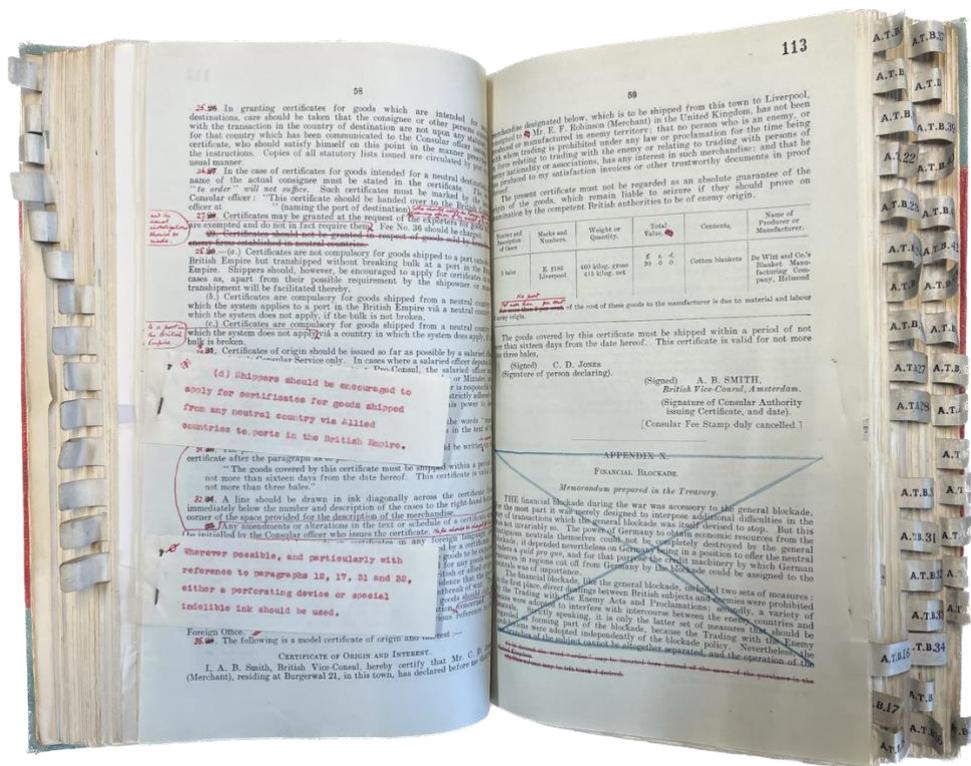


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'THE FOURTH FIGHTING SERVICE'

THE EARLY DEVELOPMENT OF BRITISH ECONOMIC STATECRAFT



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Introduction

A century ago British officials were reflecting on their experience of developing a new kind of economic warfare in the First World War. Together, these sanctions had become “*the cornerstone of British grand strategy*”¹, and prompted a generation of officials to obsess over how this new economic “*fourth fighting service*”² could be integrated into traditional foreign and defence policy. Those efforts were the spark for a revolution in central government machinery that is still felt today; they managed the most extensive and acute global financial crisis on record; and they saw the establishment of a powerful organisation which developed the first and only ‘Handbook of Economic Warfare’, sustained over sixteen years and nine governments of every persuasion until the Second World War. Its work contributed to the development of the League of Nations’ own economic deterrent (thereafter UN sanctions) and, by the Second World War, provided the blueprint for the leading economic warfare ministries and international organisations of the allied powers. The blockade became a central weapon in “the British way of warfare” that employed technology over troops: a “liberal militarism” that sought to avoid mass armies. In this sense, the later emphasis on strategic bombing of the 1940s, and on nuclear weapons in the post-war period, was the logical extension of the blockade³. But the wealth of this experience has long passed from institutional memory and, while Britain’s position in the world has changed, previous attempts to learn the right lessons could inform contemporary efforts to do the same. It may also address more directly those calling for a revival of a ‘doctrine’ or ‘playbook’ for economic statecraft⁴.

This Working Paper examines how modern economic statecraft was developed in the early 20th Century, and how a better understanding of that history might improve policy making today. It is meant to serve as a concise and accessible history for practitioners. Plenty has and is being written on the policy of economic statecraft; this paper seeks to illuminate the lessons for its practice. How it was bureaucratically conceived, developed, contested, refined, professionalised and eventually discarded. It draws heavily on existing scholarship⁵, including Nicholas Lambert’s essential work on the pre-war period, *Planning Armageddon*, and it attempts to fill later gaps in the literature through primary research at the UK’s National Archives.

Part 1 considers how an unprecedented period of globalisation led many to believe war was impossible, but some to wonder if that newfound interdependence could be weaponised. It reveals a serious if unguided attempt to consider the practical ramifications of that weaponisation, as world war approached. Part 2 shows what happened when early sanctions theory met with reality in 1914 and, as one of Britain’s wartime leaders put it, how

¹ Lambert, N. *Planning Armageddon: British Economic Warfare and the First World War* (Harvard University Press: 2012), p.181

² The UK Treasury’s top economist, Ralph G. Hawtrey, reflecting on the British blockade of the Great War, in May 1926: “The blockade organisation was really a fourth Fighting Service”. In Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.144

³ See Edgerton, D. *England and the Aeroplane: Militarism, Modernity and Machines* (1991)

⁴ Statement by Daleep Singh, Former US Deputy National Security Advisor for International Economics: ‘Hearing on Advancing National Security and Foreign Policy Through Sanctions, Export Controls, and Other Economic Tools’. U.S. Senate Committee on Banking, Housing, and Urban Affairs. February 28, 2023

⁵ See Lambert, N. *Planning Armageddon: British Economic Warfare and the First World War* (Harvard University Press: 2012); and, Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022)

not to conduct the serious business of economic statecraft. It also examines how what had become 'the Blockade Farce', was turned around in a matter of months. Part 3 reveals, in some aspects for the first time, the sophistication and depth with which the British state sought to internalise its mixed experience of economic blockade, and equip itself with the best organisation, tools and procedures to succeed in the use of economic statecraft.

It is no coincidence that this history is not well understood⁶. While the key protagonists of this story thought it vital to record its history, of those memoirs and histories that were produced, all were promptly classified or discontinued. The history of the first world war's blockade was relegated from the Asquith Cabinet's original three commissioned volumes (land, naval, economic) and subsumed into the naval, where it continued to face resistance. Sir Maurice Hankey, Britain's first Cabinet Secretary and early proponent of economic warfare, "*agreed 'the less said the better' about the blockade and supported the Admiralty against the author and the Foreign Office in insisting that the chapters be deleted*"⁷. Public references to the blockade experience were consistently censored into the 1930s, including official memoirs and more popular publications like Winston Churchill's *The World Crisis*. Even as Britain prepared for another economic confrontation in the 1930s, Whitehall departments continued to litigate an official history. By the time an official history was completed and printed in 1937, it remained under lock and key until 1961 when most of its protagonists had passed away. Similar papers from the Second World War remained under key until the 1990s. Yet it will be shown that a parallel and determined effort was made by those same officials to develop and refine the use of economic tools in foreign policy, in secret, and whose efforts the rest of this paper explains.

⁶ In particular see 'The History of History', p.7-15, in Lambert, N. *Planning Armageddon* (2012)

⁷ Minutes (18 and 21 January 1927) by Hotham, DNI, ff.139-46, 320, ADM. 116/3423, cited in Lambert, N. *Planning Armageddon* (2012), p.11

Part 1 (1900–1914)

“Is war now impossible?”⁸

This was a question which drove the imagination of the early proponents of modern economic statecraft. Not out of a benign instinct to achieve international peace for its own sake, but through a vision of great power competition and the maintenance of a newly interconnected global economy, out of which Britain and its Empire benefited the most, and over which it dominated to an extent unmatched in history since. While blockade and sanctions were familiar before 1900, three things brought about this belief that war was confined to the past.

The first, a revolution and quadrupling of global trade in as many decades between 1860 and the turn of the 20th Century, spurred by a significant fall in the cost of shipping through new marine technology, the gold standard, and global communications⁹. Great thinkers of the age considered the implications of what one called this new ‘global economic interdependence’. The military theorist Ivan Bloch published his six-volume work *Is War Now Impossible?* to critical acclaim, and it graced the head of the British Admiralty’s bookshelf. The American strategist Alfred Thayer Mahan concluded that this new economic phenomena “has multiplied and strengthened the bonds knitting the interests of nations to one another, till the whole now forms an articulated system, not only of prodigious size and activity, but of an excessive sensitiveness, unequalled in former ages [...] The preservation of commercial and financial interests constitutes now a political consideration of the first importance, making for peace and deterring from war”¹⁰. This view was matured in Norman Angel’s 1909 work *The Great Illusion* - which won him the Nobel Peace Prize and which the First Sea Lord described as “heavenly manna”¹¹ - arguing this newfound interdependence meant the cost of war was now too high. In sum, the theory that a newfound economic interdependence between the world’s foremost industrial powers would only allow for a short war, unless global social and economic disintegration was to follow, “possessed a respectable intellectual pedigree and was supported by a considerable body of liberal intellectual thought”¹².

The second, the consolidation of Britain at the apex of this new global economy. Measured solely by GDP Britain’s industrial economy was certainly matched by the rise of Germany and the USA - just as China chases the USA today - but its wider dominance of global trade reveals the reductiveness of comparisons on a GDP basis alone. More than 90% of global trade was seaborne, of which more than half was British flagged and financed through London, while its navy controlled the freedom of navigation and the coal bunker network necessary to facilitate that trade¹³ (88.96 percent of the world’s total merchant fleet depended exclusively on coal, of which Britain supplied more than 80%¹⁴). Through Lloyds of London and the Baltic Exchange, the vast majority of global trade was insured and

⁸ See Ivan Bloch’s six-volume work of 1899 - *Is War Now Impossible?*

⁹ See the ‘eras of globalisation’ work in IMF Staff Discussion Note: *Geo-economic Fragmentation and the Future of Multilateralism* (January 2023).

¹⁰ Mahan, A.T. *Considerations governing the dispositions of navies* (1905), 143-144

¹¹ Ferguson, N. *The Pity of War* (1999), p.21-23

¹² Lambert, N. *Planning Armageddon* (2012), p.2

¹³ Lambert, N. *Planning Armageddon* (2012), p.2

¹⁴ Zeller, J. *British Maritime Coal and Commercial Control in the First World War: Far More Than Mere Blockade*. *Canadian Military History* 24, 2 (2015), p.41

processed. In effect, the City was *“the world’s bank, the world’s clearinghouse, the world’s greatest stock exchange, the only free market for gold, the chief source of money and credit to facilitate international exchange, and the hub of the global communications network”*¹⁵. Sterling was the world’s preeminent reserve and international exchange currency, and British firms controlled up to 70% of the global cable network underpinning all modern trade and communication¹⁶. Today’s dollar and SWIFT were yesterday’s sterling and global telegraphy network, rolled into a single state, which happened to be *“the Saudi Arabia of 1900”*¹⁷.

The third, the concomitant change in Britain’s own economic makeup and exposure to that new global system - the realisation that *“British well-being depended upon its commerce and transportation being able to move without serious hindrance; any serious disruption to the vast and varied flow of international commerce in any geographical region was predicted to have very serious economic repercussions”*¹⁸. Britain disproportionately profited from global trade and its financing, and commodity prices globally had fallen significantly. By 1900 at least 80% of Britain’s wheat supply came from abroad in a new ‘just in time’ system of shipments - *“the timely arrival of cargoes with the population’s daily bread was a matter of vital necessity”*¹⁹. Between 1870 and 1913 the price differential of wheat in Liverpool went from being 57.6% more expensive than Chicago, to only 15.6%²⁰. On the whole, *“a bigger proportion of the fundamental necessities of life and industrial livelihood was brought from abroad; a wider range of the commodities produced at home incorporated directly or indirectly, a certain amount of irreplaceable imports; and the communities of more and more localities found in their midst some export industry whose fortunes appreciably affected the amount of their sales and incomes”*²¹.

Domestic anxiety arose quickly around Britain’s vulnerability and the navy’s ability to prevent disruption to this new just-in-time system, not helped by the French *Jeune École* movement which concluded France could not meet the Royal Navy in battle but should invest in many smaller modern ships to disrupt its merchant fleet and cripple the British economy. The 1898 ‘Fashoda Incident’²² - opening the mere prospect of a UK-France confrontation in East Africa - sent maritime insurance rates skyrocketing and convinced the Admiralty to consider a plan for trade defence.

Insurgency

¹⁵ Lambert, N. *Planning Armageddon* (2012), p.21

¹⁶ See Winkler, J. *Nexus: Strategic Communications and American Security in World War I* (Cambridge, MA: Harvard University Press, 2008), 17-28, 34-40, 59-60.

¹⁷ Edgerton, D. *The Rise and Fall of the British Nation: A Twentieth-Century History* (2018), p.79

¹⁸ Lambert, N. *Planning Armageddon* (2012), p.25

¹⁹ Minute (4 March 1903) by Battenberg, marked in pencil “Given to the Prime Minister before receiving the Stafford House Committee”, ADM.137/2872, cited in Lambert, N. *Planning Armageddon* (2012), p.25

²⁰ O’Rourke, K. and Williamson J., *Globalisation and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, MA: MIT Press, 1999), 29-55, cited in Lambert, N. *Planning Armageddon* (2012), p.20

²¹ Ashworth, W. *An Economic History of England, 1870–1939* (London: Methuen, 1960), 138; O’Rourke and Williamson, *Globalization*, 2.

²² Wherein a French expedition to take control of an area of the Upper Nile in Egypt was met with a larger British force - a tense standoff ensued, before a French retreat.

Thus began the first effort to understand how a modern global economy functioned. The daunting task fell to Naval Intelligence and a Captain Inglefield²³, who immediately ran into the problem of available data. As the Director of Naval Intelligence (DNI) informed the Prime Minister, very few fundamentals could be answered because *“nothing approaching accurate figures have ever been produced by any responsible authority. Such knowledge would be of the greatest value to the Admiralty, and to the government as a whole”*²⁴. By 1902 Inglefield had been given his own new ‘Trade Division’ and a small staff with which to scour London for data on the maritime plumbing of the global economy. It was Inglefield’s study which *“laid the foundation for the notion that in time of war Great Britain might not be uniquely vulnerable to economic dislocation”*²⁵. His ideas took root among some young officers including a young Maurice Hankey, later to become Britain’s first Cabinet Secretary and de-facto National Security Adviser. But it was the appointment of Admiral Sir John ‘Jackie’ Fisher as First Sea Lord in October 1904, which ensured this new thinking gained a foothold. Among other revolutions in naval warfare, Fisher *“possessed a broader, better informed view of the relationship between sea power and the British Empire’s commercial lifeblood, along with a much more sophisticated understanding of world economics”*²⁶, than most peers. Fisher was close friends with Ivan Bloch’s London publisher.

