

British Economic Warfare in the Far East and the Australian Wool Industry

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Abstract

Historians have claimed that the British government was able to mobilize the economic resources of the empire during the Second World War. Further, it has been suggested that this helped the British to hold the line against the Axis, and with the involvement of the United States and the Soviet Union, to eventually defeat Italy, Germany, and Japan. However a protracted conflict occurred between the Australian and British governments over the use to be made of Australian wool. Australia considered its wool a commercial product to be sold for a satisfactory price, while the British saw it as a strategic raw material to be used in economic warfare. The Australians were united in their negotiations with the British over what was for them an extremely important matter. For their part the British regarded Australian wool as just one of many issues on the policy agenda. The British government purchased the Australian wool clip in order to ensure its own supply, to deny wool to Germany, and to use it in negotiations with Japan and the United States. Their ability to do so was limited by Australian commercial and strategic objectives. In particular, the British wanted to influence Japanese foreign policy by withholding wool, whereas the Australians were concerned to appease Japan and to earn profits by selling wool to Japan. In the process, any illusions of imperial unity dissipated and a compromise based on economic and strategic interests and perceptions resulted.

IT HAS often been assumed that the British empire provided strategic primary products that made an important contribution to the United Kingdom's victory over the Axis during the Second World War. For example, Hancock and Gowing drew attention to the advantages enjoyed by the UK by virtue of its access to the manpower and natural resources of the empire. They concluded that through lend-lease and the special arrangements with the dominions, the economic resources that the UK could draw on were only limited by the UK's capacity to pay.¹ The UK depended on 'the good will of her distant oceanic neighbours, and upon their feeling of a common interest between themselves and her'.² This underestimates the degree of difference over the terms and prices of commodities and over how these resources would be used to secure divergent foreign policy goals. Max

Beloff has suggested that while the UK was able to draw on troops and raw materials from the dominions, the UK did not have the resources to wage an international war effort. Beloff concludes that the resulting 'financial burdens' were 'too great'.³ However these authorities do not consider how the actions of the dominions may have contributed to this burden. This article challenges these assessments through a consideration of the economic and diplomatic functions of the wool industry in relations between Australia and the UK.⁴ In the late 1930s wool accounted for over 30 per cent of the value of Australian exports. In 1938-9 the UK purchased 38 per cent, Japan 17 per cent, Belgium 14 per cent, France 13 per cent, and Germany 5 per cent. While the UK was the main market, war in

¹ W K Hancock and M M Gowing, *British War Economy*, 1949, p 103.

² *Ibid.*

³ Max Beloff, *Wars and Welfare: Britain, 1914-1945*, Baltimore, 1984, p 254.

⁴ This article has been written against the more detailed background provided in K Tsokhas, *Markets, Money and Empire. The Political Economy of the Australian Wool Industry*, Melbourne, 1990.

Europe would clearly pose a serious threat to other important export markets.

The British gave a higher priority to the purchase of Australian wool than to other agricultural products. This was because wool was a strategic raw material and Australia was the main producer. In contrast, wheat and other foodstuffs could be obtained from North America, which was closer to the UK, and allowed for the more efficient use of scarce shipping. Between 1938/9 and 1944/5, the acreage of wheat in Australia fell from 14.345 to 8.463 million acres. The principal decline was in the states of New South Wales, Victoria, and South Australia. In contrast, wool production increased in all states, including those where wheat farmers also produced wool: they increased their sheep flocks, and reduced the acreage they devoted to wheat. Overall, between 1938/9 and 1943/4, wool production increased from 983,582 lbs to 1,169,016: output fell in 1944/5, to 1,016,489 lbs, largely as a consequence of drought. While the British wool purchase was concluded quickly, it was not until June 1941 that the UK agreed to buy as much Australian agricultural produce as was consistent with the availability of shipping and British requirements. This together with labour shortages and the rationing of fertilizer, led to a decline in the output of agricultural products other than wool.⁵

