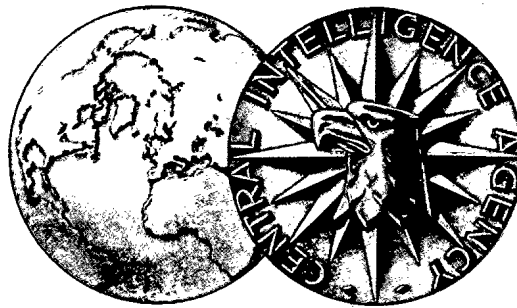


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US SECURITY AND THE BRITISH DOLLAR PROBLEM

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US SECURITY AND THE BRITISH DOLLAR PROBLEM

SUMMARY

Apart from greatly increased US aid there is no practicable solution for the British dollar problem during the next two or three years that does not involve a further downward adjustment in the British standard of living and investment program. Deterioration in the standard of living will lead to some social and political instability, which will lessen the weight of Britain in world affairs. Though domestic political instability will not be of a nature appreciably to increase Communist influence, considerable political pressure will be put upon the government to reduce the national military burdens. Such developments, occurring to the principal ally of the United States, will be detrimental to US security. Nevertheless, Britain will remain an ally, and in matters of highest strategic policy its interests will continue to be identical with those of the US.

During the period of economic and political readjustment in the UK (again assuming no

increase in the presently planned scale of US aid) British policy will frequently diverge from that of the US in matters of less than highest concern. In particular, the British will not move toward the restoration of non-discriminatory trade and convertible currencies, but instead will probably try to carry further the development of an integrated, non-dollar trading area, which would include the Commonwealth and Empire (save Canada), much of Western Europe, and a few other countries having a recalcitrant dollar problem. Insofar as such a system might serve to free the United Kingdom from the instability growing from recurrent dollar "crises," it would be favorable to US security interests. It would, however, be prejudicial to US commercial interests because of its discriminatory trade practices. Economic stringency would also lead to greater divergence between the UK and US in interpreting such agreed policies as those on East-West trade and satellite aviation, where differences have already appeared.

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report. It is based on information available to CIA as of 15 August 1949.

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US SECURITY AND THE BRITISH DOLLAR PROBLEM

PART I

THE DOLLAR PROBLEM

1. Introduction.

Once again international affairs have been disturbed by a sterling area financial crisis. On 6 July the UK Chancellor of the Exchequer announced that the British gold and dollar reserves were running out so rapidly as to cause alarm and call for immediate protective measures. A few days later the first of these measures was made known: a cut of 25 percent in UK dollar imports for 1949-1950. At a hastily summoned meeting of Commonwealth Finance Ministers convened on 13 July, it was agreed to recommend similar cuts by the Commonwealth countries of the sterling area. On 25 July the UK submitted to OEEC a revised estimate of its dollar deficit for the year beginning 1 July 1949; this came to \$1,578 million, almost double the original figure. Plainly something had gone wrong with the British program.

The recurrence of "crises," and the contrast between the precarious state of the British international financial position at present and its massive solidity in the past, still have a tendency to startle the general public. Such astonishment perhaps arises from a deeply-ingrained habit, common throughout the world, of regarding Britain as impregnable rich and secure. This habit was formed in the nineteenth century, when Britain enjoyed undisputed industrial and commercial supremacy, yet even by 1914 this dominating position had been lost. Since then the expenditures of two world wars have hastened a relative economic decline which would have been inevitable in any case. Without the wars, however, the relative economic decline would presumably not have involved any swift impairment of the British international financial situation.

About a quarter of the total British national wealth, roughly estimated as of 1938 at \$120

billion, was used up in fighting the second World War. The estimated total of losses from physical destruction through bombing and other means was \$5.8 billion on land and \$3 billion at sea; \$3.5 billion represented the amount of internal disinvestment—the amount by which industrial and other enterprises were compelled to allow arrears of normal depreciation and obsolescence to accumulate. Some \$4.5 billion of foreign investments were disposed of and the proceeds spent in prosecuting the war. Nearly \$12 billion were borrowed abroad. The United Kingdom thus emerged from the war seriously weakened; such enormous losses could not fail to be reflected in the general state of the economy and in the international financial position of the whole sterling area. Moreover, the entire world economy was of course disrupted, trade channels were disturbed, markets confused, raw material sources temporarily dried up, and in particular the industrial communities of Western Europe were for the time being dependent to an unprecedented degree upon imports from North America. Difficulties in the British position were inevitable. Strictly speaking it is nevertheless true that the current crisis is an acute manifestation of the underlying fact that the people of the United Kingdom are maintained at a higher (though still "austere") standard of living, and their government is spending more resources, than the economy of the country can support under present circumstances.

