

**Britain, America and the origins of the European Payments Union: A
Reassessment¹**

A Working Paper

by

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Britain, America and the origins of the European Payments Union: A Reassessment

Over the past two decades, economic historians have rediscovered the European Payments Union (EPU) and reinstated it as a cornerstone of post-war western European recovery. The EPU was a mechanism by which member countries of the Organisation for European Economic Cooperation (OEEC) could settle their payments surpluses and deficits with one another on a multilateral basis, removing the need for restrictive bilateral arrangements. Deficit countries were allowed a significant margin of credit before reaching the 'gold points' where they were required to make payment partially or wholly in gold. There is wide spread consensus in the literature that the creation of the EPU in 1950, in combination with the liberalisation of intra-European trade through the OEEC, sparked the recovery of trading relations between western European economies. This in turn contributed to the economic boom of the 1950s and 1960s, and helped lay the foundations for the creation of the Common Market in 1958.¹

The British decision to join EPU could be seen as surprising, not least because the country's policy-makers attached great importance of maintaining

economic links with the Commonwealth/Empire and the rest of the Sterling Area, connections of which the new institution could be seen as subversive. Therefore, it is fairly natural that historians should have offered radically different explanation for Britain's decision to join. One perspective stresses the importance of American pressure. Peter Burnham argues that this proved crucial in persuading a reluctant British government to join EPU, and stresses that, by joining, Britain formally abandoned the option of creating an independent economic bloc based on the Sterling Area.² Likewise, Jacob Kaplan and Günther Schleiminger, in their seminal study on EPU, argue that throughout the negotiations that created it, the US blueprint remained to all intents and purposes intact. While the Americans showed flexibility in making concessions to the British and Belgian governments, the authors suggest that these did not affect the essentials of the plan and had little practical significance for the working of the scheme.³ A second perspective, by contrast, rejects the idea that American pressure was responsible. Alan Milward, for example, argues that Britain's accession to EPU represented, if not a victory for the British government, then certainly a defeat for American foreign economic policy and its attempts to push European governments toward integrating their economies. His account stresses that British negotiators, most especially the Minister of State for Economic Affairs, Hugh Gaitskell, extracted major concessions from the Americans.⁴ More recently, Scott Kelly has followed a similar line.⁵ There is also a third category of explanation, put forward by Alec Cairncross: 'the inclusion of the United

Kingdom, and with it the whole of the sterling area, in the EPU was something of a fluke.”⁶

The existing accounts analyse the EPU negotiations without taking into account other important issues preoccupying western policy-makers in late 1949 and early 1950. Britain’s decision to join EPU can only be understood by placing the negotiations into the wider political context of international relations at the time. Despite reservations about the American proposals, senior British policy-makers attached great priority to securing an EPU agreement in order to clear a major stumbling bloc in the path of reviving the ‘special’ Anglo-American relationship. At the highest level, British ministers decided to join EPU in order to gain American support for a strengthening of NATO and an increase in the American contribution to western defence. Given the primacy of this objective, the government conceded on the formation of EPU, because American policy-makers signalled that continued British opposition to American plans would not only sour Anglo-American relations but also undermine western military co-operation.⁷

Moreover, historians have generally dismissed the statements by British ministers throughout the negotiations that they were deeply committed to reconstructing a multilateral international economy. This study will demonstrate that these statements should not be dismissed merely because

American and Western European policy-makers perceived British demands for special status of sterling within the proposed EPU as an obstructionist tactic. Senior ministers linked their commitment to multilateralism and European integration directly to western military co-operation. Crucially, the decision to proceed with the EPU negotiations on the basis of the American and European proposals occurred in the context of bilateral discussions between British ministers and American policy-makers about NATO reform and western rearmament in early May 1950.

In order to illuminate these themes, this article draws on a wide range of sources, including oral histories as well as archives, which in some important cases have not previously been fully exploited. The first section will examine the attitude of Labour ministers towards multilateralism and European economic co-operation prior to November 1949, when the Americans demanded substantial progress towards European integration. This analysis of British attitudes will be followed by an examination of Britain's response to the American proposals for a European clearing union tabled in the wake of this *démarche*. The next section will examine the breakdown of negotiations after the submission of a revised British proposal for the envisaged European payments arrangement at the end of January 1950. We will then see how the impasse was broken, through the good offices of a civil servant, Sir Edmund Hall-Patch. He facilitated contacts between Hugh Gaitskell and the US official Milton Katz,⁸ the two men who would in due course negotiate the agreement

securing the financial guarantees required by the British government. The last section will recount the developments leading to the conclusion of the Katz-Gaitskell Agreement in June 1950 that removed the final hurdle to Britain's membership in EPU. Our analysis will stress that policymakers linked the EPU negotiations with the process of western co-operation and discussed these issues widely outside formal negotiations at multilateral, bilateral and national levels. In this context, the intimate working relationship between British and American officials within the OEEC provided the basis for establishing close personal contact between the key players in the final stages of the negotiations.

Labour and multilateralism

Many contemporary American critics of the Attlee government portrayed it as opposing the liberalisation of international trade and payments. US policymakers resented, in particular, the British attachment to the imperial preference system and the sterling area, institutions that were perceived as means to discriminate against dollar goods, an aim which in turn was perceived as illegitimate. This perception of British foreign economic policy led many US observers to blame the Attlee government for the limited progress made by the OEEC in adopting measures for the liberalisation of intra-European trade and payments after the organisation's foundation in the spring of 1948. New intra-European payments created a system of bilateral agreements between member countries, which revived trading relationships

within a tightly controlled fashion; but this strictly bilateral framework failed to promote the expansion of intra-European trade. Frustrated with the perceived intransigence of European governments on the issue of further liberalisation, the influential American columnist Walter Lippmann wrote to J. William Fulbright in March 1949 identifying Britain as main culprit: '[Sir Stafford] Cripps [Chancellor of the Exchequer, 1947-50] admitted to me privately that he would much rather go it alone, and not be obligated to make agreements with the other European nations. The fact is that our people have accepted this result without serious resistance.'⁹ The mounting criticism in Washington along these lines led to action by the Truman administration. In October 1949, Paul Hoffman, the head of the European Co-operation Administration (ECA) (the body that administered Marshall Aid) made a speech to the OEEC calling for dramatic moves towards the integration of the Western European economy.¹⁰

The Attlee government was not, in fact, as hostile to multilateralism as many on the US side believed. Key Labour politicians, including Hugh Dalton and Stafford Cripps, as well as Clement Attlee himself, had, during wartime, supported the creation of a new multilateral international economic order as envisaged by the Atlantic Charter and the Bretton Woods agreement. At the same time, Labour policy-makers favoured a greater degree of international economic policy co-ordination or planning to prevent another worldwide depression. As in their plans for domestic reconstruction, they preferred a gradual transition to multilateral trade and the liberalisation of international

payments. However, some Labour ministers were more apprehensive about the plans for a new international economic order. For example, the Foreign Secretary, Ernest Bevin, had initially feared that membership of the International Monetary Fund (IMF) would mean a return to the gold standard and would thus potentially undermine domestic economic reconstruction. Bevin had dropped this criticism when it became clear that the 1945 US loan would be conditional upon Britain joining the IMF.¹¹ Nevertheless, the fear of a 'return to Gold' remained a deep apprehension of some British policy-makers and this conditioned the initial response to the American proposals for a European payments union in 1949 and early 1950.

Thus, whilst a commitment to multilateralism remained central to British foreign economic policy, British policy-makers envisaged a far more limited multilateralism than that put forward by their American counter-parts. Given Britain's continued economic weakness, there was a marked reluctance to implement measures of liberalisation before the British economy was in a sufficiently healthy position to withstand the expected attendant shocks. This helps to explain the British negotiating position over EPU. Concerned about the possible drain on British reserves due to any such arrangement, British policy-makers sought American financial support to resolve the problem of the sterling balances or at least a financial guarantee for British reserves within the system.

Moreover, if the British were not hostile to multilateralism per se, they were certainly dubious about getting involved with *European* economic integration.

