be included in the loan, and proposed Lend-Lease clean-up at $750 million. Keynes hoped to reduce this figure to $500 million and sought a 'quick OK' to pursue an overall loan of $4,500 million. [70]

There was no 'quick OK' and relations between the mission and London were deteriorating. Dalton denied agreeing to release all sterling earnings in the sterling area by the end of 1946, which made Keynes 'profoundly upset' (Harmer Diary, 20 November–6 December 1945). He reminded Dalton forcefully that they had

[69] *FRUS*, 1945, VI, pp. 162–167; Halifax Diary (19 November 1945); *DBPO*, 1st ser., III, pp. 335–338, 341–344.

[70] *DBPO*, 1st ser., III, No 118i, pp. 354–356, 356–358, 375–378, at 375; *FRUS*, 1945, VI, pp. 168–173; NARA, RG59, box 2727, 611.4131/5-1446.

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repeatedly made that offer to the Americans 'with your full authority'.[71] A long cabinet meeting on 29 November produced new guidance, which included a continued reluctance to agree to the convertibility of sterling by the end of 1946. Then London announced it was sending the permanent secretary to the Treasury, Sir Edward Bridges, to Washington, who departed at three hours' notice and arrived on 1 December. When telegrams appeared for Bridges 'personally', it was clear what London thought of Keynes.[72]

In a series of intensive meetings on 2 and 4 December Keynes's position was vindicated. Harmer regarded London's proposals as containing 'a great deal of feeble and muddled argumentations' (Harmer Diary, 20 November–6 December). But there were two successes. The Americans offered a lower figure of $650 million for Lend-Lease ($532 million for supplies and property in Britain and $118 million for supplies in the pipeline), which would come out of existing appropriations and would not require Congressional approval. They proposed $3,750 million of new money, after Truman split the difference between those American experts who argued for $4,000 million and others who favoured $3,500 million. The interest rate for both was set at 2 per cent over 50 years but would be 1.62 per cent, when calculated from 1946, because payments would not begin until December 1951. In addition, after some tough bargaining, the release of sterling from current earnings would only come into effect a year after Congress ratified the agreement. Attlee made a failed last ditch effort to retain transitional rights in the Bretton Woods agreement. Bridges told London: 'there was not much left to argue about'. Texts were finalized on 5 December and Keynes, Halifax, Vinson, and Byrnes signed the agreement the next day.[73]

The agreement reached in Washington received a good deal of criticism from certain British circles. *The Economist* captured a widespread view in Britain: '[the] reward for losing a quarter of our national wealth in the common cause is to pay tribute for half a century to those who have been enriched by the war.'[74] At the same time, Conservative Party advocates of empire preference also opposed the

[71] *DBPO*, 1st ser., III, pp. 371, 372–374.

[72] Pressnell, *External Economic Policy*, 319–320; CAB 128/4, Cabinet CM(45), 57th Conclusions; *DBPO*, 1st ser., III, pp. 389–394, 405–408.

[73] NARA, RG59, box 2727, 611.4131/5-1446; *DBPO*, 1st ser., III, pp. 419–423 (at 423), 428–430; FO 371/45712, UE 5984/1094/53 and UE6090/1094/53; *FRUS*, 1945, VI, pp. 158, 173 n, 187 n; Cmd 6708, *Settlement of Lend-Lease, Reciprocal Aid, Surplus Property and Claims* (London, 1945).

[74] *The Economist* (15 December 1945), 850.

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deal. The Loan Agreement passed the House of Commons 345–398, but only with a three-line whip and 169 abstentions, and saw 71 Conservatives rebel against the party's decision to abstain.[75] Commenting on the parliamentary debates, Brand told Keynes that, whenever he had visited Britain in the last five years, 'the British people, and even British leaders, were living in a wholly unreal world' (Brand report, 14 December 1945). It took Keynes, in a powerful speech in the House of Lords on 18 December, to offer a wider vision of the agreements and their merits. He admitted he wished the terms could have been better but acknowledged the restrictions on what the US administration could hope to secure with Congress; he rejected any prospect of an alternative British economic approach through a sterling bloc; and explained the benefits to Britain of adherence to the IMF and World Bank and to a new more open commercial policy – 'much of these policies seem to me to be in the prime interest of our country, little though we may like some parts of them.'[76]