Within its own borders Great Britain possesses no important natural resources save coal and some low-grade iron ore. The economy is dependent upon imports of food and raw materials; these must be paid for by exports of manufactured goods, the earnings of various financial services and foreign invest-

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ments, the shipping trade and the overseas oil industry, and the sale of certain raw materials such as rubber, tin, wool, jute, and cocoa which are produced in the sterling area. For nearly a hundred years, however, the United Kingdom has generally imported goods to a much greater value than that of goods exported; the trade deficit was made up, and more than made up, by surpluses in the invisible account (i.e., by income from shipping, overseas investments, banking and financial services, etc.). After the war Britain was faced with the necessity of paying for imports almost wholly by exports, and of doing so despite the grave losses and dislocations of war. It was manifestly impossible to become solvent immediately, and the United States made loans and grants to prevent a catastrophic fall in the standard of living and productive capacity, with a resultant lowering of British power and stability, while the transition was being made. Canada and the other older Dominions also granted very great financial assistance.

Apart from foreign assistance, two things were most necessary for the recovery of Britain: the reorganization and rehabilitation of the industrial plant and the domestic economy generally, and the pushing of exports, accompanied by a limitation of imports, so that the balance of payments on current account could be restored as soon as possible without foreign help. The British set to work with great pertinacity, and in most respects they achieved remarkable success. By the first quarter of 1949 the task of domestic reconstruction could be considered complete in the sense that the productive capacity of the United Kingdom had been restored; in fact industrial production had reached a point nearly 30 percent above the prewar level. The armed forces were reduced close to probable peacetime levels, and manpower returned to normal pursuits; an extensive program of housing was carried out; full employment was achieved and maintained; the inflationary potential was successfully held in check, and a very comprehensive and expensive system of social services was not only kept in being but greatly

extended. Meanwhile the volume of exports from the United Kingdom increased until in March 1949, it reached 162 percent of the 1938 figure, while imports were kept at about 80 percent of the prewar volume. At this point much optimism was felt.

2. The Dollar Problem.

Successful as the UK export drive was, the increases were principally in sales to countries and dependencies of the sterling area, and to OEEC countries. The problem of paying for imports from the United States, Canada, and other dollar areas was still unsolved, for the surplus earned in trade with OEEC countries could not under postwar conditions be converted to dollars, while that earned from the sterling area was, of course, in Britain's own currency. A large dollar deficit persisted, and has come to constitute the core of the whole British international financial problem.

In 1947 the UK bought 33.3 percent of its imports from dollar countries; in 1948 this proportion dropped to about 22 percent, which was virtually the same as that of 1938 and may therefore perhaps be considered "normal." But these imports were far from being paid for by exports to the dollar area; in 1948 the United Kingdom alone had a deficit of \$1.2 billion in its dollar account. Furthermore, although exchange of goods and services between the United Kingdom and the Western Hemisphere results in the greatest single item in the dollar deficit, it is by no means the only source of disequilibrium. The rest of the sterling area has its own dollar deficit, which to the extent not covered by outside aid must eventually be settled out of the reserves for the area, which are held by the UK. Substantial payments are also made in dollars to non-dollar countries—especially to Belgium and Switzerland—in accordance with agreements made with those countries. The following table gives the net dollar deficit for the whole sterling area, arising from all its various transactions, and shows the manner in which this deficit has been met since 1946.

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Sterling Area Gold and Dollar Reserve

\$ Million

Years and Quarters	Net Deficit	FINANCED BY:				Change in Reserves	Reserves at end of Period *
		US and Canadian Credits	Purchases from IMF	South African Gold Loan	ERP		
1946	904	1116	...	...	...	+212	2656
1947	4,096	3248	240	...	...	-608	2048
1948:							
I	588	340	88	320	...	+160	2208
II	428	8	16	...	88	-316	1892
III	304	...	...	...	160	-144	1748
IV	372	...	24	...	428	+ 80	1828
Total 1948	1692	348	128	320	676	-220	1828
1949:							
I	328	28	32	...	324	+ 56	1884
II	628	28	...	...	340	-260	1624

* Including Canadian dollars.