Despite their accession to the OEEC, they were reluctant to follow the path of integration of European production because 'we want to sell many of our goods outside Europe and not be pressed to give European needs undue priority', and also argued, perhaps somewhat opportunistically, that European regional arrangements would be inconsistent with the American doctrine of global multilateralism.¹² While resistant to closer British economic association with Europe, British officials attempted to exploit the American change of heart on regional trading agreements to attain recognition of the Commonwealth and Empire as a regional trading area at the Havana conference of November 1947 - March 1948. In this context, the idea that Western Europe - rather than the less developed countries of the former colonial world - would in the future be the dynamic source of growth of markets for British goods occurred to few people at this time.¹³ Nevertheless, on British initiative, significant progress was made during 1949 towards the dismantling of import restrictions within the OEEC.¹⁴

These mixed attitudes provided the context for the British reaction to the first outline plan for a European payments union, which the ECA submitted to the OEEC on 24 November 1949. This provided for the full transferability of currencies and for an executive board with considerable autonomy.¹⁵ The reaction of Douglas Jay, Economic Secretary to the Treasury, was that if there had to be any such scheme, it should 'do the minimum'.¹⁶ In contrast was the reaction of Cripps. A document in the Bank of England archive speaks of 'the

Chancellor's sudden decision to instruct the U.K. delegation [to the OEEC] in Paris to put forward a plan for a European Currency Union based on certain papers put forward by the Economic Unit of the Cabinet Offices.' Some Treasury officials defended this alternative to the ECA plan on the grounds that it 'would have a great appeal to the Americans and would produce "transferability of all European currencies"'; but Bank officials were highly sceptical, and Sir Edward Bridges, the Permanent Secretary of the Treasury, was deputed to restrain Cripps's enthusiasm.¹⁷ Accordingly, the scheme submitted by the British to the OEEC on 14 December was much more cautious.¹⁸ At the ministerial level, such caution found its key champion in Hugh Gaitskell, the Minister of Fuel and Power, and this proved crucial to the course of the EPU negotiations in the coming months.

Gaitskell's changing attitude to EPU

It is well established that Gaitskell's attitude to the proposed European Payments Union changed dramatically during the first months of 1950. Originally he was extremely sceptical. As Robert Hall, director of the Economic Section of the Cabinet Secretariat, noted in his diary on 28 March, 'it became clear, in connection with the EPU discussions, that H.G. thought we should *never* return to convertibility and never offer anyone gold points.'¹⁹ As Scott Kelly has noted, given these views 'it is perhaps surprising that it was Gaitskell himself who was eventually to conclude successfully the EPU negotiations.'²⁰ What explained this change of heart?

Gaitskell's biographer, Philip Williams, argued that four factors were responsible. First, the position of sterling was improving significantly, in the wake of devaluation in 1949: 'As each new figure became available, the reserves looked more secure and the British negotiators breathed easier.' Second, Europeans like Robert Marjolin, the secretary-general of OEEC, persuaded Gaitskell of the depth of continental resentment at the trade discrimination practiced by the British. Third, Treasury advice helped persuade him of the benefits of the scheme. (Favourable advice, indeed, did not only come from the Treasury. Alec Cairncross and Nita Watts have argued that the Economic Section made an important contribution to ministers' change of view.) Finally, 'Above all Gaitskell discovered that ... the United States administration was divided against itself'. He concluded, after meeting with representatives of the European Co-operation Administration, that the ECA might become allies of the British against the IMF and the US Treasury; thus, the showdown that he had originally expected to have with the ECA became unnecessary.²¹

More recently, Kelly has reiterated some of Williams's key points, but has emphasised Gaitskell's own belief that he, Gaitskell, had won the argument within the Treasury. He has also stressed that Gaitskell agreed with the Americans on the technical problem of how sterling would relate to the EPU in return for satisfaction on gold and credit arrangements, thus limiting the

interference of the scheme in domestic economic policy.²² These explanations, while differing to some degree on the part played by civil service advice, do not seriously challenge Gaitskell's own opinion, recorded in his diary, that he had broadly conditioned the ECA representatives to his point of view.²³ However, the recollections of Milton Katz, one of the ECA representatives, shed a different light on the episode. In an oral history interview conducted in 1975, and preserved at the Truman Presidential Library, Katz revealed some extraordinary details about the process by which Gaitskell came to accept the EPU.²⁴

His evidence must, of course, be treated with some caution. Katz, as might be expected, did not give precise dates for the events he described, and this can easily lead to error. (For example, Kaplan and Schleiminger, who are aware of Katz's evidence, but make relatively little use of it, misdate the key meeting he describes.)²⁵ He also exaggerated his own role to a minor degree, not mentioning, for instance, that Harriman was also present at a crucial meeting with Gaitskell. Nevertheless, comparison with other records, notably Gaitskell's diary, confirms important aspects of his account, and shows his detectable errors to be minor: a 'lunch' meeting turns out to have been a dinner, and so forth.²⁶ In order to understand the significance of his account in full, however, it is necessary to review developments prior to Gaitskell's move to the Treasury as Minister of State (which took place after the British general election of February 1950).

During the first weeks of 1950, Cripps came under challenge from his colleagues. The immediate occasion for this was Gaitskell's response to a report of the official programmes committee that was presented to the cabinet's economic policy committee by Cripps in December 1949. The paragraph of the report to which Gaitskell objected argued that: 'It should be recognised that in the management of our general balance of payments indirect measures of control must play an increasing part, primarily by anti-inflationary internal policies and a strict external financial policy'.²⁷ This was a close summation of the main thrust of Cripps's well-established macroeconomic strategy. But perhaps it was the explicit way the argument was now stated – combined with pressure for liberalisation from the ECA – which led Gaitskell to conclude that this policy was not really compatible with the fundamental principles upon which the government's economic policy had up to that point been based. With the help of Douglas Jay, he drafted a memorandum on 'Economic planning and liberalisation' which he presented to the economic policy committee in January.

Gaitskell argued that 'The use by the Government of direct controls ... has been the distinguishing feature of British socialist planning'. Any attempt to abandon this policy, and to guide the economy solely 'by indirect monetary means' would lead either to inflation and a balance of payments crisis, or deflation and unemployment. He admitted that in fact there was little danger

of the Labour government abolishing controls 'consciously and positively'; but there was, however, 'a real risk that we shall be drawn more and more in this direction almost unconsciously, because of objections to and criticisms of specific controls':

The greatest danger at present is, in our opinion, the pressure from E.C.A. and from other O.E.E.C. countries which are no longer seriously attempting to plan their own economies. One form in which this pressure is especially strong is the so-called 'liberalisation' of European trade.

(Such liberalisation, in the form of reduction of quantitative restrictions, was the necessary complement of the EPU.) He concluded – amongst other things – that it would be wise to appreciate 'that the policy of liberalisation if extended will probably undermine the structure of physical control we have established'; and 'to seek in O.E.E.C., and vis-a-vis E.C.A. if possible, to divert attention back to the real problem of achieving viability by increased dollar earnings and reduced dollar dependence.'²⁸

Gaitskell found substantial support from other ministers for his ideas. This came not only from John Strachey, but from Harold Wilson and Aneurin Bevan, both of whom he would clash with subsequently over the question of NHS funding, but with whom he now found himself in accord.²⁹ Hugh Dalton

(the former Chancellor of the Exchequer, who had returned to the cabinet in 1948) thought the memorandum 'first class'. He recorded the impact of the committee's views: 'Cripps says, with a wan smile, that he supposes this is a vote of no confidence in the Chancellor. Of course we all deny this. It is meant, we say, for guidance to official advisers, who keep on giving advice which runs contrary to H. M. Government's view of things'.³⁰ But Cripps had associated himself directly with that advice, even though he himself was increasingly suspicious of the people giving it to him.³¹ Now he backtracked. According to the minutes of the meeting – which took place on 19 January – he 'agreed that one had to be on one's guard against those who thought in terms of a free rather than a planned economy'. He was, he said, in general agreement with the lines of policy that Gaitskell set out.³² This, as Dalton noted, was 'a great score ... for the "young economists".'³³

Cripps had already been planning to take 'inactive line' on EPU during the forthcoming OEEC talks.³⁴ Gaitskell's attack, together with the fears held by the Bank of England, seems to have played a part in stiffening his attitude still further.³⁵ (There may have been a link between the fears of the junior ministers and those of the Bank. Some years later, one Treasury official, Denis Rickett, recalled that 'When EPU was being set up, the Bank of England thought it would be the end of sterling, *i.e.* sterling held by Europe, and their fears excited Jay and Gaitskell.')³⁶ Already, in early January, Cripps had set out his qualifications and objections to the scheme. These were threefold.