The war allowed the British government to become a monopsony (single buyer) in its relationship with Australian woolgrowers, but this did not result in the complete or easy acquisition of the Australian wool clip. Nor did it contribute to a harmonious convergence of strategic

and diplomatic objectives. As the sole buyer the British government appeared to be in a position to obtain large amounts of cheap wool. But the woolgrowers were not competing among themselves. The British government was confronted by an Australian government-led coalition, or monopoly of woolgrowers, headed by S M Bruce, the Australian High Commissioner in London, and the Australian Prime Minister, R G Menzies. The article shows that, while the British viewed Australian wool as a strategic raw material to be used in economic warfare, for the Australians wool was also a commercial product that had to be sold at a satisfactory price. Through effective bargaining by Bruce, the Australian wool industry extracted a favourable deal from the British government, even though the relevant negotiations were carried out several steps removed from the political organizations of the woolgrowers. In return the British government secured its supply of wool and was able to deny Australian wool to Germany. The UK was also able to use its control of wool in its diplomatic, strategic and financial relations with Japan and the United States. This led to further conflict with Australia. Bruce and Menzies wanted to sell wool to Japan because they wanted to avoid provoking or offending the Japanese. Because the Australian government doubted the ability of the UK to defend Australia from Japanese aggression, Bruce and Menzies tried to appease Japan. On the other hand, the British believed that Japan could be dissuaded from further expansion by a trade embargo. At this point Australia's diplomatic and economic goals converged, because wool sales to Japan would boost the incomes of woolgrowers while also dissuading the Japanese from resorting to substitutes. As has been pointed out above, Japan was Australia's major market for wool after the UK. Although Australia relied on British shipping and encountered

⁵ See *Year Book of the Commonwealth of Australia*, Canberra, 1941, pp 465-6; E R Walker, *The Australian Economy in War and Reconstruction*, New York, 1947, pp 184-92; and S J Eutlin, *War Economy*, Canberra, 1955, pp 55-66. For the labour supply see K Tsokhas, 'The Myth of Wartime Harmony and Conflict in the Pastoral Industry, 1939-1945', *Australian Journal of Politics and History*, 36, no 2, 1990, pp 217-30.

the much greater financial and market strength of the British government, Bruce and Menzies exercised a great deal of bargaining power and tried to shift as much of the financial burden onto the UK as possible. Bruce and Menzies found it easier than the British to present a firm, united front, whereas the British bureaucracy often took much longer to arrive at a lasting consensus, or to formulate consistent, long-term objectives. The British faced a much wider range of more complex problems and considerations than the Australians, and found it difficult to conceal vital information from Bruce who enjoyed a special relationship with the Dominions Office.

I

Before the UK could gain any leverage over the disposition of Australian wool a purchase price had to be negotiated. These negotiations were characterized by conflict rather than co-operation based on Australia's acceptance of a compliant role in providing economic assistance for the UK's war effort. When war seemed imminent in the second half of 1939, concrete negotiations over the purchase of Australian wool began between Australia and the UK. On 19 September Bruce reminded himself:

One factor we have to keep very much in mind with regard to the price which we do fight to get for wool is that we must not allow, during this war, the price of wool to go too high as it will only be an encouragement for the development of the utilisation of a substitute.⁶

Bruce, Menzies and grazier leaders knew that the price at which wool was purchased would be passed on to British manufacturers and processors, as well as to buyers outside the UK to whom the British government in consultation with the Australian government, may have

decided to sell wool. They wanted a price that was only as high as the risk of substitution allowed. This was confirmed on 20 September when Bruce met with R J P Boyer of the Graziers' Federal Council of Australia and Dr Ian Clunies Ross, an academic and occasional lobbyist for the wool industry. They inquired about the price negotiations, but Bruce said nothing, preferring to ask them what they thought would be a fair price; they both replied 13*d* per lb Australian. Boyer was opposed to the price going higher than 14*d* per lb, out of acute concern over the threat from synthetic fibres. Clunies Ross, in a further gesture calculated to defend and extend the use of wool, suggested that prices be sufficient to allow a limited profit of 5–10 per cent to growers. The three agreed that Australia needed to have some say in the UK's resale policy, in order to ensure that wool was not resold overseas at very high prices, even though the higher the prices, the bigger the amounts going to the woolgrowers in the short-term, as they would receive 50 per cent of the profits from resales. Bruce intimated to Boyer and Clunies Ross that the price would probably be higher than 13*d*, but not as high as 15*d*, which would be to the long-term disadvantage of the industry.⁷

The approach of the British government was not based primarily on a careful assessment of economic advantages. Rather, only rudimentary estimates and calculations of costs and benefits were made. At this stage the price of wool, which eventually would be set 30 per cent above the 1938–9 level, was merely a budgetary problem. With war breaking out, Australian wool was hardly at the forefront of the issues preoccupying the UK. The British government's overwhelming concern was with war in

⁶ Monthly War Files, September 1939. 'Wool. Lord Inverforth, 19 September 1939'. AA (Australian Archives, Canberra), CRS M100.