This table shows why the British, upon contemplating the figures for the last half of 1948 and the first quarter of 1949, were able momentarily to hope that even their recalcitrant dollar problem was on the way to solution. After such results as these, the adverse turn occurring during the second quarter of 1949 came as a bitter disappointment.

It had long been foreseen that the rapid increase in British exports to foreign markets would not be easy to maintain when the era of postwar spending, came to an end; when other countries began to fill their own domestic demand and to compete with Britain in the markets of the world. But the turn of the tide came somewhat earlier than expected. UK exports, after their record of 162 percent in March 1949, fell in April to 140 percent of the 1938 volume. The May figures showed improvement to 151 percent of 1938, but within that increase the all-important exports to dollar countries further extended their decline, while imports remained very high. The dollar deficit of the sterling area, which during the first quarter of 1949 had been \$328 million

(excluding ERP assistance and other external credits offsetting the loss), was \$628 million for the second quarter. Despite ERP assistance and drawings on the Canadian loan, the gold and dollar reserves fell to a figure nearly \$400 million under the \$2 billion which had been announced as the acceptable minimum.

Sir Stafford Cripps explained to the House of Commons that this was far from constituting a "crisis" in the sense of August 1947; perhaps even less did it compare with the situation when Lend-Lease was terminated in 1945. It is still too early to be entirely certain whether the adverse developments during the second quarter of 1949 represented a permanent change of direction. Nevertheless the situation was considered bad enough to call for emergency cuts in dollar imports, and it was treated by the press as a genuine crisis. The reasons for its occurrence are not wholly clear, and in particular it is not yet certain which among them should be considered most important. But it appears plain that among the contributing factors were:

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(a) A falling off in receipts from sales to the United States, both of goods from the United Kingdom, and of the raw products of the sterling area. This falling-off was not compensated for by reduced imports.

(b) Widespread rumors of a coming devaluation of sterling, which caused many customers to refrain from placing new orders for British goods and to postpone payment for filled orders.

(c) The fact that Britain did not yet derive substantial benefits from lower world prices of food and raw materials, because these goods were still largely coming in under long-term bulk contracts, some of which had been negotiated at a higher price than that prevailing in the spring of 1949. The terms of trade thus continued unfavorable to the United Kingdom.

(d) The occurrence during the second quarter of unexpectedly large payments in dollars to Belgium, Switzerland and Iran, and the drawing by India of \$45 million from the sterling dollar pool.

(e) The drawing down of sterling balances by US holders as a consequence of persistent rumors of devaluation; this capital flight

amounted to at least \$60 million in the second quarter.

It is apparent that all these factors might prove to be superficial and temporary. The matter of sales to the US, however, was crucial, for there was no possibility that a favorable turn in the other factors could offset a continuing failure to earn more dollars by exports of goods and services. And the prospect for increased sales was poor; not only were the effects of receding business in the United States felt, but the British Government and all responsible authorities agreed that the price of British goods was too high, their cost of production too great, to permit them to compete favorably in hard-currency markets. Whatever the conditions which had produced a "crisis," it was plain that the dollar problem was not on the way to permanent solution. ERP aid, moreover, began in July to operate on the 25 percent lower schedule of the new fiscal year. Sir Stafford Cripps indicated in the House of Commons that there must be sought "a long-term remedy for the stubborn problems of the balance of trade between the Western Hemisphere and the rest of the world of which the sterling area forms so important a part."

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PART II

PROBABLE DEVELOPMENTS AND SOLUTIONS

1. Short-term Measures.

The dollar deficits on current account will be alleviated by the cut of 25 percent in imports by the United Kingdom, the Commonwealth, and the dependencies. Such cuts are painful both to sterling area consumers and to US exporters. They are furthermore undesirable because, by reducing the British standard of living, they tend to depress the morale of the working population; to the extent that they involve cuts in the import of raw materials they may directly affect British industrial production. As imposed at present, therefore, they are stated to be temporary emergency measures; as such they will be tolerable for a short time, probably without any marked adverse effect upon production.