First, a system in which the EPU itself was the sole lender was unacceptable, as this would bring about a move from the existing bilateral arrangements (many of which had no gold points), to multilateral arrangements (which would have gold points). Second, Cripps wanted Britain to be able to control the imports of any country responsible for the loss of gold. Third, operation of the EPU should be largely automatic, so that its governing board would not be able to enforce deflationary policies on countries as a means of correcting fundamental disequilibrium.³⁷ Now, on or around 19 January (probably after the ministerial meeting, but this is not absolutely clear), the Chancellor, seemingly stung into action by the 'liberalisation' memo, took an opportunity to lay into the Americans. In conversation with W. John Kenney, chief of the ECA mission to the UK, he adopted a 'petulant and arrogant' tone. 'Cripps resented the interference of the U.S. in what he called a "schoolboy lecture" manner in the settlement of European problems.' He addressed himself to the current issues before the OEEC, including trade liberalisation, the transferability of currencies, and the proposed visit to Paris of Harriman and Paul G. Hoffman (Administrator of the ECA) at the time of the next meeting of the OEEC Council and Consultative assembly. He felt this would give a note of US 'dictation' to the OEEC: 'He particularly resented any possible statement of Hoffman detailing in (a), (b), (c), (d) manner what OEEC nations should do.'³⁸ Cripps may have feared that any forthright statements might turn the emerging rift between Britain and the United States into a major issue in the forthcoming British election on 23 February.

In reply to Kenney's telegram, Harriman angrily voiced his suspicions that Cripps and the British government were trying to exploit the current conflict with the ECA for electoral purposes and to block progress in European cooperation which the Americans had 'every right to expect.'³⁹ Harriman's outburst prompted Kenney to send a further telegram qualifying his initial account of his conversation with Cripps. Kenney stressed that his conversation with Cripps had been frank and genial except for some extreme statements. In his view, the problem for the British government was that it had been unprepared for the 'unplanned' devaluation of sterling the previous September. Since British ministers liked to think of themselves as planners, they found it difficult to accept any policy initiative for further European integration that might undermine its domestic economic plans.⁴⁰ Despite their concerns about the British position, Kenney, Harriman and Hoffman hoped that a private conversation with Cripps before the OEEC council meeting might clear the air. However, Hoffman decided to cancel his planned stopover in London in order to not to add to the tensions between the two governments.⁴¹

While American policymakers sought to avoid a confrontation with British ministers, Cripps went to the OEEC council meeting in Paris at the end of the month hoping to stymie the proposals for the EPU drawn up by OEEC experts.⁴² He argued that these amounted to a 'return to automatic gold

settlements in Europe which, if it were attempted in present conditions of dollar shortage, would necessarily restrict trade'. But, finding support only from the Scandinavian countries, he was forced to yield, and on 1 February agreed that the experts' report could be issued and negotiations resumed on the basis of it.⁴³ It was clear, though, that progress was not going to be easy prior to the British general election. After the disastrous OEEC council meeting, British ministers tried to undo some of the damage done by stressing that, contrary to the impression created by Cripps, the British government supported the creation of a payments union. On 11 February, Bevin reassured the American secretary of state, Dean Acheson, that he believed the problems over the relationship between EPU and the sterling area were not insurmountable.⁴⁴ Cripps struck a similar note in a conversation with Kenney.⁴⁵ At the same time, American policymakers refused to be drawn into bilateral negotiations with the British government leaving it to the newly appointed OEEC political conciliator Dirk Stikker, the Dutch foreign minister, to break the deadlock. Stikker met with Bevin and Cripps in mid-February and came away from his conversation convinced that Bevin was genuinely committed to developing European cooperation. At the same time, Bevin linked progress in economic integration to a deepening of western military cooperation in NATO and solving the problem of the sterling balances.⁴⁶ At the same time, the sincerity of these reassurances can also be seen by the inclusion of a commitment to give priority to the conclusion of a European payments union in the King's speech which contained otherwise a limited legislative

programme.⁴⁷ However, the attempts by British ministers to link these issues irritated their American counterparts, who were trying to press forward their own policy agenda in these areas.⁴⁸

A day after the opening of the new parliament on 7 March, the British government unofficially put forward a new plan, accompanied by a plea from Cripps to Hoffman not to 'hustle us unduly on this matter'.⁴⁹ Over the coming week, British ministers met with both Harriman and Stikker. While the new British proposals were not discussed in detail, Bevin and Cripps used the occasions to highlight the economic and political problems faced by the re-elected Labour government with its slender parliamentary majority. In his conversation with Harriman, Cripps outlined the difficulties in the Sterling Area and his concerns about the financial burden of western defence plans that were being discussed within the Western Union and NATO. Harriman came away thinking that Cripps would try to cooperate with the ECA but only on his terms.⁵⁰ However, under the British scheme, all sterling claims and debts would have continued, in principle, to be financed under bilateral agreements, and automatic compensations would have applied only to the continental countries' surpluses and deficits with one another.⁵¹ While these proposals would have protected British reserves, ECA officials regarded these proposals as unacceptable to both the USA and most western European governments. Therefore, ECA officials met with members of the British OEEC delegation to persuade them to withdraw their proposals. Henry Tasca, the

ECA official responsible for the EPU proposals in Paris, met with Sir Hugh Ellis-Rees on 11 March and bluntly told him that the new British proposals did not offer a solution to the EPU negotiations. The proposals envisaged neither full multilateral clearing nor incentives for debtors and creditors to adopt corrective measures - elements which the Americans regarded as essential. Tasca stressed that American officials understood the special position of sterling as reserve currency. Nevertheless, they felt it was misguided to design a European clearing system around the possibility that Britain might develop a deficit in the future. As Britain was running a massive payments surplus with continental countries and likely remain in surplus for the foreseeable future, a system which safeguarded British reserves in case the country might be in deficit would suggest that sterling was weak and might undermine its position as a reserve currency. To address the British concerns, Tasca suggests that the ECA might consider making a certain amount of dollars available to cover any British deficit and put in place certain safeguards to prevent excessive drawings on sterling balances by continental countries. At the end of their conversation, Tasca stressed that the ECA wanted to prevent a breakdown in the negotiations in the OEEC Payments Committee. In response, Ellis-Rees suggested that a period of reflection of several weeks before negotiations resumed. Both men agreed to pass this suggestion onto their superiors and the secretary-general of the OEEC, Robert Marjolin.⁵²

After receiving Ellis-Rees' report, Gaitskell thought that if the ECA's calculations as to how the British scheme would work had been applied only to the most recent period of all, Britain would have experienced gold losses, and this possibility 'rather worried me about the plan!'⁵³ He had, indeed, written to Cripps on 15 March warning that the British proposals might mean losing too much gold: 'I do urge that you should play this hand as long as possible and not give the impression that we are desperately anxious to reach agreement, even on the basis of our own scheme. It is after all just possible that it might really be better for us if the present negotiations were to break down and we were to have another look at the whole problem afresh. In any case I am sure that it will pay us to gain time and not be rushed into premature decisions on such a very vital issue.'⁵⁴ Six days later Gaitskell – who had now taken over responsibility for the EPU talks owing in part to Cripps's poor health - noted in his diary: 'We are certainly in for some difficult times in the field of overseas finance where the Americans seem to me to be getting on very wrong lines. Personally, I am sure that we shall have to have a complete showdown with them on their whole approach to the world's economic problems.'⁵⁵

While Gaitskell clearly believed that a confrontation with the American government would be inevitable, Katz and Harriman met with Sir Edmund Hall-Patch, the head of the British delegation to the OEEC, on 18 March to stress their concerns that the British proposals would lead to a breakdown of

the EPU negotiations in the OEEC Payments Committee. At the end of their conversation, Harriman emphasised that while he was convinced that Bevin wanted these negotiations to be brought to mutually satisfactory outcome, he remained apprehensive about the attitude of Cripps and the Bank of England.⁵⁶ Sharing these concerns, Hall-Patch, either at this meeting or subsequently, but certainly prior to 25 March, spoke to Katz:

He said in effect: 'I want to talk to you at great length and in great detail about what's going on inside my government. I would like, before I start, to have your agreement that you won't report this.'