By 1905 the government faced global crises on multiple fronts²⁷, and Fisher asked the new DNI Charles Ottley to conduct a strategic appraisal of navy operations for trade defence, and of Germany’s vulnerability to economic coercion in time of war. Later Secretary to the Committee of Imperial Defence (CID) - the NSC of its day - the influential Ottley *“wrote enthusiastically and effectively in promoting economic warfare as the cornerstone of British grand strategy...[and]...like Fisher, he possessed what might be termed a commercialist perspective on global dynamics and the application of naval force”*. His subsequent letters and memoranda gave definition to what an economic warfare strategy might entail, for the first time: *“first, that the German economy was vulnerable to disruption; second, that the Royal Navy possessed the capability to isolate Germany from the global trading system; and third, that doing so should produce strategically decisive results”*²⁸. Ottley argued that the CID establish a joint services committee recognising the complexities of the issue.

The recommendation went unheeded, and economic warfare planning remained a largely internal Admiralty matter - debate ensued as to whether the Navy’s plan should be to attack Germany itself, or limit action to its commerce; a departmental historian was consulted regularly on precedent stretching back to the Anglo-Dutch wars of the 17th Century; other issues were considered, like how to deal with the vast sums of German trade proceeding through neutral ports, and how quickly would such measures even work against the German economy? The novelty, or radicalism, of the concept continued to be met with scepticism both within and outside the Admiralty through this period, not just as regards its

²³ He became such an expert on shipping that he later resigned and became the CEO of Lloyds of London.

²⁴ Minute (3 March) by DNI, Captain Prince Louis of Battenberg, marked in pencil “Given to Prime Minister before receiving the Stafford House Committee,” ADM.137/287, cited in Lambert, N, *Planning Armageddon* (2012), p.28

²⁵ Lambert, N. *Planning Armageddon* (2012), p.29

²⁶ Lambert, N. *Planning Armageddon* (2012), p.32, citing Sumida, J. *Geography, Technology, and British Naval Strategy in the Dreadnought Era*, *Naval War College Review* 59, no.3 (2006): 89-102

²⁷ The ‘Morocco Crisis’, in which Germany sought again to drive a wedge between a newly reconciled Britain and France; together with the Russo-Japanese war

²⁸ Lambert, N. *Planning Armageddon* (2012), p.41

efficacy but the as-yet-unexamined international legal and diplomatic ramifications. Many senior commanders resented the notion that the Navy become an enforcement arm of a commercial blockade.

The Army and Navy differed even more violently on the primacy of this new strategy towards blockade, under the new adjudication of the CID, only formed a year before in the spring of 1904 by Prime Minister Balfour. Sir George Clarke, the CID's first Secretary, led a small secretariat and was a strong supporter of the Ottley proposal for a joint services committee, although inter-service territorialism continued to mean this wasn't realised. Clarke even constituted his own informal 'preparedness group' between willing participants in the Army and Navy, but this had its limits and ended with some members being barred from engagement by their superiors. Ottley and Fisher knew their concept of economic warfare was not yet widely supported. They had only begun to scratch the surface of the plans' complexity when, in 1906, an International Peace Conference at The Hague was called on maritime law and the right to disrupt trade in time of war, threatening to curtail Fisher's "*special anti-German weapon*"²⁹ before it even came into being. The United States in particular was pushing for 'freedom of the seas'.

The rest of the decade was characterised by a series of such international conferences³⁰ which elevated discussion and evaluation of the economic warfare concept, not least so the government could know whether or not it was forgoing a special 'anti-German weapon', in accepting curtailments to its maritime rights. The forum for that deliberation was a succession of Prime Ministerially-appointed forums to agree various legal positions for the conferences, but this did not stop Fisher's Admiralty from continuing to develop its own plans in secret. Not long after the first conference was called he directed one of Ottley's deputies to form another secret committee, including a young Maurice Hankey for the first time, to flesh out the options for blockade on Germany. While there is some scholarly dispute over the precise makeup and authorship of the various plans that materialised, Fisher's planners composed upwards of eight different scenarios. As one fellow officer summarised at the time on reading the plans "*it is a historical fact that no war has hitherto been brought to an end by such means as it is here proposed to employ. But on the other hand it must be remembered that the modern industrial situation is unprecedented and the effect of such a blockade as here proposed defies calculation*"³¹. At the conferences, Ottley and Fisher were somewhat successful in preventing a UK position which accepted the immunity of private property from capture in time of war.

By May of 1908 Ottley was promoted to be Secretary of the CID, and his successor Captain Slade played a significant role in finally expanding the Admiralty's engagement in Whitehall, and even with industry. In particular, Slade wanted Germany's dependence on foreign trade properly quantified for the first time, and for its dependence on supply through the Low Countries evaluated. The Admiralty issued a questionnaire to the Foreign Office to distribute across its northern European network, asking local missions to gather as much data and intelligence on German trade routes as possible. In one case, it inadvertently circulated the top secret questionnaire through the German postal system, did not inform the Admiralty

²⁹ Fisher went on: "such is our naval superiority that on the day of war we 'mop up' 800 German merchant steamers. Fancy the 'knock-down' blow to German trade and finance! Worth Paris!". Fisher to Capt. Seymour Fortescue, 14 April 1906, FGDN 2:72, cited in Lambert, N. *Planning Armageddon* (2012), p.66

³⁰ The two international peace conferences at The Hague, and subsequent London Naval Conference

³¹ 'Notes on Attached War Plans', enclosed in file marked Ballard Committee, f.231, ADM.116/1043B2, cited in Lambert, N. *Planning Armageddon* (2012), p.78

of the slip up, and may have led to the German Army's Chief of Staff observing that same year that *"for us, it will be of the utmost importance to have in Holland a country whose neutrality will assure imports and exports. It will have to be our windpipe that enables us to breathe"*³². In general, the Foreign Office responses appeared to take a dim view of the potential hit to German trade, and its already sceptical permanent secretary concluding that it was *"doubtful whether the blockade would in the long run prove really effective"*³³.

The Admiralty disputed the reading of the data, and had long realised *"the difficulty has not been so much to obtain statistics, as to secure correct deductions from the figures which have been available"*³⁴. In parallel it had been seeking to bring in outside advice from Lloyds of London and other statistical experts *"into secret council"*³⁵ for the first time, in order to test their plans. First among these was the CID's long time discreet adviser on economics and trade, Sir Robert Giffen, who is said to have coined 'lies, damned lies, and statistics'³⁶. Giffen had been instrumental behind the scenes in convincing many in Whitehall of the importance of better understanding the global financial system that had built up so rapidly, and speaking at RUSI in March 1908, he warned a war *"would bring upon us, as well as upon the whole community of civilized States to which the system of international credit extends, quite unprecedented calamities and dangers. This would result from the breakdown of the credit system itself and the interruption of international commerce"*³⁷. In other words, an economic shock would not be limited to sectors reliant on foreign trade, and had the potential to bring about the collapse of an entire economy, as some at the Admiralty had hoped - *"Giffen confirmed or rather clarified what Ottley, Ballard, and Slade all had intuitively sensed—that economic warfare was a strategy distinct from an orthodox naval blockade, with a different ultimate aim and targeting different economic mechanisms"*³⁸.

There was to be one more turn of the handle in the government's siloed and disputed effort to consider a new grand strategy of economic warfare, prompted by the Balkans crisis towards the end of 1908 and the very real prospect of war. Asquith would chair the CID himself and the services were invited to present their plans at the obtusely named 'Military Needs of the Empire Subcommittee'. Despite plenty of gamesmanship between the War Office and the Admiralty, the latter presented its paper on 'The Economic Effect of War on German Trade' at its second meeting. That paper, and Fisher's own interventions, were enough to convince members of the CID that such a strategy was worth further exploration. The Committee itself had eventually concluded in favour of focus on a land campaign, but the door to blockade had been left ajar and recognised at the most senior level of government.

Revolution in central government

³² Gerhard Ritter, *Der Schlieffenplan: Kritik eines Mythos* (Munich: Oldenbourg, 1956), 180, as cited in Marc Frey, "Trade, Ships, and the Neutrality of the Netherlands in the First World War", *International History Review* 19, no. 3 (August 1997): 541-62

³³ Permanent Secretary Sir Charles Hardinge speaking in a minute (n.d.), 37070, f.150, FO. 371/673, cited in Lambert, N. *Planning Armageddon* (2012), p.108

³⁴ Memo, "Prepared When Admiral Campbell was HTD", n.d. [1908], ADM. 137/2864, cited in Lambert, N. *Planning Armageddon* (2012), p.109

³⁵ Ibid

³⁶ Giffen, R. *On International Statistical Comparisons*, *Economic Journal* 2, no.6 (1892): 209-38.

³⁷ Giffen, R. *Necessity of a War Chest*, 1330, cited in Lambert, N. *Planning Armageddon* (2012), p.115

³⁸ Lambert, N. *Planning Armageddon* (2012), p.116

Discussion of economic warfare was the spark, and the subsequent test case for, a revolution in central government machinery that is still felt today. Many members of the CID were unsatisfied not just by the conclusions of the Military Needs Committee, but the manner in which it functioned and had overlooked key details and options. Among them, Lord Esher wanted “*the creation of a unified joint staff with executive responsibility for imperial defense, [...and] campaigned for the CID to become more focused upon questions of high (grand) strategy and leave the mundane details to be worked out by the service departments*”³⁹. This would inevitably require the “*subordination of the Admiralty and War Office to a new strategic executive committee, an arrangement that was certain to lead to confrontation with the service chiefs*”⁴⁰.

While agreeing with Lord Esher, the CID Secretary Ottley cautioned that “*until twelve months ago the committee [CID] was still on its trial, and a large section of the political intelligence of the Empire regarded us with grave suspicion. Even now, although we are at last out of the wood, and are “bien-vu” by both the great political parties, the position of this little office is ill-defined and amorphous*”⁴¹. Instead, Ottley proposed that the CID be refocused on mapping those areas of national policy requiring far better coordination of Whitehall across the economic and military communities, prior to war. This would need to include, for the first time, the full membership of civil servants like those from the Board of Trade and HM Treasury, where until then they were only invited as witnesses to the military-dominated committee. The deal would cut both ways, exposing so-called ‘civilian’ and economic policy to interference from national defence objectives. Ottley engaged in a lively correspondence on these ideas with Esher and others for some time. In February 1910 Ottley’s paper on the “future work of the CID” was agreed by Asquith and the CID, including the authority to form technical sub-committees overseeing implementation.

The Desart Committee

By January 1911 Asquith directed the formation of a number of sub-committees of the CID to examine the full breadth of economic issues in the event of war. They were to form the first meaningful example of joint working across Whitehall and an important vindication of this new system of integrated policy making, years before the CID system was validated in the creation of a Cabinet Office. Chief among these sub-committees was one to consider “*the whole question of Trade with the Enemy in Time of War*”. Asquith personally appointed its chair Lord Desart, a CID outsider with expertise in maritime law, and every department with an economic interest was invited to attend. Its work was complemented by parallel committees on the exploitation of ‘Submarine Cable Communications in Time of War’; ‘Press and Postal Censorship in Time of War’; ‘the Internal Distribution of Supplies in Time of War’; ‘the Maintenance of Overseas Commerce in Time of War’; ‘the Insurance of British Shipping in Time of War’; ‘Supplies in Time of War’; and ‘Emergency Powers in War’.

The Desart Committee first met in March and wouldn’t submit its final 475-page report⁴² to the Prime Minister until December of the following year - “*the single most comprehensive document produced by the CID before the First World War*”⁴³. Its final form was hard fought and the product of deep, often angry, arguments between the traditional

³⁹ Lambert, N. *Planning Armageddon* (2012), p.139

⁴⁰ Ibid

⁴¹ Ottley to Esher, 16 October and 18 October 1909, TNA CAB.38/16/4

⁴² CID, 120th meeting, 6 December 1912, TNA CAB.38/22/42

⁴³ Offer, *First World War*, 297, cited in Lambert, N. *Planning Armageddon* (2012), p.157

defence establishment and those concerned with trade and the economy. The inquiry comprised senior civil servants from every department - three represented at permanent secretary level (HM Treasury, Trade, and Customs & Excise) - flanked by a senior group of government lawyers. Many veterans of the preceding decade of economic warfare debate were present, including Ottley and Hankey.

The Committee's work began with intense debate of the theory, more than the practice, of economic warfare. At one end was the Admiralty, whose position was much the same as Ottley's original argument that Germany was vulnerable to blockade, the navy could do it, and to do so would bring about an effective economic shock to compel Germany to sue for peace. The Admiralty deliberately withheld operational details of how this would be done, for fear its actual plan would break international legal norms and undermine wider support for an economic warfare strategy. On the other side of the debate was the Board of Trade's Permanent Secretary, who "*vehemently opposed large-scale state intervention into the workings of the British or international economy. He insisted that the Admiralty's proposals violated every principle of economic theory and, if implemented, very likely would backfire upon Great Britain*"⁴⁴. He produced statistics to debunk the Admiralty's view that it could achieve a sufficient economic shock, that two-thirds of Britain's exports were to Germany, and that Germany could replace those inputs elsewhere. Restricting the trade of neutrals with Germany was considered "*monstrous*" and an "*intolerable interference*"⁴⁵.

By January of 1912 something had to give, and it gave through a mix of procedural skulduggery and a reassertion of leadership from Desart himself to reboot the Committee's work. In an unorthodox intervention, Charles Ottley used his position as Secretary to the Committee and the CID itself, to submit a paper to the Committee which effectively argued it was not its role to evaluate the strategy of economic warfare, but simply the technical means for bringing it about. He reminded them that "*the policy of using the weapon of economic pressure against the enemy is one which has been recognized by the Committee of the Imperial Defence as of great importance*"⁴⁶. In discussion Lord Desart confirmed this and the Committee's only permanent CID member, Lord Esher, reinforced the same in his own memoranda, pointing to the deterrence value of blockade and its potential to ensure a short war.

The Board of Trade and HMT continued to lead a mutiny to this approach, to an extent supported by the Foreign Office, but by February "*Lord Desart asserted his authority as chairman and informed his colleagues that, like it or not, the inquiry would henceforth proceed upon the assumptions that the next war would embroil most of Europe and that the British government of the day would employ some form of economic pressure. The questions before the committee, therefore, were 'how far could it be applied effectively, and how much should we suffer by its use?'*"⁴⁷. The interventions succeeded in turning the Committee's attention reluctantly to three key questions: (i) how to restrict German imports

⁴⁴ Lambert, N. *Planning Armageddon* (2012), p.159

⁴⁵ DC, 4th Meeting, "The Practicability of Prohibiting Exports from the British Empire from Reaching Germany through Neutral Countries", 73., cited in Lambert, N. *Planning Armageddon* (2012), p.160

⁴⁶ DC, Ottley, 'Note by the Secretary', Appendix 14, 381-82, cited in Lambert, N. *Planning Armageddon* (2012), p.161

⁴⁷ Opening remarks by Desart to 6th meeting, DC, 23 February 1912; 82., cited in Lambert, N. *Planning Armageddon* (2012), p.163

through neutral countries?; (ii) how to constrict Britain's own considerable merchant fleet?; and (iii) what could and should be done through the financial sector?