A remedy much talked of is devaluation of the pound sterling, which indubitably is being maintained at a figure (\$4.03) above its equilibrium level. Rumors of devaluation have already done much harm to British exports, as mentioned above, and these rumors may yet force the step actually to be taken; but it is extremely unlikely that devaluation could, as an emergency measure, quickly help the United Kingdom in its most pressing need: the earning of more dollars. Any possible increase in exports to the dollar area, even if not threatened by retaliatory tariff boosting, would be insufficient substantially to offset the reduced dollar price which the goods would bring. Furthermore, devaluation would increase the sterling cost of British imports and this increase would be reflected in a higher cost of living. If this could be absorbed without wage increases leading to higher costs of production, it would be helpful in a solution of the dollar problem. It appears extremely unlikely, however, that a sufficient proportion of the higher costs of living would be so absorbed; the pressure from wage-earners for compensatory pay raises would not be resisted. The British Government will

therefore postpone devaluation as long as possible; nevertheless, devaluation will probably occur eventually as a part of a general European scheme.

2. Longer-term Measures.

Underlying all serious consideration of permanent solutions for the British problem is one virtually inescapable proposition: that the costs of production in the UK must be lowered, and the effectiveness of British marketing practices increased, until a sufficiency of British products can be offered in world markets at prices low enough to find buyers, to earn foreign exchange, and so to pay for the imports required. With this general statement probably no one disagrees, and the British Labor Government has long been urging its implications upon the citizenry. Nor is it doubted that most British prices are now too high. Concerning the implementation of a program of reduction of costs and increased sales abroad, especially in the long run, there is much to be said that lies outside the scope of this paper; for example, about the particular lines of products on which UK manufacturers might best concentrate their efforts for export; the height of tariff walls over which British traders may have to compete; the difficulties connected with Socialism; the modifications in the British educational system which might be required in order to furnish an adequate supply of technicians, production engineers, industrial designers, and the like. These are questions of detail, or of long range. It is unnecessary to investigate them all in order to arrive at an estimate of whether an increase of sales through lowering of costs presents a reasonable hope of solving the British problem within the next two or three years.

The dimensions of the dollar problem, it must be remembered, are truly formidable. If the British standard of living is to be main-

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tained at approximately its present level, and the government is to keep up its current commitments, the rate of purchases from dollar areas must continue to be large; there is no possibility of quickly doing without or buying elsewhere or developing within the sterling or soft-currency areas new sources of the food-stuffs, tobacco, raw materials, and machinery which now come from the United States, Canada, and other dollar countries. But in 1948, an extremely good year for British exports, there was a dollar deficit of \$1.7 billion, before outside aid. If other factors were favorable, the size of this deficit might be expected to taper off in coming years, but its immediate tendency is to increase rather than to diminish. Thus the sum to be found will be something of the order of \$1.7 billion per year, and it is plain that there is no practical possibility of reducing British costs and selling enough goods abroad during the next two or three years to meet such a deficit. Unless the United States lends or grants, or otherwise makes available large additional amounts of dollars, therefore, the British standard of living is destined to undergo a further downward adjustment, and that fairly soon. The implications of this for US security are discussed in Section III.

The only way of reducing costs of production without reducing the standards of living is to increase productive efficiency mainly through investment in new machinery, but also by the improvement of managerial and labor techniques. Increase of productive efficiency is certainly a desirable procedure, permitting as it does a maintenance and eventually an improvement in the standard of living. It is a stated goal of the British Government, which has planned to devote 20 percent of the annual gross product to capital investment. If all goes well, it will perhaps solve the problem in years to come, but it will not do so soon because progress is far too slow.

There is another difficulty. Even if the British, by some miracle, should raise to a sufficient degree their efficiency and productivity, the extent to which they would benefit from it would depend upon the extent to which other nations refrained from measures to "protect" themselves against British "compe-

tion." It would also depend upon a reasonable degree of prosperity in the world. A characteristic of the British economy is that its successful functioning rests as much on the economic condition of and the policies followed in the rest of the world as it does upon the domestic efforts of the British themselves. A depression in the United States, a political disturbance in some raw-material-producing area, but most particularly the raising of tariffs or the adoption of other restrictive trade practices by the UK's important foreign customers, all have immediate and detrimental effects on the British economy. It will never be sufficient that the British should work harder and produce more; there must also be favorable world conditions for their trade.

Like an increase of productivity and of sales abroad, the gradual restoration of non-discriminatory trade and convertibility of currencies is widely advocated as a most important and desirable goal of public policy. It is frequently reiterated by British Government spokesmen, and is in accord with the present policies and interests of the United States. Nevertheless, it is entirely dependent upon the successful development of low-cost production in Britain, and is therefore out of the question during the next few years for the reasons already noted. It may be expected that the British will continue to resist all urgings towards an early abandonment of discriminatory trade practices; the most that can be expected is an occasional minor relaxation when such will not imperil the gold and dollar reserves.