I replied that, as he surely understood, I couldn't possibly give any such commitment. ... Since I couldn't give him any such assurances, he had to proceed on a presumption that I would report it.

'Well,' he said, 'all right. I'll do it anyway.'⁵⁷

Hall-Patch himself was something of an enigma. According to Katz: 'If there was ever a British career civil service and foreign service officer of the old school, it was Sir Edmund Hall-Patch – the way he dressed, the ties he wore, the way he spoke.'⁵⁸ According to the ECA deputy administrator, Richard Bissell, Harriman 'had a poor opinion of Hall-Patch, the representative of Great Britain, who was a rather old-fashioned senior civil servant and who regarded himself as a coequal to Harriman. If Harriman had been allowed to draw the organization chart, he would have shown Hall-Patch as

corresponding to his deputy rather than him.⁵⁹ Yet his exterior was rather deceptive. Edwin Plowden, the British government's chief planning officer, noted that this 'remarkable man', before being seconded to the Foreign Office from the Treasury, had been at different times a saxophonist, a novelist, and a financial adviser to the Siamese government.⁶⁰ Eric Roll, a member of the OEEC delegation, recalled him as an 'able, erudite and very reserved man ... who managed to combine all the outward appearance and manner of the Establishment with an essentially open and experimental mind.'⁶¹ He was, moreover, a firm advocate of British economic cooperation with Europe.⁶²

Hall-Patch's motivation for calling on Katz can be explained – tentatively – by his attitude both to Labour ministers and to the Americans. In a 1964 oral history interview, he recalled that 'there were two remarkable men in the Labour government after the war, Ernest Bevin and Stafford Cripps. ... Cripps had the education and the intellectual background that Bevin lacked, but ... Bevin had vast experience of international negotiation in trade union affairs and was very effective in getting things done'. By contrast, although he did not offer any criticism of Gaitskell – who had died the previous year - he did not go out of his way to praise him. It seems probable, in view of remarks that he made to Katz in 1950, that his opinion of him was not great. Moreover, Hall-Patch also commented in 1964 that 'the great degree of wartime cooperation among the allies was a background for the effective administration of the OEEC program.'⁶³ So it seems likely that his covert

mission to Katz was the result of a) the desire to help the admired Cripps out of an impasse, b) doubts about Gaitskell, and c) reliance on the spirit of old wartime associations with the USA.

In Katz's recollection, the account that Hall-Patch gave him was as follows:

Within his government, within the cabinet, there was paralysis owing to a deadlock. Sir Stafford Cripps represented the senior members of the Cabinet; he really would like to adjust to the U.S. position. He was blocked by a younger group (whom Sir Edmund Hall-Patch described as the 'socialist intelligentsia' of the cabinet). He named individuals, and identified the leader of the younger group as Hugh Gaitskell.

Hall-Patch added that there were one or two other leaders, such as Kenneth Younger (Minister of State at the Foreign Office), 'but Gaitskell was really the key. Nothing useful could happen until the position of the bloc was altered.' And the only way to break up the resistance of that was, Hall-Patch believed, for Gaitskell to meet Katz and talk with him. Katz said that he would do so willingly.⁶⁴

Gaitskell was due to travel to Paris, and Hall-Patch arranged for Katz to meet him at Hall-Patch's flat. According to Kaplan and Schleiminger, the meeting in question, which Katz recalled in detail, took place on 2 June.⁶⁵ However,

Gaitskell's published diary contains a long minute headed '*Paris dinner on E.P.U., 25.3.50*', and the entry for 26 May notes:

in Paris I managed to have an extremely interesting talk with Harriman and Katz (his chief deputy and the one who really know all about it), Stikker, Dutch Foreign Minister and Marjolin, Secretary-General of O.E.E.C. This was at a dinner party given by Sir Edmund Hall-Patch who is head of the British delegation.

The minute also records that 'By arrangement Harriman and Katz came early so that we could talk with them alone first.'⁶⁶ This was surely the occasion to which Katz was referring. Katz recalled:

Before the lunch [*sic*], Hall-Patch gave me a rundown on Gaitskell's characteristics. I was prepared for a powerful and rigid man, but I really hadn't foreseen the extent of the distrust he felt toward the United States and ECA. When he began to talk, Gaitskell turned to me and said he wanted to make one thing clear to me at the outset; neither he nor anybody else in Britain was going to submit to having the United States reimpose the gold standard on Britain.

Well, I can assure you that nothing remotely approximating such an intention had ever occurred to anybody that I knew. I looked at him in utter astonishment and realized that he was dead serious. His distrust

and misunderstanding of us was sufficient so that he really thought we had some such program in mind.⁶⁷

Gaitskell's minute of the discussion was long and detailed. Although he did not record himself using the precise phrase about 'reimposition of the gold standard' that Katz recalled, he certainly did make clear his strong distaste for having a gold element in the scheme, and his fear that Britain would as a consequence be forced to take deflationary measures:

I said I thought that there was really no dispute whatever about the desirability of multilateral payments: we were just as keen on that as everyone else. But we were naturally bound to be concerned with even the most remote danger to our gold and dollar reserve. This was still far too low for us to take any risks at all. In these circumstances I questioned the wisdom of bringing into the scheme automatic gold points.

According to Gaitskell, Katz replied to him in detail on this question, playing down its importance 'and said that it was in order to bring "gentle" pressure on debtor countries that eventually after credits were exhausted, some gold had to be paid.' Katz emphasised that under the scheme creditor countries were also penalised – in that the larger their surplus the less the proportion they could take in gold. ('This seems to me by no means clear', noted

Gaitskell.) The discussion also touched on the general question of what action debtor countries should take. Gaitskell recorded: 'I made it plain that we could not accept any obligation to deflate as such.' Katz and Harriman

vigorously disavowed any intention of forcing deflation on anyone. I then asked why it was that they were so keen on the gold movements to which only the vague answer was forthcoming that these were a kind of signal to get the debtor to do something. On the whole I got the distinct impression that they would not object to modification of the scheme which diminished the risk of gold losses.

Summarising his 'impressions and conclusions from this interesting talk', Gaitskell wrote that 'E.C.A. are themselves not so much concerned with getting dollars & gold into the multilateral payments scheme and it should not be difficult to bring home to them the dangers of this.' The pressure to bring in gold and dollars, he concluded, was coming from the IMF and the US Treasury. 'But in the battle we shall have to fight with the latter, E.C.A. might become our allies.'