Negotiations with Canada and Congressional passage of the loan

Following the conclusion of the Washington negotiations, Brand, Bridges, and Liesching travelled to Ottawa on 7 December for a weekend of preliminary talks about a Canadian loan.[77] Back in London Eady assumed the leading role for negotiations with the Canadians. He chaired meetings on 19 and 20 December, attended by Keynes, and with Harmer in one of his final duties before leaving the Treasury.[78] During the war Canada made Britain a $1 billion gift in supplies; provided $2 billion of goods to the British Commonwealth through its Mutual Aid programme, which, unlike Lend-Lease, required no post-war financial settlement because the Canadian government regarded it as contributing to their own defence; and a loan of $700 million free of interest until war's end. The Canadians also refunded $200 million that Britain had invested in Canadian munitions plants and allowed $700 million of Canadian securities to be repatriated by British residents.[79]

[75] Richard Toye, 'Churchill and Britain's "Financial Dunkirk" ', *Twentieth Century British History* 15:4 (2004), 329–360.

[76] *Lords*, 5th ser., vol. 138, 18 December 1945, cols 777–794.

[77] Moggridge, *Keynes*, 814–815.

[78] Brand Papers 195/2, Canadian Loan Negotiations folder.

[79] M.C. Urquhart and K.A.H. Buckley (eds), *Historical Statistics of Canada* (Toronto, 1965), 165; Hall, *North American Supply*, 482–483, 487; Hector Mackenzie, 'Sinews of war

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Britain hoped to begin talks in January 1946 but the Canadians were not able to enter them until February. This benefited Brand, who had an operation and a week's recuperation at home in the first two weeks of January and was keen to join the British delegation. He stressed that he, or his deputy Frank Lee, should be present since the talks would take place just as the Congressional hearings on the US loan and the Bretton Woods agreement would begin (Brand Report, 5 January 1946). He joined the British delegation and provided astute advice, though one of his letters suggests he found it dispiriting: 'I am engaged once again in the ungrateful task of trying to borrow large sums on behalf of my country. It is certainly a thankless task.' (Brand Report, 27 February 1946).

The negotiations ran from February to early March but the essentials of an agreement were settled in three meetings on 11–13 February. On the 11th Eady detailed Britain's economic difficulties and explained the aim of borrowing as little as possible, only enough to meet their needs. They sought an interest-free loan of $1,250 million. The next day the Canadian minister of justice, Louis St Laurent, insisted that there should be no loan without a corresponding arrangement on British investments in Canada, estimated at $1,500 million, which could be gradually sold to repay the loan. St Laurent complained about revenue from these investments going from Canada to Britain at a time when the British were seeking a loan.[80] The vigour of the British opposition to this idea and rejection of other suggestions antagonized the Canadians, but the risk of a collapse of the discussions was averted by both sides seeking to lower the temperature. Eady recognized that any break in talks could be harmful to the Congressional passage of the US loan and that they would have to accept an interest-bearing loan. By late February the two parties had worked out a deal and formally signed the agreement on 6 March. Canada would extend a $1,250 million loan at 2 per cent interest over 50 years beginning in five years; the $425 million costs of the Air Training Scheme were cancelled; Britain would pay $150 million to cover all remaining war debts, except the $700 million loan, which would not incur interest until 1950.[81]

and peace: The politics of economic aid to Britain, 1939–1945', *International Journal* 54:4 (Autumn, 1999), 669.

[80] Brand Papers 195/2, Canadian Loan Negotiations folder. For the Canadian records, see Donald M. Page (ed.), *Documents on Canadian External Relations*, Vol. 12 (Ottawa, 1977), 1396–1404. Pressnell, *External Economic Policy*, 348–349.