It is far more probable under the circumstances that Britain will attempt to protect itself by the deliberate furtherance of discriminatory practices. Certain authorities, more particularly of the British Conservative Party, are already arguing that since a return to multilateral trade depends almost entirely upon long-continued, large-scale buying and lending by the United States, it would be prudent to seek an alternative less dependent upon the sentiments of the US Congress. They therefore recommend the expansion of an integrated, non-dollar trading area, within which "multilateral" trade would flourish, but which would perforce be discriminatory

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against the dollar area. Such a system might include much of Western Europe and all the Commonwealth and Empire save Canada, together with such nations of the Middle East or Latin America (for example, Argentina) as have a serious dollar problem. To none of the members would this association seem ideal; all would be virtually forced into it by their shortage of dollars and by the success of sterling as a second-best international currency. Yet complete escape from it would be impossible as long as the dollar resources of these countries remained inadequate to balance their accounts.

The maintenance of such an exclusive non-dollar trading area would be out of accord with the principles of free trade which served Britain so well in the nineteenth century, with the terms of the US Loan Agreement, and with the expressed policy of the Labor Government. Nevertheless, it would fit the predilection of many British businessmen for exclusive cartels and well-protected high-cost trade associations. It would please die-hard champions of Empire, such as Lord Beaverbrook. It would, furthermore, offer certain positive attractions, both economically and politically. To the extent that American products were removed from competition in the trading area, and that dollars remained short, British products would occupy a favor-

able position, and sterling would be the principal currency for international transactions. The United Kingdom would thus become the head of a very respectable agglomeration of economic and political power; an economic "Third Force." It must not be forgotten that the United Kingdom still is the world's best market for foreign goods; as such, it is never wholly without bargaining power.

It is of course virtually unthinkable that a trading area wholly insulated from US goods would ever be established; certainly it would be very undesirable. The UK and its partners will continue to buy as much as they can from the United States, but it will not be possible for the UK either to buy all it may desire, or to support US policies of multilateral trade and currency convertibility, without extensive, long-term loans or grants or investments of dollars, and a generous US import policy. The British are wholly familiar, from their own experience, with the manner in which foreign trade policy must be conducted by the most powerful and wealthy nation in the world, and the greatest creditor. They will not sacrifice their chances of dominating a "Third Force" in the world economy in order to pursue a premature attempt at multilateralism, in the course of which the last of their gold and dollar reserves would probably vanish.

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PART III

IMPLICATIONS FOR US SECURITY

Everywhere in the world outside the Western Hemisphere and Northeast Asia British power is an essential component in the present structure of US security. It is accepted that with respect to the gravest matters of international relations the interests of the two nations are identical, despite all differences in political techniques and attitudes, and in economic and social outlook. In consequence the United States has counted on the British, sometimes pursuant to formal agreement but more generally by implication, to assume primary responsibility for the management of affairs in accordance with the common interest in several highly important areas of the world, notably the Middle East, South and Southeast Asia, and most of Africa. It is also clear that Britain is by far the most weighty member of those associations—the Brussels Pact, the OEEC, the Council of Europe—upon which the United States must place greatest dependence for the furtherance of its security interests in Europe. Likewise the British Commonwealth and Empire is the only worldwide association both strong enough and friendly enough to constitute a reliable source of support and security to the United States. In short, Britain is the only powerful ally the US possesses.

It is not necessary to prove that the power and influence of the United Kingdom depend in great part upon its commercial, industrial, and financial health; this is taken as axiomatic. It is therefore plain that from the point of view of US security British economic vigor is favorable and weakness unfavorable. This has in fact been demonstrated: already the United States has had to take over commitments in Greece and Turkey, and a share of naval responsibility in the Mediterranean, because the United Kingdom could not afford to maintain these functions. Such an increase of US burdens could well go further;

even before the current crisis the British were complaining that their responsibilities in Libya were too costly. Ever since Yalta, in fact ever since August 1914, the free world has been distressed and the United States frequently embarrassed or endangered as a consequence of overestimating British material capabilities. Britain is now strained as nearly to capacity as any great democratic nation has ever been in peacetime. Little increase of economic stringency can be borne without reflection in a decline of national power. Since increased economic stringency will shortly be felt (assuming no considerable increase in direct US aid), a decline in national power must follow, and the security of the United States will thereby be unfavorably affected.