Gaitskell was right that the US administration was divided. There were fears in some quarters that it would be difficult to reconcile the EPU, which permitted discrimination against the dollar, with broader American policy on non-discrimination and convertibility.⁶⁸ Nevertheless, he was wrong to

imagine that the insistence on gold and dollar points was merely the result of a US Treasury fetish. Indeed, it is difficult to see how the scheme could have worked effectively without them. It was partly for this reason, no doubt, that one Bank official described Gaitskell's paper as 'full of the most facile optimism'.⁶⁹ Gaitskell concluded:

I should personally like to see our working away at a draft Payments Scheme which *would be* (a) acceptable to other European countries – especially France, (b) attractive to E.C.A. because we stopped unilateral discrimination, (c) safer for us because it would reduce the risks of gold payments to negligible proportions. [Emphasis in original.]⁷⁰

What was the overall significance of the meeting? It can be seen that Gaitskell was now moving – albeit very tentatively – towards acceptance that the scheme would have to involve some gold element, even that element were to be so small as to 'reduce the risks of gold payments to negligible proportions', and even if he still found the idea highly distasteful. Nevertheless, it is important not to attribute all of Gaitskell's change of heart to his exchange with Katz, any more than one should overstate its extent. Part of Gaitskell's new emphasis on finding a payments arrangement that would put an end to unilateral discrimination was due to Marjolin's argument, made at the same dinner, that the ending of Britain's use of trade discrimination within Europe

was the essential precondition of European military and political cooperation. 'If there was to be cooperation in the military sphere there had to be good feeling. This could not exist in the face of acts of economic warfare.' Gaitskell was favourably impressed, as well, by Marjolin's apparent lack of interest in any extensive pooling of European economic sovereignty.⁷¹

In the week prior to the Paris dinner, the government's economic advisers, Robert Hall and Plowden, had 'had a lot of reasoning' with Gaitskell over gold points, leading Hall to conclude that 'if we had time we could convert him'. This did not bear fruit quickly, even after the meeting with Katz and Harriman. Hall noted on 17 April:

Gaitskell ... is very doubtful about whether we [i.e. civil servants] are right to want to go as far as we have been suggesting in our relations to convertibility in EPU and to the USA generally. He wants to see sterling inconvertible (except for strictly controlled transactions with the dollar area, and the dollar ration for the sterling area) – no gold settlements with anyone else and no relaxations at all at any rate until it is proved that there won't be a US slump. This would be an almost impossible starting point for any further talks with the US and would be regarded by them as a reversal of our policy up to date ...⁷²

Gaitskell, then, for the time being remained 'pathological about gold settlements'.⁷³ But the Paris dinner, if it had not caused Gaitskell to have a Damascene conversion, did mark the beginnings of the erosion of his distrust of the Americans. As Katz recalled: 'There followed a long process of meetings together. As these meetings went on, we became more and more relaxed with one another. Ultimately we became very close friends and remained close friends until his death.'⁷⁴

There was also a context that went beyond the personal - that of the cold war. US Secretary of State Dean Acheson was due to arrive in London in May. To prepare the ground for a stronger American commitment to the defence of Western Europe, Bevin stressed to the cabinet that the Americans wanted the British 'to give more of a lead in Europe, particularly in such matters as the European Payments Union'.⁷⁵ It was partly for reasons of military security, then, that the Attlee government in due course chose to involve Britain with the scheme. That is to say, the explanation for its actions lies to a significant degree in the political sphere that lay beyond the technicalities of the payments negotiations themselves. But if this high-level political will existed, it still had to be translated into a negotiating outcome.

The ECA was now making a concerted effort to break the deadlock with the British. On the one hand, an attempt was made to isolate the British by announcing that \$600 million of European Recovery Program funds would be

put aside to support the EPU even if not all OEEC countries joined it. (This figure was subsequently reduced to \$500 million.) On the other hand, as Triffin recalled, the ECA 'at the same time made a determined attempt to clarify the underlying sources of British opposition to EPU and to eliminate all objections which could be met without sacrificing the fundamental objectives of the plan.' Katz and Harriman's discussions with Gaitskell at the Paris dinner were presumably part of this attempt at clarification; certainly, Hall-Patch's intervention must have contributed to the US awareness that British opposition was less unanimous than it appeared on the surface, an awareness that helped stimulate the Americans to find a way out of the impasse.⁷⁶

As Triffin noted, one of the aspects of the EPU that concerned the British most was its impact on the fate of sterling balances that would in future accrue to members of the union. These balances would be automatically wiped out in the monthly compensations and replaced by a claim on, or a reduction in debt to, the union, even though a country acquiring such balances might have been prepared to hold onto them as part of their monetary reserves. The UK also feared the additional gold losses to the EPU that might result from the multilateral use in EPU settlements of the large bilateral sterling balances previously accumulated by European countries. ECA developed solutions to meet these worries. The first was to authorize surplus countries to exchange the credit, but not the gold, portion of their EPU claims for equivalent sterling balances, provided that these remained fully usable in future EPU settlements

with any participating country, and not only within the sterling area. 'This amendment did not, therefore, modify in any way the multilateral system of EPU settlements nor the respective proportions of gold and credits in such settlements. It did, however, remove a real roadblock to the resumption of sterling's traditional role as a component of international currency reserves.'

The second ECA suggestion was that the use of, or the amortization by Britain of, existing sterling balances accumulated by European countries prior to the creation of the EPU, would no longer be restricted bilaterally, but would have to be channelled through the union. All balances on which a specific amortization schedule was not agreed upon between the UK and her creditors could be freely used by the latter, but only to the extent necessary to cover their net deficits to the union. The ECA would reimburse the UK for any gold it might have to pay to the EPU because of such use. However, although they proved crucial in breaking the negotiating deadlock, these concessions turned out to have little value in practice.⁷⁷

A modified version of the ECA proposals, endorsed by Italian, French, Dutch and Swiss representatives to the OEEC, was presented to the British, at the end of April. There was an element of subterfuge: the British were told that it had been drawn up by Hubert Ansiaux, Director of the National Bank of Belgium, although they do not seem to have been fooled.⁷⁸ Reportedly, both Cripps and Gaitskell 'heartily disliked the Ansiaux plan.'⁷⁹ At a meeting with Cripps, Gaitskell and Jay 'pleaded for a system which left our bilateral

arrangements intact... the Chancellor decided that officials must work out a middle course which kept the bilaterals adequately alive without attributing too much importance to them.'⁸⁰

But when US Secretary of State Dean Acheson arrived in London in May for wide-ranging talks, he was determined to press hard for the multilateral approach.⁸¹ The British now accepted, broadly speaking the 'continental' approach, to which they had made their own modifications. Cripps reported to his colleagues on 15 May that satisfactory progress had been made in the preliminary talks with the Americans about the revised proposals.⁸² As Gaitskell noted later, Harriman and his advisers had turned up at the Treasury at quite short notice:

After about half an hour the Chancellor handed the whole thing over to me and Harriman handed his side over to Katz. We then had some intensive negotiating which ended in effect with our giving way to the Americans on the technical problem of relating sterling to E.P.U. while we made it plain that we would only agree to this if we got satisfaction on the gold and credit arrangements.⁸³

Katz recalled: 'we had plenary power to settle the problem. We went on and on and on. Eventually we worked out a solution which became known as the Katz-Gaitskell agreement.'⁸⁴

Shortage of time formed the backdrop to this agreement; the existing intra-European payments arrangements were due to expire at the end of June. Between 31 May to 3 June, Gaitskell and members of the UK delegation in Paris engaged with the ministers of the principal OEEC countries, as well as with the Americans. Kaplan and Schleiminger assert that Gaitskell began the talks 'by asserting that Britain would not submit to having the US impose the gold standard on it.'⁸⁵ This seems very unlikely; the error seems to arise from their misdating of the Hall-Patch dinner that took place in March. Hall-Patch noted: 'As the negotiations proceeded it became abundantly clear that there was no hope of securing any material improvement on the Americans' proposals.'⁸⁶ The British wanted large EPU quotas, a great proportion of which were to be gold free, and a substantial proportion of credit in the remainder. The Katz-Gaitskell agreement was based on total quotas of \$4 billion (\$1.2 billion less than the British had wanted) and on an overall credit/gold ratio of 3:2 (this was within the range of acceptability for the British, although they would have preferred 2:1). Quotas would be divided into five equal segments, rather than the two preferred by Britain, the first fifth being completely free for creditors and debtors alike. Creditors would accept payment in gold and credit in equal proportions over the rest of their quotas, whereas debtors would receive progressively less credit as they moved through their quotas (from 75% credit in the second segment to 25% in the fifth).⁸⁷

As Hall-Patch noted on 6 June, Gaitskell required the support of Cripps, 'To fortify him in his final recommendations to colleagues in the Cabinet'. Accordingly, Hall-Patch wrote, Eric Roll had been sent to Briançon, where Cripps was convalescing, 'to explain to the Chancellor the full implications of some of the recent American proposals.'⁸⁸ Roll's own later recollection had a slightly different emphasis: 'at one stage [in the EPU talks], almost the last, some difficult problem arose and Gaitskell did not want to take a decision without consulting Cripps'. However, after Roll's arrival, the point at issue was settled very quickly over breakfast.⁸⁹ Once the Katz-Gaitskell agreement was concluded, both Cripps and Attlee agreed to it promptly, and this agreement was communicated to the Americans on 7 June.⁹⁰