On the restriction of neutral trade with Germany, all agreed it was fundamental to the success of the strategy in theory, but all took a different approach in practice given the geo-political significance of disrupting friendly countries' trade. The PM and CID itself was ultimately invited to intervene on the question and concluded indecisively that it was not against the idea, should the time come. Desart ceased its own line of inquiry thereafter, although made clear this was a vital political decision to take in its final report.

As for restricting the British merchant fleet, on which much of the world depended, the main concern was not that the Admiralty's proposal to restrict it between Germany and neutrals would work, but that it would work too well. The Foreign Office opined that there "*is no precedent for a belligerent Power taking this step in time of war*" and the "*world at large would regard it as a wanton interference with commerce between two neutral States, and as an abuse of the power which the ownership of a large mercantile marine gave us*"⁴⁸, especially the United States. The other issue was whether or not the government should put such a prohibitive power into law before the outbreak of war, or afterwards through an emergency bill. Proponents of the former approach were those who had begun promoting the concept of economic deterrence, and that in the words of Fisher, "*it is a most serious drawback not making public to the world beforehand what we mean by war!*"⁴⁹.

The most difficult and untested issue was the functioning of the international financial system: what might Germany do in the event of war, how could the City of London be protected, and how might financial markets be used to inflict damage on Germany? The Committee assembled an extensive advisory panel of financiers and others from the City of London to explore these questions. The consensus view quickly came in various predictions of economic armageddon, not just in the global financial system's vulnerability to the disruption of war itself, but Germany's ability to paralyse it still further if it ceased remittances to London's credit houses. Perhaps the panel's most alarming discovery was that Britain's high street banks "*in taking advantage of the quarter-century boom in international trade, had extended their balance sheets without raising additional capital in proportion*"⁵⁰. Further, they found that "*the acceptance houses were overleveraged and especially overexposed in German bills, leaving them vulnerable to collapse in the event of a major market panic*"⁵¹. One of its members Sir Felix Schuster pointed out the need to "*keep our credit position as good as possible*" to meet the vast government expenditure required in time of war. Absorbing this testimony, Desart was prompted to distil the dilemma for his inquiry: "*does it not come to this, which governs the whole question we have got to consider—that both [Germany and the British Empire] must suffer stupendously; and then comes the question that underlies the whole of this enquiry, which can hold out longest?*"⁵². The advisory panel would not be drawn on mitigating measures to 'hold out the longest' and unsurprisingly concluded, in one banker's words, that "*our policy should be to interfere as little as possible with international finance, and the business of acceptances, even if the enemy should adopt a*

⁴⁸ DC, "A Note by Mr. CJB Hurst", 13 March 1912, appendix 26, 425-26., cited in Lambert, N. *Planning Armageddon* (2012), p.166

⁴⁹ Fisher to Esher, 25 April 1912, FGDN 2:453-54, cited in Lambert, N. *Planning Armageddon* (2012), p.169

⁵⁰ Lambert, N. *Planning Armageddon* (2012), p.171

⁵¹ DC, Q.99, 105; Q.69, 99, cited in Lambert, N. *Planning Armageddon* (2012), p.171

⁵² DC, Revelstoke Testimony, 19 December 1911, Q.42, 96., cited in Lambert, N. *Planning Armageddon* (2012), p.172

policy of restrictions"⁵³. Desart and his Committee had been persuaded - war would have a "grave" impact and "*damage the whole fabric of British credit*"⁵⁴, and Desart himself apologised to the Prime Minister that he was "*unable to devise any protective or retaliatory measure to meet this danger*"⁵⁵.

As the inquiry concluded "*Lord Desart managed only with the greatest of difficulty to persuade all members of the committee to sign*"⁵⁶, especially HMT and the Board of Trade, who continued to resist the erosion of British business interests for national objectives. HMT held out for four months, and only after substantial revisions was its permanent secretary convinced to sign - "*as a result of his intransigence, large tracts of the economic landscape mapped by the committee, especially in the fields of banking and international finance, were deleted from the final report*"⁵⁷.

Just before Christmas in 1912, the Prime Minister invited Desart to present his findings to an unprecedentedly senior meeting of the CID. Desart opened his presentation by echoing his prescient summary earlier in the year: "*the conditions of trade with the interwoven interests of nations and individuals have created conditions under which no great European war has yet been waged, and history does not afford very much material for our guidance*"⁵⁸. He summarised the Committee's recommendations that all trade with Germany should be stopped at the outset of war, and that would in some key cases require certain neutrals to be co-opted - willingly or unwillingly - into that effort. That many nations including the United States, and merchants, would protest vigorously at this new precedent. That Germany would likely suffer more than Britain, on balance. And that the City of London should be exempted from interference, given the complexities and exposures highlighted. He was said to go off script and present a particularly "*vigorous prosecution of economic warfare*"⁵⁹. Asquith and his Cabinet responded well to Desart's presentation, and after some discussion around the treatment of certain issues like the treatment of neutrals, concluded that the Desart Committee's recommendations be implemented in full, recognising such a strategy would have to be a whole-of-government effort. The Cabinet continued to endorse its economic warfare strategy thereafter in the predelegation of executive powers to give effect to its plan at the outbreak of war, after the then Chancellor Lloyd-George pointed out that it would not have time to debate each measure and tactic in detail. These new powers - including draft Bills, lists of contraband etc - were codified in the CID overall 'War Book' or *Coordination of Departmental Action on the Outbreak of War*⁶⁰ by May 1914.

After what began as a somewhat radical insurgency in Whitehall, it had taken 13 years to turn an abstract idea of exploiting a new globalisation into what a leading authority on this period Nicholas Lambert called "*the cornerstone of British grand strategy in the event of a war with Germany*"⁶¹. The result, and last word, of this period should go to him:

⁵³ DC, Huth Jackson testimony, 92., cited in Lambert, N. *Planning Armageddon* (2012), p.173

⁵⁴ DC, Final Report, 61, 68-69., cited in Lambert, N. *Planning Armageddon* (2012),p.174

⁵⁵ CID, 120th meeting, 6 December 1912, 5, TNA CAB.38/22/42.

⁵⁶ Hankey to Chalmers, 8 May 1912, ff.322-23; Esher to Hankey, 19 July 1912, ff.378-79 (both CAB17/89), cited in Lambert, N. *Planning Armageddon* (2012),p.158

⁵⁷ Hankey to Chalmers, 8 May 1912, ff.322-23; Esher to Hankey, 19 July 1912, ff.378-79 (both CAB17/89), cited in Lambert, N. *Planning Armageddon* (2012),p.158

⁵⁸ Lord Desart on 21 February 1912, see Lambert, N. *Planning Armageddon* (2012), p.138

⁵⁹ Lambert, N. *Planning Armageddon* (2012), p.177

⁶⁰ CID, "War Book, 1914", 30 May 1914, Secret, K-30, TNA CAB.15/5

⁶¹ Lambert, N. *Planning Armageddon* (2012), p.181

"The precise means to achieve the agreed ends were not yet settled. In practical terms, too many politically awkward questions had been sidestepped and nothing had been done to achieve harmony between the departments or to compel their cooperation. Within government circles powerful interest groups remained violently opposed to economic warfare, especially the Treasury and Board of Trade, which could expect the support of business interests as well as the City of London. [...] When war came in August 1914 the deep-rooted antagonisms between the departments resurfaced, causing enormous problems for the British government in the implementation of policy. Yet when war came on 4 August, the Admiralty and the Prime Minister thought a national strategy had been agreed upon and was in place"⁶².

Part 2 (1914–1920)

Global financial crisis

British planners had predicted financial armageddon, but were mistaken in their power to decide when it would be unleashed. The global economy was the first casualty of world war before the first shot had been fired and before Britain had decided to commit itself, in what is still accepted as *"the most extensive and acute global financial crisis ever"*⁶³. It came a fortnight before the outbreak of war, whose management was the preoccupation of Cabinet in the crucial weeks preceding its widely chronicled decisions of 4 August to go to war. Markets had taken Archduke Ferdinand's assassination *"in their stride"*⁶⁴, but Austria's belligerency towards Serbia a month later raised the real prospect of European war by late July. The next Monday, as trading floors opened, a global economic shock began in terms not unlike those anticipated by the Desart Committee, although the speed, scale and magnitude with which it materialised surprised everyone.

It began with a global rush for liquidity, which by the end of the week had forced every major stock exchange in the world to shut; they remained so for six weeks. In the UK an extended bank holiday was called; still its longest to this day. Bank runs loomed in more than 50 territories, and firms began to lay off workers. Bond prices began to fall. Within just five days the managing director of Lazard Brothers surveyed the wreckage: *"before a single shot had been fired, and before any destruction of wealth, the whole world-fabric of credit had dissolved. The Stock Exchange was closed; the discount market dead; the accepting houses unable to obtain any remittances as cover for bills falling due; the liquid assets of the joint stock banks, i.e., their Stock Exchange and Money Market loans, and their very large holdings of bills immobilized at the moment when their depositors were becoming restive; commerce*

⁶² Lambert, N. *Planning Armageddon* (2012), p.181

⁶³ Roberts, R. *The Great Financial Crisis of 1914*, LBMA Alchemist, Issue 71, March 2014.

⁶⁴ Roberts, R. *The unknown financial crisis of 1914*, OUP Blog, 2013
(<https://blog.oup.com/2013/11/unknown-financial-crisis-1914/>) accessed 29/01/2024

at a standstill throughout the world; currency scarce; the Bank of England's resources highly strained. Such was the effect of a universal destruction of confidence"⁶⁵.

Over the course of a fortnight, the Government and the Bank of England intervened to halt the immediate crisis through a series of drastic measures, but its effects continued to be felt long into September after war had been declared. Global trade continued to seize up, and as Cabinet met to decide on its commitment to war in Europe *"the economic world was still crashing down around ministerial ears"*⁶⁶. The Chancellor Lloyd George worried that *"the delicate financial cobweb was likely to be torn to shreds by the rude hand of war"* and Foreign Secretary Grey concurred, even at one point musing that staying out of the war *"might be the only means of preventing a complete collapse of European credit"*⁶⁷. The impact of HM Treasury's intransigence in mapping and planning the financial system in the Desart Committee, undoubtedly constrained Cabinet's ability to appreciate the interplay between the financial crisis and the economic measures it was on the eve of implementing.

"The government has the whole situation well in hand - at least it thinks it has!"⁶⁸

Despite years of planning, recent revolutions in central government organisation, and the pre-delegation of powers under the 'War Book', it was the preoccupation with financial armageddon, not the prosecution of economic warfare, that framed Cabinet's final commitment to war with Germany on August 4th 1914. Foreign Secretary Grey's famous speech to Parliament the day before hostilities broke out, summarised Cabinet's interpretation of Britain's economic quandary: *"we are going to suffer, I am afraid, terribly in this war whether we are in it or whether we stand aside. Foreign trade is going to stop, not because the trade routes are closed, but because there is no trade at the other end. Continental nations engaged in war - [with] all their populations, all their energies, all their wealth, engaged in a desperate struggle - they cannot carry on the trade with us that they are not carrying on in times of peace, whether we are parties to the war or whether we are not...no country in Europe will escape and from which no abdication or neutrality will save us"*⁶⁹. Cabinet approved the creation of a committee to deal with domestic food distribution, partly out of fear over *"revolution in the north"*⁷⁰ as unemployment took hold. In Lord Esher's mind the economic situation was, above the naval and military questions, *"the chief fear that haunts ministers"*⁷¹.

By 4th August two parallel realities were developing in Whitehall. Cabinet had until then only committed itself in vague terms to a 'naval strategy' or, more cynically, *"the blockade and the protection of commerce would be a cheap and honourable discharge of the nation's obligations"*⁷². The Army and its lobby felt sidelined, and indecision over its deployment in Europe forced Asquith to convene a 'Council of War' to debate the question, which ran over many days. At the same time, the CID Secretariat had duly issued its War

⁶⁵ Brand, R. "Lombard Street in War" (published in the *Round Table*, October 1914), cited in Lambert, N. *Planning Armageddon* (2012), p.189

⁶⁶ Lambert, N. *Planning Armageddon* (2012), p.191

⁶⁷ Grey to Bertie, 31 July 1914, BD, 11:367, cited in Lambert, N. *Planning Armageddon* (2012), p.193

⁶⁸ President of the Local Government Board writing to his wife, 4 August 1914, f.68, Samuel Mss., cited in Lambert, N. *Planning Armageddon* (2012), p.199

⁶⁹ HC Deb, 3 August 1914, vol. 65, Sir Edward Grey, c. 1823., cited in Lambert, N. *Planning Armageddon* (2012), p.198

⁷⁰ Esher Journal, 3 August 1914, 4, ESHR 2/13., cited in Lambert, N. *Planning Armageddon* (2012), p.199

⁷¹ Esher Journal, 3 August 1914, 4, ESHR 2/13., cited in Lambert, N. *Planning Armageddon* (2012), p.199

⁷² Hazelhurst, C. *Politicians at War* (1971), p.103

Book with all its pre-delegated powers to the Admiralty and other departments to begin prosecuting the economic war discussed and endorsed by Cabinet the year before in Desart's report. Draft proclamations from Desart's time were published in the *London Gazette* prohibiting various economic interactions with Germany henceforth, at the heart of which would be a new system of Contraband Control of global trade administered by the Admiralty and a Privy Council Committee (as envisioned in Desart's report). Churchill as First Lord of the Admiralty had built a 'war room' - conceived in secrecy over many years - able to plot every major military and merchant vessel in real time globally, updated more than twice a day, built on a tremendous new investment in intelligence gathering, data technology, and a handsome payment to Lloyds of London for cooperation in the system. Lloyds had gone further, the day before hostilities began, in advising all ships globally that war was coming and to stop at a British port for further instructions. From there, officials were able to seize vessels deemed contraband, withhold 'new' insurance for onward passage by claiming the original voyage had come to an end, or otherwise frustrate any shipping they judged at risk of making it to Germany. Within a week of war, all German merchant shipping - the world's second largest fleet - was either captured, confined to the Baltic or stuck in neutral ports⁷³, including a large proportion in America.