[81] Cmd 6904, *Financial Agreement between UK and Canada, 6 March 1946* (London, 1946); T236/39, OF19/42/2. A memorandum, probably by Brand, explained that the Canadian dollar was worth 10 per cent less than the US dollar, meaning the loan

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Meanwhile Congress was scrutinizing the Financial Agreement with Britain. The Truman administration had made great efforts to persuade the American public and Congress of the value of the deal with Assistant Secretary Dean Acheson taking the lead. He told one Congressman: 'If we had adopted the Lend-Lease principle in the first world war, Britain, on this basis, would have repaid her post-war loan several times.'[82] Acheson and Vinson argued on NBC radio that the loan benefited the United States and the world economy and not just Britain.[83] But they faced critics. A US Treasury analysis of correspondence from the public indicated that 90 per cent of letters had opposed the agreement but these were by individuals, many of whom were 'violently prejudiced'. No influential organization had come out against the loan.[84] The Hearst Press was running a campaign to enlist the opposition of the veterans. A cartoon in the *Chicago Tribune* depicted John Bull at a bank window with Truman telling him 'No interest for five years . . . after that you pay 1.62% interest if you feel you can afford it.' At another window to the side there was a veteran with an arm in a sling being told 'Yas – interest at 4% beginning now . . . and I wouldn't miss payments buddy.'[85] Despite such opposition, the Senate backed the loan on 19 May and the House of Representatives voted in favour on 13 July.[86] Truman signed the Financial Agreement into law on 15 July 1946.

The Diary of Frederic Harmer and the Washington Reports of Robert Brand

The Harmer diary and the Brand reports are significant additions to the contemporary sources already in print. Volume XXIV of the magnificent *Collected Writings of John Maynard Keynes* covers 1944–1946 and captures his thinking about Lend-Lease Stages II and III

amounted to $1,125 million; Brand Papers 195/1, F. Financial Papers folder, 'US Loan to UK', 4 March 1946.

[82] RG59, box 5941, 841.51/3-446.

[83] Acheson Papers, box 27, British loan – 1946 folder.

[84] NARA, RG59, Treasury, Country and Area Records, box 30, UK: Agreements and Loans – United States folder.

[85] Keynes Papers, JMK/L/B/2/279-281, 288, Brand to Keynes, 24 January 1946; Orr cartoon, 'The Preferred Customer', *Chicago Daily Tribune* (24 January 1946).

[86] 79th Congress, Second Session, Hearings of Senate Banking and Currency Committee, *Anglo-American Financial Agreement* (Washington DC, 1946); Hearings of House of Representatives Banking and Currency Committee, *Anglo-American Financial Agreement* (Washington DC, 1946).

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and the US loan. Although it adeptly places his proposals in context and includes some documents by other officials, it overwhelmingly concentrates, in accordance with its remit, on Keynes. The Harmer diary adds to this a daily sense of how Keynes and his mission were operating, their private thoughts and feelings, the sometimes difficult process of drafting messages to London, and the inter-reactions with American officials not caught in official correspondence. Coverage in volume XXIV stops in December 1945, apart from two letters of January 1946. The risk of further strain to his health led Keynes not to participate in the talks with the Canadian talks. Part of *The Wartime Diaries of Lionel Robbins and James Meade* contains astute observations by Robbins when he was involved in the commercial policy discussions in September–December. *Documents in British Policy Overseas*, 1st Series, III is an exemplary collection of government papers and correspondence for August–December 1945. The Brand reports supplement these volumes by addressing the Canadian discussions and the progress of the US loan through Congress. Indeed, they allow us to follow the whole sequence of developments from the summer of 1944, when attention turned to Stage II assistance, all the way through to the Congressional passage of the US loan in 1946. Further, they also permit us to view the thinking, advice, and activities of a significant individual whose contribution has attracted very little attention by scholars

The Harmer diary was originally written by hand and, at some point, a typescript of it was made. Both the original and typescript are held by his son James. This typescript was used by Donald Moggridge when editing Keynes's collected writings, including but not identifying some extracts.[87] L.S. Pressnell also made use of it in his official history of the post-war financial settlement. Professor Austin Robinson, managing editor of the Keynes papers, discovered a copy of the typescript among the papers in 1991 and correctly surmised that the unsigned text was by Harmer, whom he contacted to arrange its deposit at King's College, Cambridge. This copy of the typescript contains some corrections in holograph and some marginal comments, sometimes identified as Harmer's alteration, sometimes signed L.S.P., which most likely means L.S. Pressnell. James Harmer's copy does not contain these annotations.