After the Katz-Gaitskell agreement was signed, and the British joined in helping to bring the European Payments Union to fruition, a new problem developed. 'At that point,' Katz recalled wearily, 'the Belgians and the Swiss came out from behind the curtains and made it clear they were resisting on an entirely different basis. [Maurice] Frère, the Governor of the Bank of Belgium, came to see me and explained that the Bank had lots of dollars, which he intended to cultivate and preserve. He would not weaken his position or risk weakening it, in order to help "prodigal countries" through any arrangement requiring extra credit from his bank.'⁹¹ However, the US stood firm. All substantive provisions of the Katz-Gaitskell agreement were adopted

unanimously by the OEEC Council on 7 July, and the legal instrument embodying them was signed on 19 September with retroactive effect to 1 July 1950.⁹²

The ease with which the Katz-Gaitskell agreement had been sold to Cripps rather belies what Gaitskell told the US *chargé d'affaires* upon his return to London. He claimed – rather cheekily, it may be thought – that past troubles had resulted from the inflexibility of his own associates, including Cripps.⁹³ The Americans, for their own part, had long seen Cripps as the stumbling block. Harriman commented at a meeting of US ambassadors in March that ‘Cripps and the doctrinaire socialist group of the Labor Party ... fear the effect of trade liberalization on their own doctrinaire concept of planning.’⁹⁴ Cairncross, too, has implied that the problem lay with Cripps.⁹⁵ Yet the toughness of Cripps’s stance had, at the very least, been propped up by Gaitskell’s anti-liberalisation views, and, according to Hall-Patch, was the direct result of them. As Gaitskell himself noted in May, ‘I find myself in the rather surprising position of having to stiffen him [Cripps] up on almost every occasion.’⁹⁶ When Gaitskell accepted – broadly – the American attitude to the EPU, Cripps’s doubts about the scheme melted away. Moreover, as Harriman later recalled, in connection with EPU, ‘One thing about Cripps was that after he made an agreement he always did a little better than he said he would. It was very tough to get him to agree to something, but after he came to an agreement he was very cooperative.’⁹⁷ In the case under discussion, this may

have been because Cripps's initial instinct to cooperate – attested to by Hall-Patch - had been stymied, and he wanted to make good the deficit. However, he was only able to do so once Gaitskell's objections were, one way or another, overcome.

Hall-Patch's intervention, then, was the key to the resolution of the situation. This was Katz's view: 'I want to stress that this wouldn't have worked out if Hall-Patch, violating the tight pattern of a discreet and conventional traditional civil servant hadn't taken it upon himself to come and talk to me.' He argued that, in turn, Hall-Patch's demarche had only been made possible by a previously established, and crucially important, 'far-flung network of mutually supporting relationships' emerging from the structure of the Marshall Plan.

The relationships between the United States and Europe ... existed at every level. It wasn't just President to Prime Minister; it wasn't just Secretary of State to Foreign Minister; it wasn't just Secretary of Treasury to Finance Minister. From top to bottom, throughout the entire bureaucracy and the entire civil service, there were intimate working relationships, and these were supplemented by external relationships among university, professional, industrial, and labor personnel.⁹⁸

The Katz-Gaitskell relationship was another strand of the web, one which, although it developed comparatively late in the day, turned out to be of key importance. In August 1950, Gaitskell mused on the ironies of recent developments:

It is rather odd that after acquiring a reputation within the U.K. Government for objecting to so much of what the Americans were trying to do in Europe I should yet have been able to get on with them so well. I think the explanation is that most of them had fundamentally the same outlook as I had. They were and are economist new-dealer types, and anxious to get the same kind of payment system going as we were ourselves.⁹⁹

Arguably, Gaitskell was here disguising, even from himself, the true extent of his own change of heart. In March 1950, he had been completely hostile to the idea of a gold element in the EPU scheme, to the point where he suggested to Katz that such an idea amounted to a return to the gold standard. By July, he was blithe in his assurance to the House of Commons that EPU was not 'an extreme gold standard arrangement'.¹⁰⁰ To a cynic, Gaitskell's behaviour could seem to be a typical *Yes, Minister* scenario: that of the politician who, finessed by his civil servants, performs an about-face whilst convincing himself he has just won a great personal victory.

It should be emphasised, however, that Gaitskell did not henceforward accept supinely the US world-view of international economic relations. For example, he strongly supported a United Nations scheme for the co-ordination of national full employment policies.¹⁰¹ This type of 'fairly extreme Keynesian solution' was not the kind of international cooperation the Americans had in mind.¹⁰² But certainly he had warmed towards the Americans. Richard Crossman noted in February 1952: 'I am sure Gaitskell is a very good economist but politically he is just determined to believe that there is a "good America", which he can side with.'¹⁰³ This may have been unfair, but the fact that he was by this point perceived in this way by left-wingers shows the distance that he had travelled since January 1950, when, as a member of the cabinet's 'socialist intelligentsia', he was receiving backing from Bevan and Wilson for his opposition to American-sponsored economic liberalisation. From the point of view of British domestic politics, his change of heart over EPU forms an important part of the backdrop to the 1951 budget crisis and the subsequent Bevanite split. It also had a wider significance in terms of the Anglo-American relationship.

Conclusion

Gaitskell's conversion from an ardent critic of convertibility into a supporter of limited intra-European convertibility can only be understood within the broader context of the Atlantic alliance. The personal relationship between Gaitskell and Katz and the actions of Hall-Patch were important; but these

were merely the mechanisms by which the actions of a junior (though important) minister were brought into line with the overall strategic objectives of his political superiors, which lay as much in the military as the economic sphere. We may even question whether Hall-Patch's clandestine mission to Katz was really on the freelance basis that he presented it. If Bevin wanted, in effect, to subvert Gaitskell's intransigence on an economic issue so as to improve Anglo-American relations more widely, who better to send as his agent than this unconventional mandarin? And, assuming that any such instruction was conveyed by word of mouth, what better way to preserve the principle of 'deniability'?

By the very nature of the case, such a hypothesis cannot be proven. But it does not really matter whether Hall-Patch was acting directly on instructions or merely intuiting his masters' wishes. Either way, it is clear that the conventional way of looking at the outcome of the EPU talks – that is to say, was it Britain or America that 'won' – is too restrictive. The concessions made by the US may have been largely tactical ones, so the result could, in a narrow sense, be presented as an American victory. But whilst the British gave much ground over the form of the EPU itself, they did not so much 'lose' the negotiation as decide to make a big concession in the wider strategic game. It was, therefore, a 'win-win' situation, whereby the US administration gained the technical outcome it desired over European payments, which in

turn helped the British to strengthen the US commitment to NATO. Therefore, the British decision to join EPU can in no way be regarded as a fluke.

The obvious way to challenge this argument is to suggest that it makes the whole process sound much too rational. After all, key players, notably Gaitskell, were in the dark about various important developments, and appear to have been operating at times under certain kinds of delusion. Certainly, we do not wish to deny the Labour government's deep confusion on questions of European integration. The best-known example of this, the mishandled rejection of the Schuman proposals for a European coal and steel community, coincided with the EPU negotiations. As Eric Roll has put it, hesitation over integration was 'strengthened by a desire to preserve world-wide links and, in particular, to maintain a special position *vis-à-vis* the United States, despite the clear existence of a very strong American trend to encourage European integration with (and in some American minds only with) the inclusion of Britain.'¹⁰⁴ Nevertheless, in the case of EPU, the British can be seen to have reached the right decision – although, to paraphrase Churchill, only after they had exhausted the alternatives. If they had difficulty feeling their way, not least as a consequence of some of their ideological preoccupations, they ultimately made a wise choice: to embed the British economy more firmly in a world economy based on Atlantic military co-operation. Therefore, the story of the Attlee government and Europe was not simply or exclusively one of 'the abdication of British leadership', as some commentators would have it.¹⁰⁵

Rather, it was the tale of a struggle to resolve competing obligations, and, in this case, of the pragmatic subordination of economic anxieties in the interests of military security.