The successful execution of the Admiralty's strategy meant it quickly ran into resistance on two fronts - it engaged the unresolved question of Britain's international legal position on the freedom of the seas and belligerent rights, developed some years ago at The Hague and elsewhere; and it quickly invited the protest of neutral countries, chief among them the United States. The Foreign Office bore the brunt of this, but there was wider disquiet in Whitehall too, for example in how the Admiralty was defining contraband trade and its impact on global supply chains and the domestic economy (particularly in coal).

The whole question of economic warfare was therefore brought back to the Cabinet for adjudication on the 13th August, in a mammoth session which lasted until 21st August; this despite the Prime Minister and Cabinet's most senior ministers being present at the decisive CID meeting with Lord Desart 20 months earlier. As well as being "*one of the most important*"⁷⁴ Cabinets of the entire war, it was also "*exceptionally bad-tempered and punctuated by frequent threats of resignation*"⁷⁵. On hearing the Admiralty's strategy afresh, many junior members (not present at Desart's CID) were outraged. The Prime Minister himself was said to be worried about upsetting Holland and the USA. Having nearly lost his government to a split Cabinet over the war decision itself, Asquith again kicked the disagreement into a newly formed committee on blockade - *the Enemy Supplies Restrictions Committee* (ESRC). It continued to deliberate over the best means of working with Holland to restrict supplies to Germany but by 14th August the Cabinet were coalescing around a more permissive policy: trade resumed with Denmark, Holland and Norway; and contraband lists and other demands on traders were relaxed. By 20th August Cabinet had agreed a new Order-in-Council summarising its new position on economic warfare, but it was so open to interpretation that many departments continued to read it differently. The treatment of Holland remained unresolved, and the Foreign Office and Admiralty's disagreement over it was the final straw for Asquith and his senior Cabinet, having tired of judging technical issues of blockade. It established another steering group to take charge of the whole question - *the Coordinating Committee on Trade and Supplies* - led by a sanctions hawk, while

⁷³ "Notes by Sir M. Hankey", October 1914, ff.6-7, CAB.1/11., cited in Lambert, N. *Planning Armageddon* (2012), p. 212

⁷⁴ Lambert, N. *Planning Armageddon* (2012), p.216

⁷⁵ Lambert, N. *Planning Armageddon* (2012), p.218

simultaneously appointing a new sanctions sceptic in charge of the original Privy Council Committee in charge of implementing the licences and other orders. Such mismanagement, and prioritisation of Cabinet unity, meant that the *"aggressive implementation of economic warfare - whether one dates it from the Admiralty's activation of the war room system on 1 August, the issuing of royal proclamations on 5 August, or the establishment of the ESRC on 13 August - had lasted for a grand total of one day at least or two weeks at most"*⁷⁶.

The unravelling of blockade

By the end of 1914 the very problems that the CID had been established to avoid were running out of control - *"the Treasury was preoccupied by managing the ongoing financial crisis and trying to resurrect global trade; the Admiralty was still trying to implement its economic warfare policy over the mounting objections of the Foreign Office; [and] increasingly the Board of Trade, Colonial Office, and Board of Agriculture asserted the necessity of allowing trade to reestablish itself and business to resume as usual"*⁷⁷. Communication between departments was woeful, and misinterpretation over grand strategy persisted. To make matters worse, what remained of the blockade continued to push London and Washington into serious confrontation over the passage of neutral shipping to Europe, and more.

The US was still in the grips of its own financial crisis, the dollar was then a second-class currency, and it depended greatly on earning foreign currency through its export trade to Europe. Since the German fleet had been frozen at the outset of the war, various schemes were being pursued in the US and elsewhere to purchase or re-flag those ships for re-use by American and other merchants, in some cases raising the prospect of the proceeds returning to Berlin. President Wilson framed the importance of the exercise as existential to ensuring American harvests do not *"waste in the warehouses"* or *"rot in the fields"*⁷⁸. The US government even considered a state-run shipping company of re-flagged German ships. While parts of Whitehall - not least the Admiralty - were sent into apoplexy, the Foreign Office prioritised the maintenance of good relations with the US and even proposed certain compromises to it. But the Foreign Office was isolated, and the state-run company proposal prompted the government to inform the US that any re-flagged or purchased ships were fair game. One particularly egregious example was the Standard Oil Corporation's re-use of 25 German oil tankers, many of which were subsequently seized or harassed by the British Navy well into the middle of the war. But the US could be forgiven for misunderstanding the British position too - in some cases the Board of Trade itself was found to have been happily approving the re-flagging of British vessels for similar purposes, in some cases against its own government's proclamations.

Something had to give, and for fear of deeper confrontation with the US, the Foreign Office and Admiralty were induced to consider alternate options for achieving the ultimate aim of constricting trade to Germany. The Admiralty considered minefields off the coast of the Low Countries, but the Foreign Office's plan was the one that took hold - a scheme which flipped the focus towards limiting European demand, not American supply. In many ways this was the beginning of the end for the Admiralty's all too successful version of economic warfare, as Desart had predicted, and towards a more diplomacy-driven

⁷⁶ Lambert, N. *Planning Armageddon* (2012), p.223

⁷⁷ Lambert, N. *Planning Armageddon* (2012), p.236

⁷⁸ President Wilson in private session with Congressional leaders. Link, A.S. *Wilson* (1968) 3:83-85., cited in Lambert, N. *Planning Armageddon* (2012), p.242

campaign which would require an entirely different administration to Churchill's shipping war room.

Enforcement challenges

The Foreign Office plan was an acceptance of the need to balance wider equities, macroeconomic stability, and allied unity with a purer prosecution of an economic war, accepting the dilution of impact and enforceability that came with it. But it was also a plan which had been considered by Desart's Committee and ruled unenforceable because it focused on interdicting millions of cargoes, not thousands of ships. The Foreign Office had surmounted this by arguing that given most neutral trade with Germany was funnelled through Rotterdam, enforcement efforts could be focused there.

This plan ran into immediate enforcement challenges recognisable to any modern sanctions enforcement body. German trade had been diverting through Scandinavia, not the convenient bottleneck of Rotterdam. While bringing significant efficiency and cost gains to global trade, the new system for financing and contracting of global shipping meant it was much harder to ascertain the ultimate ownership of cargoes. Fraud skyrocketed, and most significantly, the prices paid on the German market created a tremendous incentive for neutral and British merchants to reach it. Take the metals market - by the end of 1914 *"the price of Nickel in Berlin was double that quoted on the London metal exchange; aluminium was triple; copper and antimony were quadruple"*⁷⁹. To aggravate matters neutral countries began to classify their official statistics and the US launched a scheme to keep all new shipping contracts confidential for 30 days to frustrate enforcement. The Navy, despite Foreign Office's minority in objecting in Whitehall, launched operations again on American shipping, causing Washington to declare a trade embargo of Britain, hastily diffused shortly thereafter between foreign ministries. Two less tactical considerations had also begun to weigh on the Cabinet. Acceptance that the war would be a long, not short one, raised considerable economic challenges which needed to be addressed, in balancing labour force and army recruitment, in financing the war itself, and in global food price and supply. And as sanctions began to bite, how much collateral damage were politicians ready to accept on their own economies? A UK-France sanctions coordination meeting in late 1914 was dominated by *"bickering over which strategic resources should be exempted on the grounds of special interest"*⁸⁰. British industry, at first hopeful at the prospect of replacing German market share in key sectors off the back of British sanctions, soon lamented the challenges of doing so easily or quickly.

Most fatal to effective enforcement was the ongoing invisibility of financial and ancillary services activity supporting German trade, in the City of London. Licencing of goods trade was an accepted burden on business, but the vetting of financial agreements, insurance and other paperwork was unheard of. While the government concluded that, in large part, the City was not willingly supporting German trade, it had no system for telling it what information it now required, and what compliance action the City itself should take.

Towards a 'War Trade Department'

By the first week of 1915 the Prime Minister asked Maurice Hankey, who had summarised many of these issues in memoranda over Christmas, to investigate and

⁷⁹ ESRC, 25th Report, 25 November, ADM.137/2988., cited in Lambert, N. *Planning Armageddon* (2012), p.276

⁸⁰ Lambert, N. *Planning Armageddon* (2012), p.341

recommend changes to Cabinet. He did so in six days⁸¹, confirming the woeful lack of Whitehall coordination and unacceptable volume of ongoing British trade with Germany. London “was awash”⁸² with commercial data, scattered across departmental silos, and the government’s censorship of telegraphy “were harvesting unexpectedly bountiful evidence of contraband”⁸³. The Export Committee was drowning in “over 900 [applications] a day”⁸⁴ and, unable to properly scrutinise them, was issuing licences “without due regard” and “without full knowledge”⁸⁵ of the recipients. Hankey’s proposed solution was a central clearing house for government, endowed with an improved visibility of, and capability to analyse, economic intelligence. The clearing house idea enjoyed wide support across Whitehall, including the Foreign Office which had recently established its own new ‘Contraband Department’ to better organise its blockade efforts⁸⁶.

By mid-January the CID met to agree Hankey’s recommendations including “under a cabinet minister a new government agency - complete with a statistical unit - to serve as ‘a Clearing House for all war commercial information’”⁸⁷. This new ‘Trade Clearing House of the War Trade Department’ (WTD) was, at least in Hankey’s view, to sit in the Admiralty, but the Prime Minister altered Hankey’s proposal in two key respects. First, he put the WTD in HM Treasury, reporting directly to him, recognising its twin role in the financial system that underpinned global trade, and the domestic economy. Second, he moved the granting of export licences to the WTD for the same reasons, among others that can only be guessed. Crucially however, the WTD did not have executive or organising authority over regular departments on matters of blockade - ultimate coordination still remained in the fragile CID structure. Together with the Foreign Office’s Contraband Department, the Prime Minister had begun laying the foundations of a larger economic warfare organisation that was still a year away.

Events continued to overwhelm these best efforts at reform in March, when following the outbreak of the new German U-Boat campaign on British merchant shipping, the Government was induced into a retaliatory Order-in-Council which increased the severity of its economic blockade, including once again, on neutral shipping. Reviving the prospect of confrontation with the United States, the Foreign Secretary interpreted his role as ensuring a “maximum of blockade that could be enforced without a rupture with the United States”⁸⁸ (which by then was essential to European munitions supply chains). As the old shipping altercations began to raise their head again, President Wilson was braced to retaliate when the sinking of the Lusitania in May caused him to pause any retaliatory action.

⁸¹ Hankey, “The Coordination of the War Arrangements for Trade Restrictions”, &c.,” 13 January 1915 (CID 203-B), TNA CAB.42/1/15

⁸² Lambert, N. *Planning Armageddon* (2012), p.345

⁸³ *Ibid*

⁸⁴ Hankey, “The Coordination of the War Arrangements for Trade Restrictions”, &c.,” 13 January 1915 (CID 203-B), TNA CAB.42/1/15, paragraph 10.

⁸⁵ *Ibid*

⁸⁶ The Contraband Department quickly became the Foreign Office’s largest department. See Dehne, P. ‘The Ministry of Blockade during the First World War and the Demise of Free Trade’ (2016) *Twentieth Century British History*, Vol.27, No.3, p.337

⁸⁷ Lambert, N. *Planning Armageddon* (2012), p.348

⁸⁸ Viscount Grey of Fallodon (Sir Edward Grey), *Twenty-Five Years: 1892-1916*, 2 vols. (New York: Frederick Stokes, 1925) 2:107., cited in Lambert, N. *Planning Armageddon* (2012), p.420

Meanwhile the WTD was getting to grips with the modern challenges of enforcement and compliance. Within six months its staff had quintupled to 145 people⁸⁹. Its statistical bureau had spent months gathering data sets from every conceivable source in and outside government, before concluding it needed to build a new model from scratch, issuing pro-formas to customs, foreign embassies and others for the right data. It grappled with how to build compliance cooperation with the City, taking four months to decide on a consistent set of asks of financial services, even only then "requesting" not "requiring" the information. It struggled to get qualified staff in from other departments, and what staff it already had were overwhelmed by the notifications generated by industry - the Retaliatory Order-in-Council meant licence numbers jumped again from 900 to 1,600 a day; a total of 66,000 had already been issued since the outbreak of war⁹⁰. The WTD's only response was to wave through the licences until its administration could cope, causing a temporary explosion in European trade much to the Board of Trade's delight. The unenviable head of the WTD - by then the source of considerable personal attack in Cabinet - threatened resignation if the political direction and coordination of blockade was not improved on (again). He complained to the Prime Minister of too many cooks "stirring the same broth"⁹¹.

The WTD's appeals to Asquith coincided with a new coalition Cabinet by the end of May, which came with it a re-appraisal of grand strategy. Within this included the question of blockade, and the imminent imposition of contraband measures on the most politically sensitive of American exports to Europe - cotton. During a lively debate on whether to drop or double-down on the blockade, Asquith came down decisively on the latter:

"There remains to be considered the result of economic and financial attrition. I do not think that we shall starve the Central Powers into submission. They are too self supporting to enable us to achieve our end that way; but the financial difficulties both of their Governments and of the commercial and industrial interests may bring them to their knees before the military force is exhausted. But if we are to wear the Central Powers down by economic and financial attrition we must be able ourselves to 'stay the course' longer than they can, and that is why I believe that finance is going to settle the result of this war just as much as arms, and in the value of small economies as well as of big ones".⁹²

But the threat of US retaliation continued to poison an otherwise improved system, and a clear statement of intent from the Prime Minister. For example the Foreign Secretary was considering a proposal to reverse the British blockade and commit to the US to prosecute a new campaign on an international basis more agreeable to American interpretation of freedom of navigation and trade.

The main voice of pragmatism to break the persistent impasse in the implementation of an effective blockade was the rising star of the Foreign Office, Lord Robert Cecil. His proposal was to effectively triage the blockade's focus on those essential materials to Germany's military campaign, and accept a continuation of trade in luxury goods and other items superfluous to its capacity to wage war. He also supported a proposal from the soon-to-be Chancellor of the Duchy of Lancaster, Edwin Montagu, for the establishment of a full

⁸⁹ TNA, FO 382/470/136095A, confidential memo, 11 September 1915, cited in Mulder, N. *The Economic Weapon* (2022). p.37

⁹⁰ Carless Davis, *History of the Blockade* (1920), p.122.

⁹¹ Lord Emmott to Grey, 7 May 1915, f.552, FO.800/102., cited in Lambert, N. *Planning Armageddon* (2012), p.388

⁹² Personal letter to the Minister of Agriculture, 26 July 1915, ff.36-39, Selborne Mss. 80., cited in Lambert, N. *Planning Armageddon* (2012), p.441

'ministry of blockade': "what is wanted is unity of direction and responsibility" and the "undivided attention of a cabinet minister"⁹³. While Cecil's policy proposal did gain traction, the proposal for a ministry did not. Asquith's predilection for deferring issues to a committee was now being satirised by his own Cabinet colleagues, but his decision was to, for one last time, reconstitute a new *War Trade Advisory Committee* (WTAC), to broker cross-Whitehall agreement of economic measures. The key sanctions departments remained implacably opposed to a separate ministry, and yet despite a few administrative advances, the WTAC remained primarily a lightning rod for political indecision, much like the committees it had replaced.