An important part of what makes the Harmer diary valuable to these authors lies in meeting Andrew Gamble's test: 'The best kind of diary is one which is written for the author alone, as close to

[87] See JMK CW, XXIV, pp. 568, 588 n and 598. I am grateful to Professor Donald Moggridge for identifying these entries.

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the events as possible, and with no thought or intention of publication.'[88] The diary covers the period 27 August–17 December 1945, from his departure from Britain to his return. There are daily entries for each day from 27 August up to 7 November. It appears from remarks in the diary that these entries were written at the end of each day or early on the following morning. The final part of the diary reflects the intensification of work in early November that restricted the time available for keeping a journal. Entries cover sequences of days: 8–19 November, 20 November–6 December, and 7–17 December. As Harmer says in the first of these entries: 'I have got very behind with this record and I can't write it up strictly as a diary. It has been too strenuous and trying to leave one the energy to keep up to date' (8–19 November). There are some gaps, which Harmer identifies. His text is fresh and honest. On one occasion he confesses 'I cannot now remember anything about this day. . . now it comes back to me – it was Nimitz Day' (5 October).

The main focus is on the negotiations but the entries also include off-duty activities from dining to visiting the cinema to making road trips out of Washington. The style is crisp, clear, and direct. Not being written for the record or as an apologia pro vita sua, it is honest and not self-regarding. But, given it was not intended for other readers, it assumes knowledge, is elliptical about people and issues and uses many abbreviations. Nevertheless, it offers an engaging narrative, adeptly capturing aspects of the life of British officials in Washington not evident in the policy-focused government papers: the mechanics of meetings, personal chemistry between individuals, the co-operative and obstructive elements, bureaucratic divisions, differences and squabbles, the patterns of work. There are pithy assessments of key figures, of the mood within the British team, among the Canadians, and the mood and characters of various US figures. It charts the shifting atmosphere in the loan talks – in particular, the state of Keynes's mind and the strain on his nerves of the intense engagement both with the Americans and with officials and ministers in London. It also conveys a sense of how officials of the two countries inter-reacted – how, for example, they often spoke candidly about individuals and about issues in ways that went beyond their brief. From Harmer's journal there emerges a sense of the different rhythms of the negotiations – from formal statements to slow moving discussions, from difficulties and tensions to delays as proposals are examined away from the negotiating table, from uncertainties as

[88] Andrew Gamble, 'Political memoirs', *British Journal of Politics and international Relations* 4:1 (April 2002), 143.

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issues are referred to higher authorities for decision to intense periods of productive talks.

The Washington Reports of Robert Brand is the collective title for a selection of messages, despatches, and memoranda written from Washington and a memorandum composed during talks in London. The texts come from various archives. Nearly all of them are typed government documents, while a small number are personal letters, some of which are handwritten. Copies of the official messages can be found in multiple places in British government papers: the Foreign Office's FO 371 series, the Treasury's T236 and T247 collections. Most of the texts were transcribed from copies held in the Brand Papers in the Bodleian Library, Oxford but some come from the Keynes Papers at King's College, Cambridge. The Brand Reports cover the period from May 1944, when he became head of the Treasury Delegation in Washington, to his departure from Washington in May 1946, though they begin with two messages of 1941 that clarify his previous role as head of the British Food Mission.

The Reports are supremely lucid on issues and people, on the tides of American opinion within the administration and Congress and among the public. Despite his expertise in the intricacies of international finance, the Reports are written in limpid prose, free of technicalities. They form part of a sequence of regular communications on complex problems and make references that would be more easily recognized by the recipients of the messages than by later readers. But, for the most part, Brand's despatches can be understood without the need for a great deal of prior knowledge. They clarify Brand's thinking and the debates between British officials in Washington and their counterparts in the Treasury in London. They evince shrewd judgment on both the contents of Keynes's proposals and on the practicalities of pursuing them. They demonstrate one of Brand's strengths as an official: his talent for raising questions in an unconfrontational way. While Brand greatly admired Keynes's intellect and the high merits of his analysis and policy advice, he was unafraid of challenging his ideas. They clearly liked one another, as the understated warmth of some of their more private correspondence reveals. What comes across most clearly is how well Brand read the American scene and how wise were his assessments of the best way forward. In sum, the reports allow us to see in fuller light the important role played by a highly talented and influential public servant.

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