An immediate adverse effect on US security would be felt if the British should decide substantially to reduce their foreign military and political commitments and to cut expenditures for their armed forces. Strong voices from the left wing of the Labor Party have long urged such measures; Communists and fellow-travelers have demanded them. When the need for "economy" and increased austerity becomes acute, there will be a great temptation for the government to make savings in this way instead of by cutting the food subsidies, or the social services, or other popular expenditures of the national budget.

The slashing of military expenditures, however, would have little directly remedial effect on the dollar shortage, because the maintenance of the military establishment depends much more on sterling than on dollars. It is undeniable that if the men and materials devoted to the armed forces were available for other employment some strengthening of the economic situation would result; there would be more labor and more raw materials for the export trade, for instance. Yet the loss in British power and prestige if the armed forces

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are reduced, would be great, and these will become important elements in any campaign for independence from dollar "domination." Therefore it is unlikely that the Forces will be very much cut, or foreign commitments very substantially reduced, in the near future. It is virtually certain, however, that there will be sharp debate within the Labor Party on this question, and that some reductions will be made.

The real weakening of the British position will come about rather more subtly than by open reduction of overseas commitments. Any really effective measures taken to stabilize the British international financial position (except for renewed and increased US subsidies), will bring about a lowering of the British standard of living. The reduction will not necessarily be catastrophic, but it will come soon, and will inevitably impair the stability and power of the United Kingdom, for a time. The middle and upper classes, which have already suffered greatly from war and postwar austerities, will have to put up with new deprivations. The great masses of the population will lose some part of the considerable gains which they have made since prewar days. For this they will hold the government accountable. Though all modern states have accepted a degree of responsibility for the public welfare which would have been inconceivable a generation ago, no government in the western world has to such a degree as the British made itself the custodian of the general social and economic well-being. Hence the government cannot disclaim responsibility for a cut in the standard of living. It will not be taken by the populace as a part of the order of nature, which the government does not control. It will cause resentment, and this will lead to political instability.

There is no reason to suppose that political instability in Britain will go to the point of revolt or domestic violence, or even that it will be sufficient to permit an appreciable increase in Communist influence. It will take other forms: the supporters of the Labor Government will lose their enthusiasm; perhaps Labor will be replaced by a Conservative administration which will have to cope with the antagonism as well as the disappointments of

the working classes. What is even more likely is that at the coming election neither party will gain a sufficiently solid parliamentary majority to be able to govern with confidence and decision. This sort of political instability bears in the present situation a very important relationship to the maintenance of British power abroad. For the British position at a dozen critical points is upheld not by the immediate weight of British resources in men and money, or even by the general knowledge that those resources would be ultimately brought into play by an overtly hostile act, but by the decisiveness and sureness of touch of British administrators and diplomats in dealing with individual challenges as they arise. To do this successfully the responsible British official must be under no doubt whatsoever as to whether or not his government will back him up.

With respect to trade policies, it must be expected that if the British should attempt an early restoration of non-discriminatory trade and convertibility of currencies between pound and dollar they will be subject to recurrent "crises" such as the present one, and they will require frequent emergency bolstering with dollars. They will be extremely sensitive to US economic policies and to the general condition of world trade. Under such circumstances Britain would presumably remain a faithful but frequently disgruntled ally.

If on the other hand the British resort to increasingly discriminatory trade practices in order to expand a non-dollar trading area, the consequences will assuredly be damaging to US commercial interests and trade policies, but not otherwise prejudicial to US security. In matters of the highest political import Britain would remain a dependable ally, and the prospect of dominating an economic "Third Force" and becoming independent of dollar aid might strengthen British morale, impaired as it would be by a reduced living standard. In matters of less than highest import, however, it would happen that as economic policies diverged there would be a tendency for other policies to do likewise. For example, the temptation for the British to promote extensive trade with the USSR and

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the satellites would certainly be greater, and security grounds would not always be sufficient to stop sales of marginal commodities or to restrict the operations of Eastern European civil aviation. The very establishment of discriminatory trade regulations would certainly be attended with some acrimony between Britain and the US. The intimacy of the connection between the two countries

would doubtless diminish. The UK, less dependent economically on the US, would be somewhat less cooperative; but the UK would remain at least as dependent as at present for strategic support, its military assumptions would not change and it would therefore stand firmly with the US on fundamental west-east issues.

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