"The Blockade Farce"⁹⁴

The persistent chaos and confusion in British administration of blockade was not lost on the public, press, industry, or Britain's allies. As a Times Editorial put it:

*"Two questions which are agitating the public [...]. Here we have a notorious – under present conditions it is an inevitable – division of work between the Admiralty, the Foreign Office, the Board of Trade, and a series of Committees constituted ad hoc. They are trying between them to carry out a policy which has only lately taken any sort of coherent form; and they are obviously carrying it out with a great deal of friction and with many conspicuous failures in execution. [...]. Great leaders of commerce are coming forward with revelations that unsuspected and most valuable stores are reaching the enemy. It is a situation which clearly needs drastic bandling at once, and, without going into the details here, we ascribe it entirely to two main faults in the central organisation. The Government have never really thought out what they want to achieve; and they have never succeeded in creating a single authority to carry out their policy"*⁹⁵.

Privately the Government was also under attack from its closest ally France. By late summer at an Anglo-French sanctions conference the French government appealed to Asquith to sort out the situation once and for all. As one WTD official - later the blockade's official historian - wrote: "we alone of the Allies were in a position to use the economic weapon with any great effect against Germany; and our Allies were insistent that we should spare no efforts and no sacrifices to make that weapon as efficient and intimidating as possible"⁹⁶. The criticism in Parliament was no less severe, to such an extent that Lord Cecil advised the US Ambassador that "if a ballot were taken in the House of Commons, on the question of whether they had confidence in the present Government, there would be an overwhelming majority against the Government"⁹⁷. Perhaps it was Asquith's last ditch attempt to win over the press, in inviting upwards of 60 editors and proprietors of national

⁹³ Letter from Cecil to Grey, 12 January 1916, f.15, FO. 800/96., cited in Lambert, N. *Planning Armageddon* (2012), p.489

⁹⁴ The title of a series of editorials in *Morning Post*, 17-19, 27, and 28 January 1915, cited in Lambert, N. *Planning Armageddon* (2012), p.488

⁹⁵ "Indefinite Responsibility." *Times*, 17 Jan. 1916, p. 9. *The Times Digital Archive*, link-gale-com.ezproxy-prd.bodleian.ox.ac.uk/apps/doc/CS151324209/TTDA?u=oxford&sid=bookmark-TTDA&xid=f69c3b97. Accessed 2 Mar. 2023

⁹⁶ TNA: PRO, BT 60/2/1, H. W. Careless-Davis, 'History of the Blockade', 124-41

⁹⁷ Letter from Cecil to Ambassador Spring Rice, 25 February 1916, f.135, FO,800/196, cited in Lambert, N. *Planning Armageddon* (2012), p.495

and local newspapers to 10 Downing Street for “a straight plain talk”⁹⁸ in the new year of 1916, which convinced the Prime Minister that something more drastic was now required.

Ministry of Blockade

On the eve of Cabinet in February the Foreign Secretary conceded to Asquith that “the confusion and want of guidance and policy in dealing with Contraband has reached a point at which I can no longer be responsible for the relations with neutral countries”⁹⁹. The next day, Cabinet approved the establishment of a Ministry of Blockade, under Lord Robert Cecil, to “coordinate the work of the War Trade Department (WTD), the Contraband Department of the Foreign Office and of all the different committees dealing with commercial questions”¹⁰⁰. Crucially, this new Minister for Blockade would have the power to “impose coherence upon government policy and, when necessary, arrogate the authority of the established departments of state”¹⁰¹. The Ministry subsumed every major department and committee involved in the blockade hitherto, into a single entity, under a civilian authority which, partly due to Cecil's own relationships, “stabilised the relationship between civilian authorities and Britain's armed services”¹⁰². Cecil was among other things a very able communicator, effective at diffusing media and neutral country criticism of the blockade¹⁰³ - “nine-tenths of my efforts when I was in charge were directed either to explaining to neutrals and others that what we were doing was perfectly justifiable, or suggesting that at any rate they ought not to object”¹⁰⁴.

The Ministry's staff worked quickly to achieve what Hankey's original ‘Clearing House’ never realised, and succeeded in scouring British operated telegraphy and other networks to establish the nodes involved in maintaining German trade. Within weeks of the Ministry's establishment it was able to publish the first ‘Statutory Lists’, updated until the end of the war, blacklisting the foreign entities that Britain had designated as enemies, refusing them and any associates access to the British financial and shipping system. The next month, the Ministry was able to grant its first general licence, or ‘Navicert’, enabling trusted merchants to pass through the Admiralty's blockade easily. This measure made significant inroads to improving relations with the USA, although it did not stop the Ministry from operating a secret Statutory List or ‘watch list’ for US shipping, while investigations were underway¹⁰⁵. Neutral countries in Europe were compelled to sell certain goods to Britain, or else face restrictions on their other trade if those goods went to Germany¹⁰⁶. The Ministry went further by March, establishing a “powerful energy control mechanism based on British-owned and British-

⁹⁸ “The blockade + Restriction of Trade with Neutral Countries,” Tuesday 25th January 1916, 17418, FO.382/1099, cited in Lambert, N. *Planning Armageddon* (2012), p.494

⁹⁹ Letter from Grey to Asquith, 15 February 1916, f.408, FO. 800/100, cited in Lambert, N. *Planning Armageddon* (2012), p.496

¹⁰⁰ Memorandum signed HHA, 16 February 1916, f.409, FO.800/100; Harcourt, cabinet notes, 16 February 1916, Ms.Dep. 6231, cited in cited in Lambert, N. *Planning Armageddon* (2012), p.496

¹⁰¹ Lambert, N. *Planning Armageddon* (2012), p.496

¹⁰² Dehne, P. ‘The Ministry of Blockade during the First World War and the Demise of Free Trade’, (2016) *Twentieth Century British History*, Vol.27, No.3, p.342

¹⁰³ Dehne, P. ‘The Ministry of Blockade during the First World War and the Demise of Free Trade’, (2016) *Twentieth Century British History*, Vol.27, No.3, p.343

¹⁰⁴ Lord Cecil in House of Lords Debate on ‘Economic Warfare’, Volume 115: debated on Wednesday 17 January 1940

¹⁰⁵ Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022) p.43

¹⁰⁶ See Osborne, E.W. *Britain's Economic Blockade* (2004) Chapter 6

supplied bunker coal all over the world"¹⁰⁷, whereby all merchant shipping had to submit to inspection as the condition of re-supply. Later, the Ministry also developed a de-facto 'Whitelist', or 'Form K', listing trusted traders in neutral countries that British merchants and manufacturers could do business with. The administration of the scheme ensured British Consulates regularly exchanged with local markets, and it created a large disincentive for firms to trade with those without a Form K¹⁰⁸. Altogether the change in fortunes had been remarkable and decisive.

Last but by no means least, the Ministry's creation enabled the "uniting [of] allied blockade efforts" and "the creation of stable intergovernmental institutions that directed a truly allied economic war, led by the British ministry"¹⁰⁹. French relations improved, and Cecil's leadership in the coming year ensured, even after the USA's entry into the war, that Britain chaired the powerful 'Allied Blockade Committee' and 'Allied Maritime Transport Council'¹¹⁰. These structures enabled, among other things, the British financing, often through New York, of the French scheme for a 'Committee for Foreign Purchases' whereby key commodities were "preclusively purchased" from global markets, and depriving Germany of access¹¹¹.

Financial sanctions

For all the considerable innovations and improvements to blockade, perhaps the biggest quantum leap of 1916 that still echoes today was the invention of the financial sanction. HM Treasury had been recording significant wire transfers from New York to European Banks, as one minute recorded: "Dutch and Scandinavian banks are putting through business of incredible magnitude. Small banks in places like Amsterdam, Rotterdam, Copenhagen, Christiania, Bergen, Malmö, Trondjhem and Stockholm put through as much business in a day as they would in a month of normal times. There is no other basis possible for all this finance than trading with Germany"¹¹². On this basis, and the instigation of financiers outside, the Ministry created a new 'Finance Section' with one such financier at its head, charged with recruiting bankers and others from the top institutions to develop methods for interdicting suspect transactions.

Itself a small section of the Ministry, the finance section exploited the fact that trades were effectively carried by post or telegram, and began to place the burden of enforcement on financial institutions themselves. By May 1916, those institutions were compelled to sign guarantees to the effect that accounts would not facilitate "any business which will in any way, either directly or indirectly, assist or be for the benefit of an enemy of Great Britain or her allies". The Ministry's direction went further by clarifying that "by enemy we mean not merely the government of a country at war with Great Britain or her allies, but we include also any person or firm of enemy nationality and in addition any person or firm on

¹⁰⁷ Lambert, N. *Planning Armageddon* (2012), p.43., citing Osborne, *Britain's Economic Blockade*, p.104-105

¹⁰⁸ TNA: PRO, FO 505/367, FTD No.24 to Innes, 8 March 1918

¹⁰⁹ Dehne, P. 'The Ministry of Blockade during the First World War and the Demise of Free Trade', (2016) *Twentieth Century British History*, Vol.27, No.3, p.344., citing David Stevenson, *French War Aims Against Germany, 1914-1919* (Oxford, 1982) 35.

¹¹⁰ Osborne, *Britain's Economic Blockade*, 175. James Arthur Salter, *Memoirs of a Public Servant* (London 1961), 113-22

¹¹¹ MAE, Blocus 1914-1920, Box 266, A 378-1 Borderau d'Envoi, Comite R, 1 January 1917

¹¹² TNA, FO 902/38, Weekly Circular of the War Trade Department, 24 January 1916, f.116

the Statutory Lists published by His Majesty's Government"¹¹³. The threat of excommunication and such an expansive interpretation of jurisdiction and scope meant, at a stroke, the government was able to create a menacing spectre to ensure compliance from financial firms. The Ministry supplemented this order with another, requiring certain UK incorporated banks to report all transactions from neutral countries, weekly¹¹⁴. This brought with it a secondary benefit of achieving a remarkable inventory of all global trade, more accurate and timely than previous efforts to collect data in-country and elsewhere.

The Ministry was able to internationalise this already powerful new sanction through the inter-governmental system it had established with the French, and soon enough, the USA. Between control of the banking systems in Paris, New York and London, the allies were able to begin to dismantle the subterranean network of remaining German trade, especially through South America, which had gone undetected until then through foreign subsidiaries and correspondent banks.

End game

By the beginning of 1917 the Ministry presented a paper to Cabinet, noting that "*all the evidence available tends to show that, with some minor exceptions, no goods coming from overseas are getting through to Germany*"¹¹⁵. The Government's new system, tools and growing inter-governmental coalition was functioning in a way that worked with the grain of the modern global economy and political reality, that the Admiralty's all too successful but blunt economic weapon had not. The precise extent of the blockade's contribution to German capitulation is outside the remit of this paper and subject of ongoing scholarly debate, but it was decisive, and leadership of the economic campaign on Germany was always held among the chief contributions of Britain in World War One. But the Ministry of Blockade and its key protagonists in the CID were already turning their attention to more strategic issues of economic statecraft, and the future.

The humanitarian impact of the blockade on Germany was appalling, so much so that, as Nicholas Mulder has argued, Lord Cecil and other sanction luminaries thought the deterrence of that horror could be instrumentalised to uphold a new post-war security order - an economic weapon of last resort. Sanctions were to be the enforcement arm of the new League of Nations. Others had peace negotiations on their mind, hoping sanctions relief would prove a first rate guarantee of success after armistice. At home, the Ministry itself recognised that it might be asked to help "*the British Government prepare for a post-war continuation of at least part of its wartime mission, setting up policies and institutions that undermined the free trade mentalities of establishment Whitehall*"¹¹⁶. For example some hoped the 'Form K' system would endure as an instrument of trade advantage, supported by a wider and ongoing system for commercial intelligence gathering and partnership between state and business. Towards the end of 1917, Cecil himself negotiated the

¹¹³ TNA, FO 902/38, "General Guarantee 'A'", Ministry of Blockade, f.138

¹¹⁴ TNA, CO 323/714/86, Form M.B.I and M.B.II, Comptroller, Finance Section of the Ministry of Blockade, 29 August 1916, ff. 525-528

¹¹⁵ TNA, CAB 1/22, Cabinet Memorandum in Regard to the Present Position of the Blockade. 1 Jan 1917, p.1

¹¹⁶ Dehne, P. 'The Ministry of Blockade during the First World War and the Demise of Free Trade', (2016) Twentieth Century British History, Vol.27, No.3, p.350

formation of a proposal to Cabinet for a postwar Department of Overseas Trade, to do exactly that¹¹⁷.

Part 3 (1920–1939)

Learning the lessons

The focus of this next part of the paper will be on the internal efforts of the British state to reflect on its wartime experiences of blockade, that its first Cabinet Secretary Maurice Hankey would later describe as serving “*to illustrate how public business ought not to be conducted in such grave matters*”¹¹⁸. Plenty has been written on Britain's wider policy legacy of its wartime experience, particularly with reference to the development of the League of Nations (Mulder et al.) or Britain's post-war trade policy and machinery (Dehne et al.). These developments serve as important context to the British Government's efforts to learn the right lessons. Comparatively little has been written on Britain's long and deep period of internal retrospection on its invention of economic weapons, and how that improved its capacity to conduct that activity into the interwar period and beyond. Of the existing scholarship that does exist on the topic, credit must go to Orest Babij's 1997 paper on the work of the CID after the war¹¹⁹.

While the CID itself had been in suspension since 1916, many sub-committees continued to operate for various purposes, including the 'Coordinating Committee of the CID'¹²⁰. In February 1920 it “*appointed several specialist sub-committees to examine various aspects of British defence organisation during the Great War*”¹²¹. Its broad purpose was “*to overhaul the experiences of the late War over a wide range of subjects while memory was still fresh*”¹²².