¹ See also for a slightly different argument See also

² Similarly, see

³ This view is largely shared by American participants in the EPU negotiations. See Albert O. Hirschman, 'The European Payments Union: The Negotiations and the Issues', *Review of Economics and Statistics* 33 (1951): 49-51, and Robert Triffin, *Europe and the Money Muddle: From Bilateralism to Near-Convertibility, 1947-1956* (New Haven: Yale University Press, 1957).

⁵ Scott Kelly, 'Ministers Matter: Gaitskell and Butler at Odds over Convertibility', *Contemporary British History* 14 no. 4 (Winter 2000), 27-53, and

⁷ This argument is examined from the perspective of British policy towards western defence cooperation in

⁸ Besides being Deputy US Special Representative in Europe with the rank of ambassador extraordinary and plenipotentiary from 1950-1, Katz was also chief of the US delegation to the UN Economic Commission for Europe, and Chairman of NATO's Defence, Financial and Economic Committee.

⁹ Lippmann to Fulbright, 11 March 1949, reprinted in

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¹² National Archives, Kew, London (henceforward NA), PRO T236/1887, S.D. Waley to Wilfrid Eady, 'The Marshall Plan and "Integration"', 16 June 1947.

¹³ Tomlinson, *Democratic Socialism*, 34.

¹⁴ Donald MacDougall, *Don and Mandarin: Memoirs of an Economist* (London: John Murray, 1987), 75-6.

¹⁵ Hogan, *The Marshall Plan*, 291; Cairncross and Watts, *The Economic Section*, 301 n. 47.

¹⁶ NA, PRO T 273/310, Jay to Edward Bridges 28 Nov. 1949, cited in Cairncross and Watts, *The Economic Section*, 300.

¹⁷ George Bolton, 'European Clearing Union: Note of a Meeting with Sir Edward Bridges, Sir Edwin Plowden, Sir Henry Wilson Smith, Mr. Rickett and Mr. Hitchman, 28.11.49', addressed to the Deputy Governor and Siepmann, 29 Nov. 1949, Bank of England archive, OV46/37.

¹⁸ Cairncross and Watts, *The Economic Section*, pp. 299-300.

¹⁹ Alec Cairncross, ed., *The Robert Hall Diaries 1947-53*, (London: Unwin Hyman, 1989), 109 (entry for 28 March 1950). Emphasis in original.

²⁰ Kelly, 'Ministers Matter', 34.

²¹ Philip M. Williams, *Hugh Gaitskell: A Political Biography* (London: Jonathan Cape, 1979), 221; Cairncross and Watts, *The Economic Section*, 301.

²² Kelly, 'Ministers Matter', 34-5.

²³ Williams, *Gaitskell Diary*, 186 (entry for 26 May 1950).

²⁴ Oral history interview with Milton Katz by Richard D. McKinzie, 25 July 1975, Harry S. Truman Library (henceforward 'Katz interview I'). Katz told essentially the same story to Jacob Kaplan in 1986: 'Interview with Ambassador Milton Katz, US Special Representative, 23 September 1986' (henceforward 'Katz interview II'), Bank of International Settlements Archive, Basel, 7.14.

²⁵ Kaplan and Schleiminger, *The European Payments Union*, 77.

²⁶ See Katz interview I, 38 and Williams, *Gaitskell Diary*, 177 (entry for 16 May 1950). The presence of Harriman at dinner arranged by Hall-Patch is confirmed by Harriman's appointment diary; Library of Congress, Manuscript Division, Harriman Papers (hereafter LoC Harriman), box 269, folder Appointments Calendar, Jan - June 1950: Appointment record, 25 March 1950.

²⁷ NA, PRO CAB134/223 EPC(49)157 7 Dec. 1949; PRO CAB 134/220 EPC(49) 51st, 14 December 1949.

²⁸ NA, PRO CAB 134/225 EPC(50)9 Hugh Gaitskell, 'Economic Planning and Liberalisation', 7 Jan.1950.

²⁹ Neil Rollings, "'The Reichstag method of governing'? The Attlee governments and permanent economic controls', in Helen Mercer, Neil Rollings, and Jim Tomlinson, eds., *Labour Governments and Private Industry: The Experience of 1945-1951*, (Edinburgh: Edinburgh University Press, 1992),15-36, at 22.

³⁰ Pimlott, *Dalton Political Diary*, p. 465 (entry for 24 Jan. 1950).

³¹ Cairncross, *Hall Diaries*, 63-4 (entry for 8 July 1949); Francis Williams, *Nothing so strange: an autobiography* (London: Cassell, 1970), 280. Cripps's policy was also under attack from backbenchers. He told Sir Richard Acland, one of the authors of the recently published pamphlet *Keeping Left*, 'you make a wholly unjustified attack upon "certain officials" in the Treasury and the Bank of England and, of course, an implied attack upon myself as unable to control my staff.' NA, PRO T273/235, Stafford Cripps to Richard Acland, 21 Jan. 1950.

³² NA, PRO CAB 134/224, EPC(50) 5th 19 Jan. 1950. See also Toye, *Labour Party*, Chapter 9.

³³ Pimlott, *Dalton Political Diary*, 465 (entry for 24 Jan. 1950.)

³⁴ PRO FO 371/8710, Eric Berthoud to Edmund Hall-Patch, 18 Jan. 1950.