⁷ Monthly War Files, September 1939. 'Wool. Mr Boyer-Dr Clunies Ross, 20 September 1939'. AA, CRS M100. Prices are £ Australian throughout, unless otherwise specified.

Europe, and to the extent that wool entered the thinking of ministers it was as a strategic raw material, rather than as a commercial commodity. Unlike Bruce and the Australian government, British officials could not devote much time or energy to wool matters. In 1939 purchases of wool were made in order to guarantee the UK's supplies, to deny this basic staple to the enemies of the Empire, and to use it to put diplomatic pressure on major consumers of Australian wool, such as Japan. This had the effect of minimizing the quantity of wool available on the spot market, or passing into the hands of neutral countries likely to resell it to Germany. On the other hand, for Australia wool was of great economic significance.

Apparently at first the UK offered 12.9875*d* per lb, the average price for the last season prior to the outbreak of war, but this was rejected by the Australian government. It claimed that the minimum it could agree to was 14*d* per lb, however, this was unacceptable to the UK. Menzies personally entered the negotiations, in part because he had come under mounting criticism from his political allies in the Country Party over the handling of wool and wheat sales to the UK. The UK then offered 13.13*d* per lb. The intervention by Menzies lifted wool a few points on the agenda of the British government and sharpened its awareness of just how important a satisfactory price was to Australia.⁸ Meanwhile Bruce had taken on himself the responsibility of bringing both sides to a compromise. He presented the British with the face of a friend, who could only do so much for them without arousing offence and suspicion in Australia. To an extent he was manipulating both governments to the point of agreeing to what he believed would be a reasonable

position. His objective was to ensure that the economic interests of the Australian wool industry should not be jeopardized. Menzies trusted in his judgement and allowed him the freedom of action he required. He observed of his meeting with Anthony Eden, the Secretary of State for Dominion Affairs, on 20 September 1939: 'I urged very strenuously that having gone to the 13.13*d* Australian per lb, they might as well go the 14*d* and settle the matter without further discussion'.⁹ In the end it was decided that the British Prime Minister should cable Menzies informing him that all the financial aspects had been weighed carefully and the British government could not go beyond 13.13*d* per lb. However, Bruce made it clear that he would also be cabling Australia that he felt that 14*d* was reasonable and that the Australian government should hold out for this higher price.¹⁰ In contrast to Bruce and Menzies, the British were not well prepared. As Sir Eric Machtig, Deputy Under-Secretary of State for Dominion Affairs, explained to Sir Geoffrey Whiskard, the British High Commissioner in Australia, negotiations over purchases of raw materials from the dominions had 'taken place in circumstances of great pressure and strain upon the newly-formed Departments here'.¹¹

On 25 September, Bruce once again joined argument with the British, who seemed implacably opposed to 14*d* per lb. He refused to give ground so the British came back with an offer of 13.4375*d* per lb. In addition Australian growers would receive 50 per cent of the profits from the sale of wool by the British government to buyers outside the UK. The prices at which such wool was resold would be decided on after consultations with the

⁸ J W Allen to R D Bakewell, 29 November 1948, E246/49, E246 refers to the records of the Australian Woolgrowers' Council held at the Australian National University Archives of Business and Labour.

⁹ Monthly War Files, September 1939. 'Mr A Eden, 20 September 1939, Wool'. AA, CRS M100.

¹⁰ *Ibid.*

¹¹ E Machtig to Sir Geoffrey Whiskard, 15 November 1939, Public Record Office, DO 35/1016.

Australian government. The undertaking to consult with the Australian government over prices for wool exports from the UK came as a result of representations by Bruce on 25 September, when he stressed that Australia was not only interested in profits, but also in retaining the international competitiveness of wool, so it was important that wool not be resold at too high a price. But when the British negotiators suggested that in return for their moving from 13.13*d* per lb to 13.4375*d*, per lb, Australia should share in any losses as well as profits, Bruce refused this out of hand. He informed Menzies that there was little hope of going above 13.4375*d*, and apparently Menzies found this acceptable. Bruce created the impression that in return for the UK going up to 13.4375*d*, which he suggested to them was still below the 14*d* preferred by Australia, he would use his influence with Menzies to ensure that the agreement would cover wool purchases for more than one year. In fact, this was no concession at all by Australia, Menzies also wanting the purchase to be for as long as the war lasted.¹²