On June 8th 1920 the 'Trading, Blockade and Enemy Shipping Committee' began, under Foreign Office chairmanship, what would become its landmark three-year inquiry into the blockade experience¹²³. It drew membership from across the most experienced officials of the blockade, including the Treasury, Admiralty, Board of Trade, War Office, Customs & Excise, and the India Office. Its Chair opened its first meeting by suggesting its work should be to “*review the departmental machinery for carrying out the policy adhered to in the past with a view to improving its efficiency and rapidity. If then, in their investigation of the question, the need of any important alteration in policy was disclosed it would be necessary*

¹¹⁷ Cmnd 8715, 'Memorandum by the Board of Trade and the Foreign Office with respect to the Future Organisation of Commercial Intelligence', 1917

¹¹⁸ Lord Hankey, *The Supreme Command* (1961), cited in Lambert, N. *Planning Armageddon* (2012), p.371

¹¹⁹ Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. 1997

¹²⁰ D'Ombrain, N. *War Machinery and High Policy: Defence Administration in Peacetime Britain, 1902-1914*. 1973

¹²¹ Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. 1997, p.2

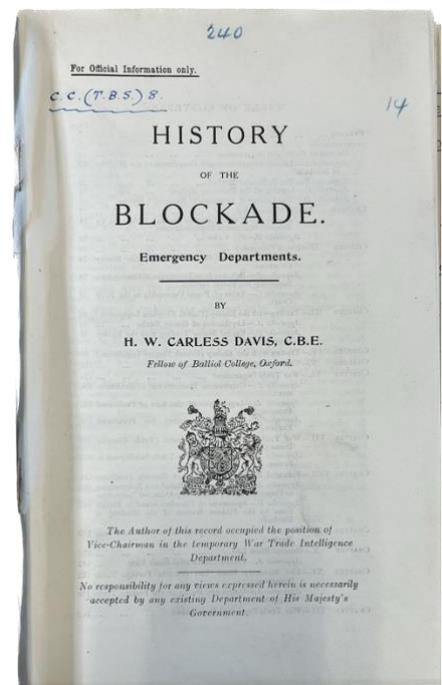
¹²² PRO, CID 938-B, CAB 4/18, Advisory Committee on Trading and Blockade, Fifth Annual Report, Covering Note by Chairman, 29 April 1929

¹²³ TNA CAB 15/21, p.130. Minute of the 2st meeting of the Trading, Blockade and Enemy Shipping Committee, June 8 1920

to refer the matter to the coordination committee. In order to consider fully the question of machinery he thought it would be necessary to have a short history of the blockade from a general point of view which would show the administrative difficulties which arose in the late war"¹²⁴.

As luck would have it, a Foreign Office veteran of the blockade - come department historian - had recently finished a definitive history of the blockade, H.W. Carless Davis¹²⁵. The Committee requested early proofs to be distributed. To support the Committee's work, volumes of wartime papers were requested, personal memoirs were commissioned from a range key protagonists - individual and departmental - across Whitehall, and various legal advisory opinions were invited on the legality and precedents set by Britain's wartime actions¹²⁶. Carless Davis was routinely invited to the Committee as a standing historical advisor to the group.

The Committee's initial focus centred on improving and modernising the way the Government defined and thought about the use of economic weapons. As it explained: "The term "blockade," as used in the Declaration of Paris, has a very definite technical significance in international law. It consists in the prevention of access to or egress from an enemy port or coast line. It confers on the belligerent who applies it the right to stop all commercial intercourse, without regard to the distinction between contraband and other commodities. But, in order that this right may be acquired, the blockade must be effective. In the great war no such technical blockade of Germany and her allies was instituted". Instead, the Committee recalled that "what was commonly called the blockade in the great war was a series of measures aimed, like a true blockade, at preventing commercial intercourse between the Central Powers and the rest of the world [...]. In this report we shall refer to the measures taken for the purpose of cutting off commercial intercourse, whether wholly or partially, without declaring a blockade in the technical sense, as "economic pressure"¹²⁷.



In considering the role of economic pressure they examined first the general applicability, or not, of the wartime experience to future ones. They admitted that "as an example of the development of the maximum economic pressure on a large scale, the great war is, we believe, unique"¹²⁸. Nor could it "be assumed that the same measures can be repeated with equal success in another war [where] the circumstances of the great war

¹²⁴ TNA CAB 15/21, p.130. Minute of the 2st meeting of the Trading, Blockade and Enemy Shipping Committee, June 8 1920

¹²⁵ Which remains a vital source to this day, though it was not officially published until much later.

¹²⁶ A full list of the supporting evidence to the Committee's work can be found in its final report to the CID, May 20 1930

¹²⁷ TNA CAB 15/21 (CID 428-B), *Final Report of the Sub-Committee on Trading, Blockade and Enemy Shipping*, 30 May 1923

¹²⁸ TNA CAB 15/21 (CID 428-B), *Final Report of the Sub-Committee on Trading, Blockade and Enemy Shipping*, 30 May 1923, p.6

were peculiarly favourable to the policy"¹²⁹. The Committee surveyed, in some detail, the global economic conditions that made for this 'peculiarly favourable' context.

Nevertheless it decided that *"if it is assumed, and the assumptions are reasonable ones, that the degree of economic pressure exerted in the late war is not likely to be exceeded in future, and that general world economic conditions are not likely to alter so fundamentally in the near future as to render obsolete the methods of commercial warfare employed in 1914-1918, an analysis of the economic fighting machine used in the late war will not only give a complete list of the main economic weapons which this country possesses for use in war, but will also indicate the peacetime departments able to take measures to keep these weapons, if not in working order, in any rate in such a condition that they can be quickly prepared for action"*¹³⁰.

The Committee met intermittently over the next two years, diligently building a picture of its wartime experience, and an inventory of its so-called weapons. By its fifth meeting in May 1922, the Committee had a draft report before it but was divided, as ever, on the Whitehall structures and governance of any future peacetime system for exerting economic pressure. Objecting to the Foreign Office's draft, the Board of Trade (and others) disputed whether it should be given overall control of the machine, proposing instead a committee or, like the previous war, a minister in overall charge. The Foreign Office Chair sought to defuse, arguing there was little disagreement over the substance of the report - *"the main point was that there should be central coordination in a single department. Everyone was agreed about that, and he thought it would be possible to redraft this part of the report in such a way as to secure central coordination while meeting the views of the Board of Trade, which he admitted to be some extent justified by the present wording of the draft"*¹³¹.

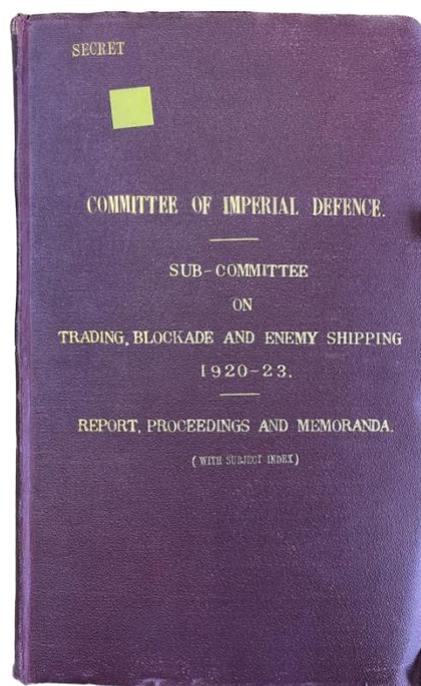
¹²⁹ TNA CAB 15/21 (CID 428-B), *Final Report of the Sub-Committee on Trading, Blockade and Enemy Shipping*, 30 May 1923, p.7

¹³⁰ *Ibid*

¹³¹ TNA CAB 15/21. "Trading, Blockade And Enemy Shipping Sub-Committee" Minutes of the Fifth meeting, May 16th 1922, p.3

Report of the Sub-Committee on Trading, Blockade and Enemy Shipping

Interdepartmental wrangling continued and intensified over another ten meetings in as many months, until, at the Committee's eighteenth meeting on 1st May 1923, the Committee endorsed and submitted its final report. At more than 775 pages, it covered every conceivable aspect of British economic statecraft administration, with a long list of recommendations ranging from the technical instructions for Parliamentary Counsel drafting emergency legislation in future crises, to the international legal positions the Government should take, to the questions of Whitehall machinery in peace and wartime. The report "*set the stage for all subsequent examinations*" of economic warfare¹³². The report reached three main conclusions:



1. What had begun as an Admiralty-focused blockade recognisable to the 19th Century, ended as a new 20th Century scheme involving a more intimate relationship with international finance and the City, and the withholding of services, not just goods. Diplomatic pressure to ensure circumvention of sanctions was also vital for the Foreign Office.
2. That "*in any future war*", "*the commercial side might be as important as the military one*"¹³³, requiring a reorganisation of the CID system to ensure capability to deploy economic measures was retained. To do this, a permanent advisory committee of the CID should be established to "*prepare the governmental machinery for the conduct of future economic warfare by maintaining a current contraband list, preparing all the necessary legislation to make blockade effective at the onset of war, and organising the nucleus of an economic warfare organisation*"¹³⁴.
3. That "*the cost of economic pressure to the country which applies it, especially to a highly-organised commercial and industrial country like our own, must always be taken into consideration*". Sanctions were a double-edged weapon, requiring careful judgment of the effect not just on Britain, but whether the global economic conditions made sanctions effective at achieving a foreign policy goal (noting the perceived exceptionalism of the WW1 case).

The Advisory Committee on Trading and Blockade in Time of War ('ATB')

The CID finally met and endorsed the report in December 1923¹³⁵, including the establishment of its own advisory sub-committee on the use of economic measures in foreign and national security policy - the 'ATB'. This powerful and respected committee would last for 16 years, advising nine governments of different political persuasions until the Second World War. Its work contributed to the development of the League of Nations' own economic deterrent (thereafter UN sanctions), and by the second world war provided the

¹³² Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. 1997, p.2

¹³³ Ibid.

¹³⁴ Ibid. See TNA CAB 15/21 (CID 428-B), *Final Report of the Sub-Committee on Trading, Blockade and Enemy Shipping*, 30 May 1923, p.18, for more details of the recommendation

¹³⁵ PRO, CID 178 Mtg., CAB 2/4. 19 December 1923.

blueprint for the leading economic warfare ministries and intergovernmental networks of the Allied Powers.

On 1 July 1924 the ATB was formally constituted, with representatives from the full range of departments and enforcement bodies, initially under a Foreign Office chair. Within months Maurice Hankey, on behalf of the Prime Minister, asked the old Minister of Blockade Robert Cecil back to lead the ATB. As Nicholas Mulder describes, *"the economic weapon allowed the CID to rethink how the British Empire could use its material power against potential opponents. [...] The purpose of such "grand strategy" was to manage decline, not avert it, and Cecil and Hankey were in close touch as they confronted the reality of this fact"*.¹³⁶ Its terms of reference were:

*"The main business of this Committee would be to see that all the administrative machinery that can be prepared in advance for exerting economic pressure on an enemy in war-time is in readiness and that it is kept up to date. They will deal with all questions of organisation for a future war and will see that the list of contraband is modified from time to time as occasion requires"*¹³⁷.

It spent the first six months developing the scope of its inquiry, before commencing with deeper examination of aspects of future economic warfare organisation. By May of 1925 it had established two expert sub-committees of its own - a "Legal Committee" advising the ATB and CID on various international legal questions arising from the use of sanctions; and an energy committee looking at the issues around the bunkering of oil and coal, the "Oil Fuel Board and Standing Bunker Committee"¹³⁸.

Contingency planning

It was also during this time that the ATB was asked *"to compile a list of articles which would be essential to Japan in war time, a war in the Far East being taken as a test case [...], in order that the effectiveness of the administrative machinery that can be prepared in advance for exerting economic pressure on an enemy"*¹³⁹. This exercise proved invaluable in honing the ATB's analytical machinery and template for providing advice to CID on the effectiveness and impact of economic measures - *"the process of preparing the estimates for a war against Japan helped the ATB both to sharpen the blockade machinery and to prepare its skeletal blockade organisation"*¹⁴⁰. ATB officials prepared a 15-page overview of the Japanese economy with statistical annexes of trade with Britain and elsewhere. The test case also served the purpose of confirming another main conclusion of the 1920-23 report - no 'peculiarly favourable' conditions existed in the case of an economic war on Japan. Most of its exports were financed from outside the UK, the Royal Navy would be unable to blockade its home islands, nor would its bunker control system work, especially with the shift

¹³⁶ Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.143

¹³⁷ CID 658-B, CAB 4/14, Advisory Committee on Trading and Blockade in Time of War, First Annual Report, 8 November 1924

¹³⁸ Which incidentally concluded that, after surveying 220 of its coal ports, control of this network was "of very little value" after the advent of oil-fired boilers.

¹³⁹ Memorandum by the Japan Sub-Committee: Articles Essential to Japan, November 1926.

¹⁴⁰ Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. 1997, p.4

to oil boilers in merchant shipping. Moreover it was decided that “without active American participation, the effect of any British sanctions against Japan would be lessened”¹⁴¹.

The ATB quickly found itself asked by the CID to routinely advise on the advisability of sanctions in various foreign policy flashpoints of the 1920s. Though this distinction was codified later in the 1930s, the ATB had also informally extended its remit to advice on economic measures *outside* a formal state of war. They included:

1. **Turkey** (December 1925) - where the ATB was invited to advise on the advisability of League of Nations nations against Turkey, during a confrontation over control of Mosul and its oil production. The ATB concluded that “even in the most favourable circumstances, with every state in the League participating, a blockade of Turkey would cause that country little more than annoyance”¹⁴². Yet notably this did not stop the Foreign Secretary from intimating to Turkey that it might impose sanctions, which “certainly contributed to Turkey’s decision not to defy the League”¹⁴³. The issue led the *Economist* magazine to observe that: “It may be doubted whether the economic weapon, even if wielded with its full force, will have the like effect upon the Turks. Of course, the Turks want, like any other nation, to reconstruct their economic life on something like a Western standard, but they may value their territorial aims more, and may elect, rather than abandon them, to see Anatolia sink to the economic level of Afghanistan or Abyssinia”¹⁴⁴.
2. **Canton-Hong Kong General Strike** (March 1926) - where the military wanted to consider a blockade of the approaches to Canton, following a Soviet funded uprising of nationalist and communist Chinese groups in protest at foreign control of trading ports and concessions in Asia. The strike committee had mobilised nearly half of Hong Kong’s 600,000 labourers to strike, crippling the economy and European business. Cecil chaired a meeting of the ATB to consider advice on blockading the approaches to Canton. It concluded sanctions would have no effect, and that to impose them in any case would likely lose the concession altogether. By the time the CID considered the case, “it accepted the ATB’s opinion”¹⁴⁵. The case also identified a new problem in sanctions theory - “the social target of the economic weapon”¹⁴⁶. The strikers in control of the situation largely subsisted on the basis of resources found locally, not imported; Chinese merchants, more vulnerable to blockade, held no sway over the situation.
3. **Blockade of China** (January 1927) - where the ATB submitted at least 12 separate reports throughout 1927 in response to action of the Nationalist Chinese and the capture of a British concession in Hankow. These reports ranged from “Hankow as an object of Economic Pressure” to “Prevention of the supply of arms to the Chinese Nationalist Army” to “Merchant Shipping in the Far East”. While the ATB concluded a maritime blockade was feasible, it might have only limited impact on the specific factions within China, and even risked uniting wider groups against Britain. The disposition of Japan would also be vital. The ATB’s advice strengthened the Foreign Secretary’s hand in moderating “the hard-line approach of the Colonial Office and the

¹⁴¹ Ibid.