- ³⁵ For a discussion of the Bank's attitude to EPU, see John Fforde, *The Bank of England and Public Policy 1941-1958* (Cambridge: Cambridge University Press, 1992), pp. 193-219.
- ³⁶ Alec Cairncross, *The Wilson Years: A Treasury Diary 1964-1969* (London: The Historians' Press, 1997), 216 (entry for 2 June 1967).
- ³⁷ NA, PRO CAB 134/225 EPC(50)10, Stafford Cripps, 'A New Scheme for the Intra-European Payments', 7 January 1950, cited in Kelly, 'Ministers Matter', 33. See also Sally Dore, 'Britain and the European Payments Union: British policy and American influence', in Francis H. Heller and John R. Gillingham, ed., *The United States and the Integration of Europe: Legacies for the Postwar Era* (New York: St. Martin's Press, 1996), 167-197, at 178-9.
- ³⁸ *Foreign Relations of the United States* (henceforward *FRUS*), 1950, III, p. 1608.
- ³⁹ LoC Harriman box 342, folder United Kingdom: Averell Harriman to Paul Hoffman, Dean Acheson, John Kenney and Julius Holmes, 21 January 1950.
- ⁴⁰ LoC Harriman box 342, folder United Kingdom: John Kenney to Averell Harriman, Paul Hoffman, and Dean Acheson, 21 January 1950.
- ⁴¹ LoC Harriman box 342, folder United Kingdom: Paul Hoffman to Averell Harriman and John Kenney, 23 January 1950.
- ⁴² Again, the Bank's fears seem to have played a part. According to a note circulated within the Bank when Cripps was in Paris, 'the Chancellor had yesterday summoned the U.K. Delegation and told them that, following a conversation with the Governor, he had been badly shaken about the Payments Union and advised everybody that there must be no commitments.' A.P. Grafftey-Smith to Lord Cobbold and others, 26 Jan. 1950, Bank of England archive, OV 46/38.
- ⁴³ Kaplan and Schleiminger, *The European Payments Union*, 45-6.
- ⁴⁴ *FRUS*, 1950, III, p.624-5 and 627-9.
- ⁴⁵ *FRUS*, 1950, III, p.630-1.
- ⁴⁶ LoC Harriman box 271, folder memoranda of conversation: memorandum of conversation Averell Harriman and Dirk Stikker, 15 February 1950.; *FRUS*, 1950, III, p.634-8
- ⁴⁷ Parliamentary Debates, House of Commons, Fifth Series, Vol. 472, 6 March 1950, col. 37-40.
- ⁴⁸ *FRUS*, 1950, III, p.638-42.
- ⁴⁹ Kaplan and Schleiminger, *The European Payments Union*, 66. See also Simon Burgess, *Stafford Cripps: A Political Life* (London: Victor Gollancz, 1999), 308-9.
- ⁵⁰ *FRUS*, 1950, III, p.643-4; LoC Harriman box 271 folder European Payments Union: telegram Averell Harriman to Paul Hoffman, Dean Acheson, Julius Holmes and John Kenney, 13 March 1950
- ⁵¹ Triffin, *Europe*, 165.
- ⁵² LoC Harriman box 271 folder European Payments Union: memorandum Harry Tasca to Milton Katz, 13 March 1950.
- ⁵³ Williams, *Gaitskell Diary*, 178 (entry for 23 March 1950).
- ⁵⁴ Gaitskell to Cripps 15 March 1950, Hugh Gaitskell Papers, University College, London, C41; see also Williams, *Hugh Gaitskell*, 220.
- ⁵⁵ Williams, *Gaitskell Diary*, p. 175 (entry for 21 March 1950).
- ⁵⁶ *FRUS*, 1950, III, p. 644-5.
- ⁵⁷ Katz interview I, 36.
- ⁵⁸ *Ibid*, 35.
- ⁵⁹ Richard Bissell with Jonathan Lewis and Frances Pudlo, *Reflections of a Cold Warrior: From Yalta to the Bay of Pigs* (New Haven: Yale University Press, 1996), 50.
- ⁶⁰ Edwin Plowden, *An Industrialist in the Treasury: The Post-War Years* (London: Andre Deutsch, 1989), 40.
- ⁶¹ Eric Roll, *Crowded Hours: An Autobiography* (London: Faber and Faber, 1985), 67-8. For an account of his life, which included a spell playing in the band of a Paris cabaret, see Henniker, 'Patch, Sir Edmund Leo Hall- (1896-1975)', rev., *Oxford Dictionary of National Biography*, Oxford University Press, 2004 [<http://www.oxforddnb.com/view/article/31190>, accessed 10 Aug 2005].
- ⁶² Edmund Dell, *The Schuman Plan and the British Abdication of Leadership in Europe* (Oxford: Oxford University Press, 1995), 82-3.
- ⁶³ Oral history interview with Sir Edmund Hall-Patch, by Philip C. Brooks, 8 June 1964, Truman Library (henceforward 'Hall-Patch interview'), 6.
- ⁶⁴ Katz interview I, 37.
- ⁶⁵ Kaplan and Schleiminger, *The European Payments Union*, 77.
- ⁶⁶ Williams, *Gaitskell Diary*, 176-82.
- ⁶⁷ Katz interview I, 38-9. According to Katz's 1986 recollections, 'As we settled down to talk, Gaitskell turned to Hall Patch and said he thought he'd rather talk to me alone. Hall Patch was absolutely seething with fury, as you can well imagine, and out he went.' Katz interview II, p. 7.
- ⁶⁸ Dore, 'Britain and the European Payments Union', 180-1; *FRUS* 1950, Vol. I, 823-4.

- ⁶⁹ 'European Payments Union' addressed to A. P. Graftey-Smith and George Bolton, reporting the views of Roy Bridge, 31 March 1950, Bank of England Archive, OV 46/38. See also NA, PRO FO 371/87109, Hugh Ellis-Rees to Edmund Hall-Patch, 31 March 1950.
- ⁷⁰ Williams, *Gaitskell Diary*, 178-82 (minute on EPU dinner).
- ⁷¹ Ibid.
- ⁷² Cairncross, *Robert Hall Diaries*, 109-110 (entries for 28 March and 17 April 1950).
- ⁷³ Kaplan and Schleiminger, *The European Payments Union*, p. 75.
- ⁷⁴ Katz interview I, p. 39.
- ⁷⁵ See Geiger, *Britain*, 76-77; Roger Bullen and M.E. Pelly, eds., *Documents on British Policy Overseas, Series II, Vol. II: The London Conferences: Anglo-American Relations and Cold War Strategy January-June 1950* (London: HMSO, 1987) (henceforward *DBPO 2ii*), 203-6 [quote: 204]: C.P. (50) 92, 'Conversations with United States and French Officials', Memorandum by the Secretary of State for Foreign Affairs, 2 May 1950.
- ⁷⁶ Triffin, *Europe*, 166.
- ⁷⁷ Ibid, 167-8.
- ⁷⁸ See NA, PRO FO 371/8711, telegram from the UK OEEC delegation to the Foreign Office, 4 May 1950,.
- ⁷⁹ L.K. O'Brien, 'E.P.U.', 6 May 1950, Bank of England Archive, OV 46/40.
- ⁸⁰ NA, PRO FO 371/87113, Eric Berthoud to Roger Makins, 'E.P.U.', 9 May 1950.
- ⁸¹ *FRUS*, 1950, III, 655-6.
- ⁸² *DBPO 2ii*, 301-3: Note of an Informal meeting of Ministers held at 1 Carlton Gardens on Thursday, 11 May 1950, at 9.30 a.m.; *DBPO 2ii*, 352-4: Note of an Informal meeting of Ministers held at 1 Carlton Gardens on Thursday, 15 May 1950, at 9.45 a.m.; LoC Harriman box 271 folder European Payments Union: draft memorandum by Stafford Cripps handed to Averell Harriman, 15 May 1950. Cairncross and Watts, *The Economic Section*, 298-301; Dore, 'Britain and the European Payments Union', 183-4. See also NA, PRO FO 371/87113, Eric Berthoud to Roger Makins, 'E.P.U.', 16 May 1950.
- ⁸³ Williams, *Gaitskell Diary*, 186 (entry for 26 May 1950).
- ⁸⁴ Katz interview I, 40-1.
- ⁸⁵ Kaplan and Schleiminger, *The European Payments Union*, 77.
- ⁸⁶ NA, PRO, FO 371/87114, E.R. (P)(50)9, Edmund Hall-Patch, 'European Payments Union', 4 June 1950.
- ⁸⁷ Kaplan and Schleiminger, *The European Payments Union*, 75, 77-8.
- ⁸⁸ PRO T 229/749, Hall-Patch to W. Strang, 6 June 1950, in Roger Bullen and M.E. Pelly, eds., *Documents on British Policy Overseas, Series II, Vol. I* (London: HMSO, 1986), 164
- ⁸⁹ Roll, *Crowded Hours*, 82.
- ⁹⁰ Kaplan and Schleiminger, *The European Payments Union*, 78.
- ⁹¹ Katz interview I, 41-2.
- ⁹² Triffin, *Europe*, 168.
- ⁹³ Kaplan and Schleiminger, *European Payments Union*, 78.
- ⁹⁴ *FRUS* 1950, Vol. III, 801.
- ⁹⁵ Cairncross, *Years*, 292.
- ⁹⁶ Williams, *Gaitskell Diary*, 187 (entry for 26 May 1950).
- ⁹⁷ Oral history interview with W. Averell Harriman by Richard D. McKinzie and Theodore A. Wilson, 1971, Harry S. Truman Library, 9-10.
- ⁹⁸ Katz interview I, 41.
- ⁹⁹ Williams, *Gaitskell Diary*, p. 190 (entry for 11 Aug. 1950).
- ¹⁰⁰ Parliamentary Debates, House of Commons, Fifth Series, Vol. 477, 19 July 1950, col. 2384.
- ¹⁰¹ United Nations economic and social council official records eleventh session, 390th meeting, 17 July 1950, 113-118. Williams, *Gaitskell Diary*, pp. 193-4 (entry for 11 Aug. 1950). See also Toye, *Labour Party*, Chapter 7.
- ¹⁰² Charles P. Kindleberger, 'Economists in international organizations', *International Organization* IX (1955), 338-352. See also Sidney Dell to Nicholas Kaldor 21 Jan. 1950, Kaldor Papers King's College, Cambridge, NK/3/30/55/32-3.
- ¹⁰³ Janet Morgan (ed.), *The Backbench Diaries of Richard Crossman* (London: Book Club Associates, 1981), 76 (entry for 14 February 1952).
- ¹⁰⁴ Roll, *Crowded Hours*, 83.
- ¹⁰⁵ See, for example, Dell, *The Schuman Plan*.