¹⁴² Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. p.5

¹⁴³ Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.148

¹⁴⁴ “The Mosul Question and the League”, *The Economist*, no. 4144, 27 January 1923, p.134

¹⁴⁵ TNA CAB 2/4, CID 211 Mtg., 29 March 1926

¹⁴⁶ Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.149

strident calls of the Governor of Hong Kong, Cecil Clementi, for a full-scale naval blockade"¹⁴⁷

4. **Economic Pressure of Soviet Russia** (December 1927) - which had been suspected by Hankey and the wider establishment of "waging a shadow war against the Empire"¹⁴⁸, not least after its support for Chinese strikes. A coincidental raid on the Soviet trade office in London in May of 1927 had led to the severance of diplomatic relations, and to Stalin believing a "capitalist encirclement" of the USSR was underway through "financial blockade"¹⁴⁹. By December the ATB was asked to examine a sanctions response to Russia's invasion of Afghanistan. The ATB's work revealed a newly self-sufficient Russia in food production, and an increasingly prodigious commodities exporter. Only some British finance for Russian industry provided a small pressure point, which could be found elsewhere in any case. The ATB concluded that "blockade is most unlikely to deal a deciding blow"¹⁵⁰.

Beside the effect of improving the political literacy of sanctions as an accepted tool of foreign and security policy, and a greater sophistication in their use, the ATB's early years also served an important constitutional purpose. As has been shown, the existence of a respected interdepartmental committee of senior standing, with a consistent methodology underpinning it, ensured that the ATB's advice was heeded by Cabinet, and ensured economic sanctions were not overused, or misused where they would have backfired on British interests. At the same time as the ATB's geographic advice of the 1920s came to a close, an equally important innovation was taking shape.

Fifth Annual Report of the ATB

On April 29th 1929 the ATB circulated its Fifth Annual Report, which announced that it had reached a mature enough stage in its inquiry that the Government now possessed a comprehensive playbook for exerting economic pressure:

"After an inquiry spread over nearly six years the work of the Advisory Committee on Trading and Blockade in Time of War has now advanced to a point at which it has been found possible to draw up a summary of the policy and procedure which could be adopted by his Majesty's Government in the United Kingdom, and mutatis mutandis by other Governments of the empire, if at any time it should be as a measure of war, to bring economic pressure to bear upon an enemy. This summary is contained in Part II of this Report. To a considerable extent it is a codification of previous recommendations which have already been approved by the Committee of Imperial Defence, as shown by the marginal references. The summary in Part II is followed in Part III by recommendations as to the machinery of Government required for putting such a policy into full effect. Whether, and to what extent, economic pressure would be applied in a particular war would depend upon circumstances which cannot be foreseen, and the decision could only be taken at the time by the Government of the day. This is a matter to which we return in Part II. What we have

¹⁴⁷ Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. p.7

¹⁴⁸ Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.150

¹⁴⁹ Kotkin, S. *Stalin, vol. 1: The Paradoxes of Power, 1878-1928* (New York: Penguin, 2014), pp. 616-619, 631-635, 721; Delaisi, F. "Oil and the Arcos Raid" (2 parts), *Foreign Affairs* 9, nos. 4-5 (October-November 1927): 106-108, 137-138

¹⁵⁰ TNA, CID-845-B, "Economic Pressure on Soviet Russia", p.10., cited in Mulder, N. *The Economic Weapon: The Rise of Sanctions as a Tool of Modern War* (Yale University Press: 2022), p.150

sought to do in this Report is to indicate what measures of economic pressure are available and practicable, and what in detail are the steps which should be taken to put them into effect if and when the main decision of policy is taken"¹⁵¹.

The report had been the result of considerable time and effort across Whitehall to settle the finer points of procedure and policy (see cover image on page 1 of this paper). And its structure and ethos remained largely unchanged in the following years, even as the ATB continued to publish annual reports accounting for the latest policy and other developments relevant to the maintenance of a standing playbook. It also continued to consider geographic cases referred to it by the CID, including the viability of League sanctions on Japan after its invasion of Manchuria in 1931, leading to another pessimistic conclusion¹⁵².

Economic pressure and war with Germany

By 1933 the playbook had been consolidated still further, "with a major report on the economic measures that could be taken to exert pressure on an enemy"¹⁵³. In it the CID recognised that, although it had been effectively considering sanctions in cases outside a state of war, it needed to properly consider the options for this eventuality. Concern over German rearmament enhanced this concern and provided the test case. As Maurice Hankey informed the first meeting of the new 'Sub-Committee on Economic Pressure', "since events in Germany had assumed a more serious aspect the Prime Minister and Foreign Secretary were of the opinion that it would be a good thing to test the Sub-Committee's recommendations, with particular reference to Germany. After consultation with the Chairman, through him, the Prime Minister had given directions that the Sub-Committee's investigations should be conducted on these lines"¹⁵⁴.

The German case gave the ATB a new urgency to its proceedings, and it began to broaden its assumptions about the company in which Britain might act against Nazi Germany's economy; it also sought to test whether sanctions could be used to prevent rearmament itself. By October of the same year as its establishment the ATB had submitted its first report on the issue, concluding:

"We consider it highly problematic whether, even with the participation of the Powers mentioned under (e), it would be possible to exert economic pressure on Germany which would be effective [emphasis added by ATB]. The nations of the British Commonwealth, including the Dominions, would be among the first to feel the reactions of economic pressure on Germany. This effect would be immediate, severe and possibly lasting. In particular the exercise of economic pressure on Germany would involve grave financial consequences in this country. We desire to draw attention to a possible alternative situation where Germany's rearmament might be regarded as constituting a threat to the peace of the world, and the Council or Assembly of the League might recommend the use of economic pressure as a

¹⁵¹ TNA CAB 47/1, Advisory Committee on Trading and Blockade in Time of War, Fifth Annual Report, paragraph 1, p.5, 29 April 1929

¹⁵² CID 1083-B, CAB 4/21, "Economic Sanctions Against Japan", 2 March 1932

¹⁵³ Babij, O. *The Advisory Committee on Trade Questions in Time of War*. The Northern Mariner/Le Marin du Nord, V.2, No.3, 1-10. p.4

¹⁵⁴ Maurice Hankey, in first meeting of the sub-committee on economic pressure. Monday, 1st Minutes, May 15th, 1933, p.1

means of terminating this threat. We suggest that, should it be considered necessary to examine this aspect of the question, it should form the subject of a separate report"¹⁵⁵.

That separate report came just under two years later¹⁵⁶, which all but confirmed that League sanctions, under any configuration of participation by the USA or Russia, would not have an effect on German rearmament, short of declaration of war. The ATB would also publish just one further report on the peacetime imposition of sanctions, around the Italo-Abyssinian dispute¹⁵⁷.

The Handbook of Economic Warfare

By the late 1930s the ATB was focused on little else than the surveillance of the German economy, options for its containment, or else its attack at the outbreak of war¹⁵⁸. This focus culminated in two documents of lasting significance, which were to mark the end of a remarkably long inquiry that endured frequent changes in government and churn at official level.

At an explosive meeting of the CID on 27th July 1938, it considered a Memorandum by the Chairman of the ATB covering its Report, commissioned the year before, for a "Scheme for the Exercise of Economic Pressure against Germany"¹⁵⁹. In introducing the paper the ATB Chairman looked back to WW1 experience:

The report "contained the outline of the Plan, but, if approved as a general basis, the detailed working out would continue to be the subject of study by the Departments concerned for many months to come. The crux of the problem lay in the fact that severe economic pressure on Germany could only be exercised through a system of rationing neutral countries, and that rationing, to be thoroughly effective, had to be applied to all neutral countries concerned. In the circumstances envisaged, however, there would be some nineteen neutral countries to deal with, whereas in the latter part of the last war there were only five such countries. Moreover, these five countries were not particularly powerful, whereas amongst the nineteen neutral countries there would be some - Italy, for example - which might prove very troublesome to deal with. The Advisory Committee had not attempted to form any appreciation of the effect of exercising economic pressure on the enemy. It was, in fact, impossible to do so, since no one could tell in advance what the attitude of all the neutral countries was going to be, but it was clear that in no case could early results be expected from the measures to be taken under the plan"¹⁶⁰.

The Chairman went on to outline the plan for addressing, insofar was possible, this conundrum. The Treasury's Permanent Secretary Sir Warren Fisher interjected to call the entire plan "rather controversial", reciting the various positions the Treasury's ATB representative had provided in the development of the plan; "the position was very different in the last

¹⁵⁵ Report: "Economic Pressure on Germany", Sub-Committee on Economic Pressure, October 30th 1933, p.14

¹⁵⁶ Report: "Economic Pressure on Germany without there being a state of War: Possible Action by the League", Sub-Committee on Economic Pressure, June 3 1935

¹⁵⁷ CID 1188-B, CAB 4/23, "Economic Pressure on Italy," 30 September 1935; CID 1194-B, CAB 4/24, "The Italo-Abyssinian Dispute, Economic and Financial Sanctions," 11 October 1935.

¹⁵⁸ Some residual work was conducted on Japanese sanctions

¹⁵⁹ C.I.D. Paper No. 1458-B, also Paper No. A.T.B. 181

¹⁶⁰ Minute from the 331st Meeting of the Committee of Imperial Defence (27th July 1938). 5 September 1938, p.2

eighteen months of the 1914-18 war when there were practically no countries of any importance who were not belligerents. The Treasury, therefore, proposed that the Report should be referred back for further consideration"¹⁶¹. The ATB Chairman reminded Fisher that "there had been a great deal of discussion on the Report, [and] the plan had already been very considerably modified to meet the views of the Treasury representative"¹⁶². Fisher repeated his observation that "in the last war it was not successful until America became a belligerent" and so he "did not think the foundations of the plan had been established, and it needed further consideration before adoption". Others entered the fray to appeal for moderation, before the ATB Chairman could not resist another reminder to his colleagues that his Committee "had been instructed to produce a plan and not an appreciation. Up to the present there had been no actual plan in existence. The Report before the Committee purported to contain a plan which would be of value to Ministers in the event of an emergency arising and a decision being taken to develop economic pressure against Germany".

At this point the Chancellor Sir John Simon intervened to calm the situation with a pragmatic compromise, saying that "he did not think that the report should go forward as a firm recommendation as to the steps to be taken in all circumstances. He would be satisfied if the scheme was looked upon as a piece of mechanism which was ready to be used if, at the appropriate moment it was decided to do so. How far the plan would be applied must be left to the judgment of the Government of the day in the light of particular circumstances then existing".

The Chancellor's proposal that political agreement might be separated between the codification of the sanctions system, and the policy of how it should be used at a given time, was a brilliant one and helped the CID Chairman Maurice Hankey steer the meeting to a close (though not before the Chancellor's own permanent secretary intervened again to ensure this proviso was made clear in the minute). The CID therefore agreed that: "(i) the question of the extent to which any plan prepared in peace-time for the exercise of economic pressure upon Germany in time of war should be put into operation must be decided by the Government of the day in the light of the actual circumstances. (ii) subject to the above proviso, the plan embodied in the C.I.D. Paper No. 1458-B should be adopted as a basis for the conduct of economic warfare in the event of hostilities with Germany".

All that was left was the agreement of the Chancellor's 'piece of mechanism', which in practice had been elaborated since as early as the ATB's Fifth Annual Report a decade earlier. The next year, just five weeks before the outbreak of war, the Chairman of the ATB passed his final Report to the CID on the 24th July¹⁶³, establishing a formal 'Handbook of Economic Warfare'. It was approved by the CID three days later¹⁶⁴. The Handbook was intended to speak for itself, to the uninitiated official or politician that would be inevitably drafted into the prosecution of economic warfare. The ATB's work ensured it captured the collective wisdom of not just the previous wartime experience, but countless international, domestic and technological developments since, together with the hard experience of

¹⁶¹ Minute from the 331st Meeting of the Committee of Imperial Defence (27th July 1938). 5 September 1938, p.4

¹⁶² Ibid

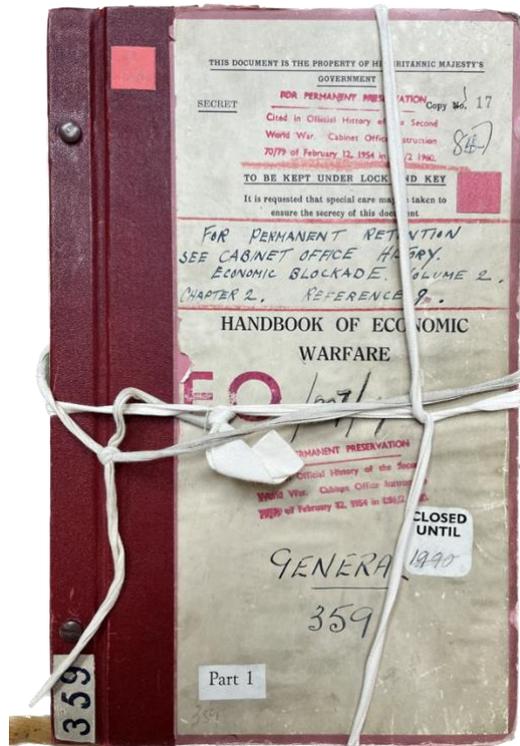
¹⁶³ TNA CAB 47/6, Note By The Chairman Of The Advisory Committee On Trade Questions In Time Of War. July 24th 1939

¹⁶⁴ Prepared by the Advisory Committee on Trade Questions in Time of War and approved by the Committee of Imperial Defence on July 27, 1939. (C.I.D. 370th Meeting, Minute 2.)

advising on countless geopolitical flashpoints throughout the 20s and 30s. It's introduction read:

"The object of this Handbook is to set out in convenient form the nature, purpose and scope of the war-time measures which, taken as a whole, are incorrectly named "blockade" and, more accurately, economic warfare. It is intended to serve not only as a basis for the preparation of economic warfare plans in peace-time, but also as a guide for those officials and others who would be seconded or temporarily appointed to the Ministry of Economic Warfare upon its establishment in time of war, or whose functions bring them into contact with the planning or conduct of economic warfare.

"The Handbook is divided into four parts. The first deals with the theory and organisation of economic warfare, the second with its weapons, and the third with the administrative machinery for its execution. The last part contains, in the form of annexes, the texts of the draft Bills, Orders, Proclamations, &c., necessary for the conduct of economic warfare, and of the instructions relating to economic warfare held by His Majesty's Diplomatic and Consular Representatives abroad and by Collectors of Customs at home".



Whatever was to come, few if any can say the British state had not done its utmost to prepare for the economic dimension of another major global conflict, within the political and very real economic constraints it faced. While traditional departmental outlooks and rivalries had changed little in two decades, the systems and structures the CID had overseen did ensure those outlooks and rivalries did not detriment the government's preparedness. Nor was the conduct of economic warfare an appendage of traditional foreign and security policy - it had become, what the Treasury's Chief Economic Adviser had once called, a fully integrated 'Fourth Fighting Service'.

Postscript

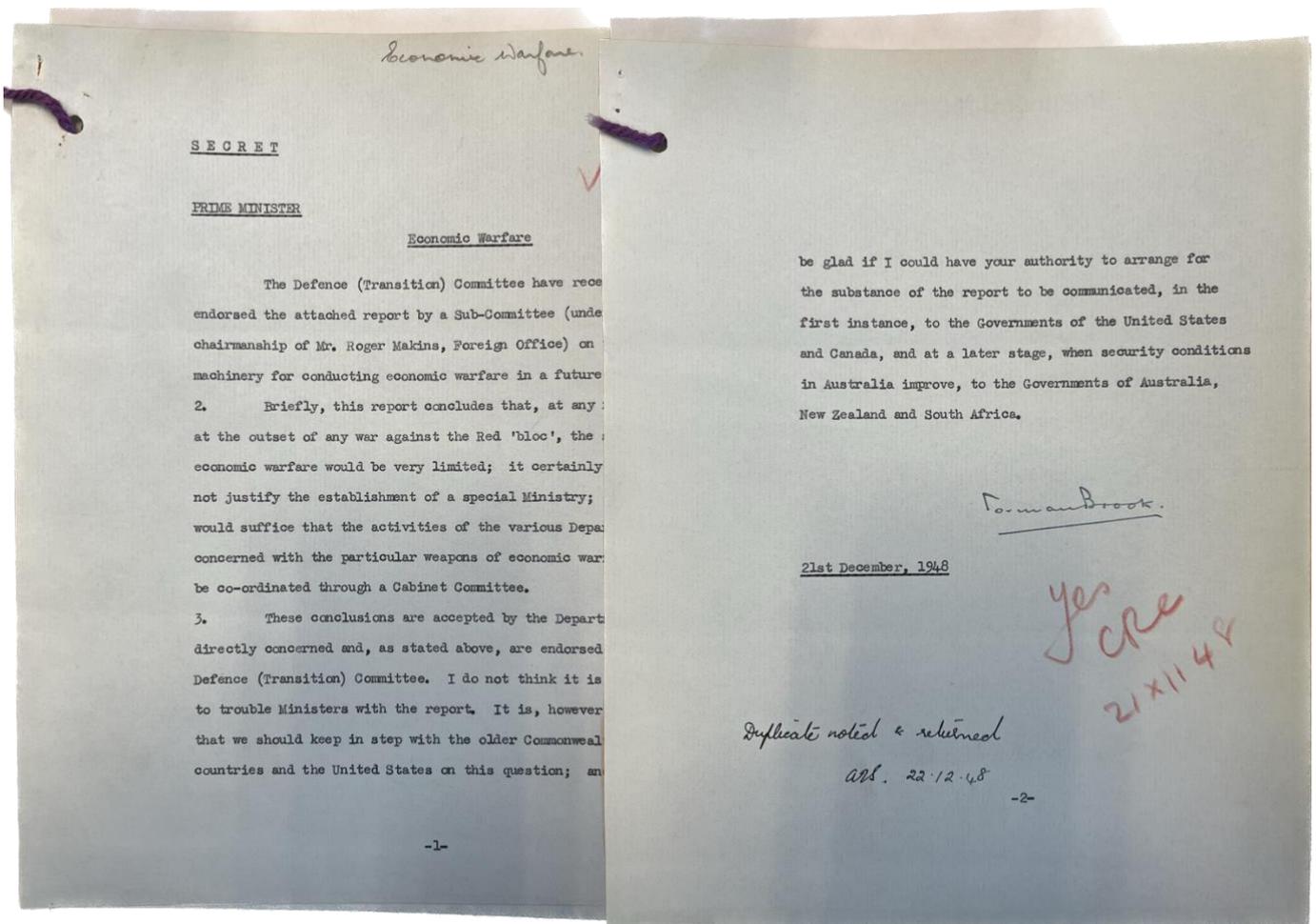
The role and impact of the economic war on Nazi Germany is outside the scope of this paper and has been covered widely elsewhere, including the functioning of the Ministry of Economic Warfare, so painstakingly planned by the Handbook down to the location of the typing pool. Suffice to say that while the existence of a Handbook did not make the Government immune from indecision or misjudgment, a far greater factor in its relative lack of fortune in succeeding in its economic war aims was undoubtedly the lack of military superiority until 1944. In other words it was difficult to blockade an adversary whose boundaries continued to change and expand with invasion. The ATB *had* underestimated the German economy, and the United States' neutrality once again hobbled Britain's ability to influence the economic behaviour of the large neutral constituency identified at the beginning of the ATB's studies into its German strategy in 1933. The Eastern campaign in Russia was far more economically fatal to Germany, as much as anything else. The USA's entry to the war, while greatly enhancing the blockade, served as much to replace Britain's leadership of the global economy, as it did Germany's demise. Despite this, there were some final isolated post-war developments in this line of economic statecraft, worth bringing into this story¹⁶⁵.

¹⁶⁵ Of course economic statecraft theory continued, although attention rightly turned away from the sanctions stick and onto the strategic use of the carrots of Bretton Woods and the United Nations.

December 1948 - The Cabinet Secretary advises the Prime Minister on the Future of Economic Warfare

Having once again reviewed the machinery for conducting economic warfare in a future war, Cabinet Secretary Norman Brook advises Prime Minister Clement Atlee that while scope for sanctions on the 'Red Bloc' are limited due to a minimal trading relationship, the UK should nevertheless stay in step with the USA, Canada, and in due course, Australia, New Zealand and South Africa.

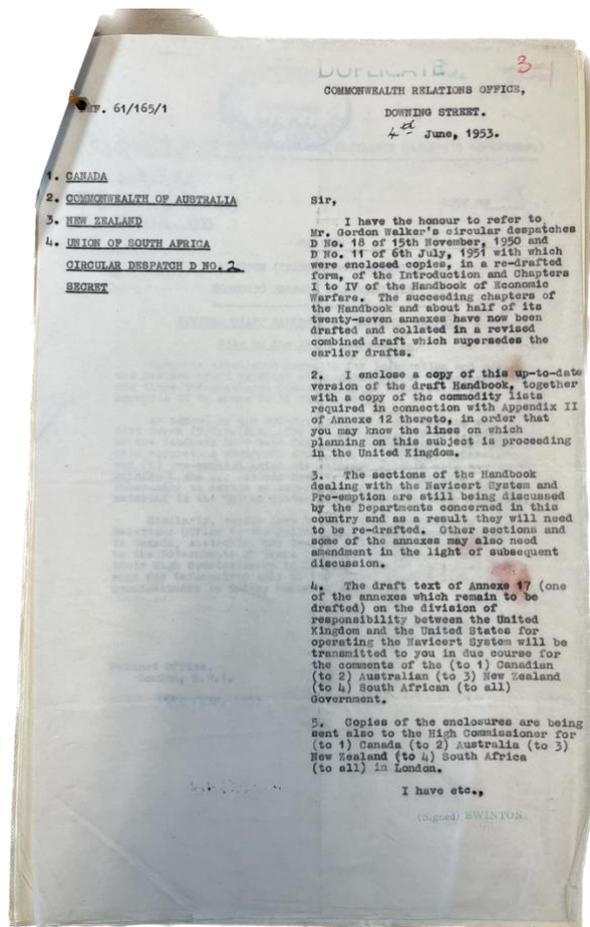
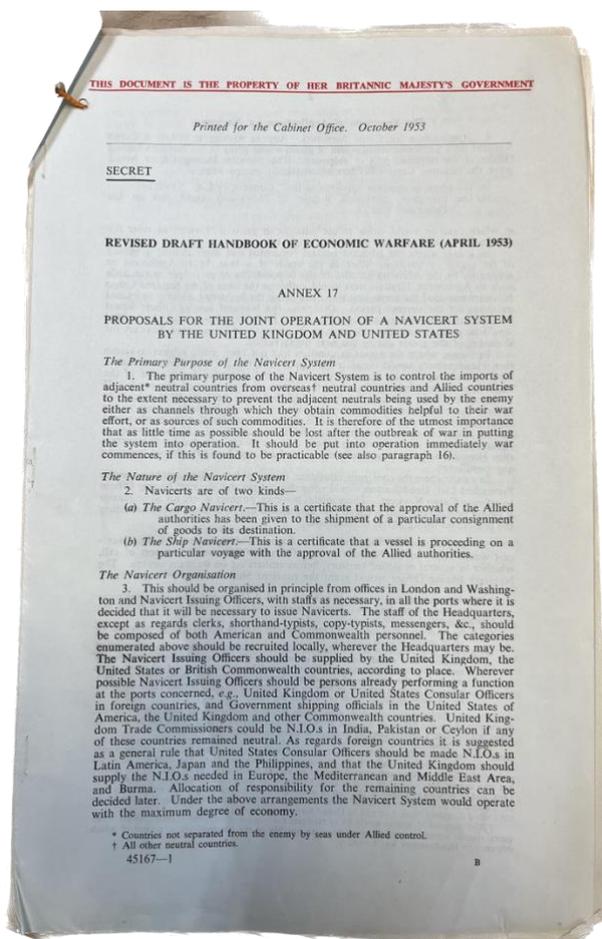
Norman Brook's Minute to Prime Minister Atlee



June 1953 - The Government seeks to agree its Handbook of Economic Warfare with the USA and others before finalising it

The Chair of the 'Economic Warfare Sub-Committee' updates the Defence (Transition) Committee on its work: "The draft of the Handbook of Economic Warfare contained in the annex has been written before discussions on Economic Warfare generally have been held with the United States authorities; nor has it been possible to discuss any particular aspects where it would be to the mutual advantage of the United States and the United Kingdom, and probably even essential, to concert plans. Work is in hand on the preparation of detailed proposals for the joint United Kingdom/United States operation of a Navicert System, the main object of which would be to prevent an enemy obtaining strategic supplies through neutral channels, and of a system of Control of Civil Aviation. Studies are also in progress on the question of what form the necessary organisation for Pre-emptive Buying should take and whether this too can be a joint venture. Copies of the draft Handbook have now been forwarded to Her Majesty's Ambassador in Washington and to the Canadian, Australian, New Zealand and South African Governments".

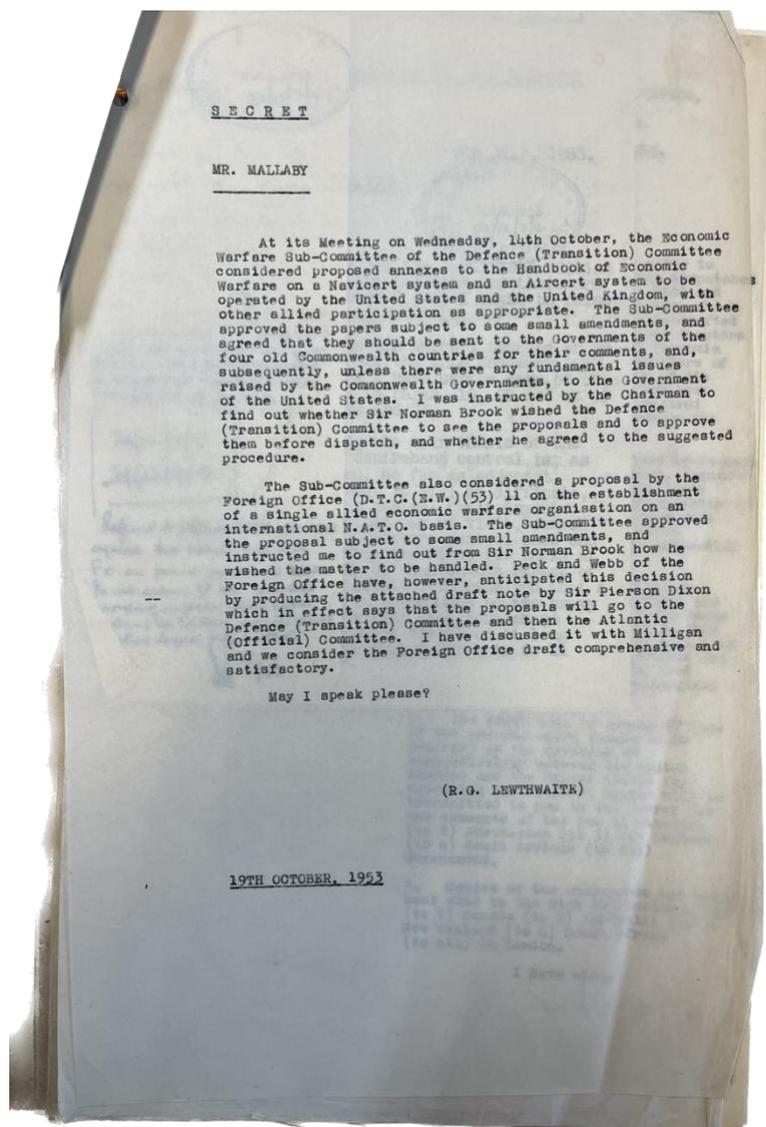
UK proposals to the USA for a joint Handbook for Economic Warfare and associated joint Navicert programmes, 1953



October 1953 - The Foreign Office proposes "the establishment of a single allied economic warfare organisation on an international NATO basis"

The Sub-Committee on Economic Warfare approves a Foreign Office proposal to go further, with the establishment of an 'Economic NATO'. Advice is sought from the Cabinet Secretary as to how to proceed, but it is not obvious from the record whether it is provided, or whether the Defence (Transition) Committee itself approves.

Sub-Committee Minute referring to the Foreign Office proposal for an 'Economic NATO'



February 1956 - the Committee on National Economy in War reconsiders its strategic assumptions of economic warfare, and facing nuclear confrontation, ceases all work on the Handbook on Economic Warfare

The Committee had before them a note by the Secretary (N. E.W. (55 2) covering a report by the Economic Warfare Sub-Committee on the effect of the new strategic assumptions on plans for economic warfare. The main conclusions of the Sub-Committee were -

- There would be no scope for economic warfare measures during the initial nuclear phase of any future war,
- Any arrangements for such sanctions if the war were to continue beyond this initial phase would have to be organised on an ad hoc basis.
- In the circumstances it was not worthwhile to attempt to revise existing plans for economic warfare but the present draft Handbook on Economic Warfare should be retained as a guide in case of need.