While Menzies' consent to the final price was not lacking in some reluctance, by this stage he was more concerned to obtain a share of the profits from wool that was resold. He also insisted that there be provision in the contract for changes in the purchase price from year to year to take account of movements in costs of production; eventually this was also agreed to by the British. While the British government accepted that the income from the resale of Australian wool should be shared between the UK and Australia, it would not give Australian growers part of the profits from the resale of wool for

domestic use in the UK.¹³ In addition, Bruce secured assurances that wool would be made available to the US and other neutrals at prices competitive with synthetics.¹⁴ The Australian government also secured that the British government would pay up to 3/4*d* per lb to cover the cost of transporting wool from store to port; this was on top of the price of 13.4375*d* per lb for the wool. Any saving from this 3/4*d* per lb would be shared between the Australian and British governments at war's end. However, as we show below, after the 1942/3 clip, when the purchase price was increased, the sharing arrangement came to an end, all savings reverting to the British government alone. The British agreed that the Australian Central Wool Committee and various state Wool Committees would organize the scheme.

Graziers were reasonably satisfied with the imperial wool purchase. The emergence of the British government as a single buyer eliminated price uncertainty and reduced the transaction costs incurred by growers when negotiating separate broking and selling arrangements each season. The search costs involved in comparing the interest on advances and the services offered by different brokers were eliminated. With the imperial wool purchase the often sharp changes in woolgrowers' incomes caused by fluctuations in wool prices did not occur. During the war the biggest European consumers of wool other than the UK were lost to Australian growers.¹⁵ Without the imperial wool purchase vast stocks of unsold wool would have accumulated, and the incomes of growers would have been slashed. In the

¹² Monthly War Files, September 1939. Cablegram sent to the Prime Minister, Canberra, from the High Commissioner, London, 25 September 1939; Cablegram sent to the Prime Minister, Canberra, from the High Commissioner, London, 27 September 1939; and 'Wool. Sir Eric Machtig-Dominions Office, 26 September 1939'. AA, CRS M100.

¹³ Monthly War Files, September 1939. Cablegram sent to the Prime Minister, Canberra, from the High Commissioner, London, 29 September 1939. AA, CRS M100.

¹⁴ Monthly War Files, September, 1939. Cypher telegram sent to Mr K Officer, Washington, from the High Commissioner, London, 30 September 1939. AA, CRS M100.

¹⁵ See J P Abbott, 'The Future of the Wool Industry'. Address to the Australian Institute of Political Science, undated.

three seasons commencing in 1939/40 an average of 3,581,175 bales was produced, realizing £63,105,026 per year. In the three seasons prior to 1939/40, there had been an average of 2,893,205 bales valued at £47,907,120. The advantages of the British price were borne out by the fact that appraised prices lingered below the British price. In April, 1940 when the Australian Woolgrowers' Council asked affiliated organizations whether a higher price should be sought from the British government, four of them opposed such a move, while four others were in favour of a higher price. These two sets of opinions were passed on to the Australian government. A meeting of the Council in June, however, decided that costs of production had not risen sufficiently.

II

The manipulation of Australian wool supplies was an important component of the UK's Far Eastern policy. This policy was based on a recognition of the fact that the UK lacked the military capacity to assert or defend its interests. With its army, navy, and air force concentrated in Europe, the British government resorted to economic diplomacy. On 14 September, representatives of the relevant British ministries met with Bruce to discuss Japan's request for 300,000 bales of Australian wool, which would be purchased at a higher price than was paid to the woolgrowers by the UK. Crossbred wool was used for military purposes and apparently the 300,000 bales requested by Japan would account for about half of the Australian crossbred clip. This led to conflicts with Australia, conflicts that were only partly resolved in favour of the UK. The Australian government had been insisting that wool be available for export to Japan; the woolgrowers were anxious that they should not lose their share of this major market to other wool suppliers or to synthetics. Menzies was also con-

cerned by the possibility of a Japanese military threat to Australia. Whereas the British wanted to use an economic embargo to dissuade Japan from further expansion, Australia held to a policy of appeasement. Uncertain of the UK's capacity to come to Australia's aid, Menzies and Bruce were loath to do anything that could provoke the Japanese. The intensity of Menzies' response to the UK's reluctance to make sufficient wool available to the Japanese could also be traced to the fact that he was the leader of a minority United Australia Party (UAP) government which relied on the uncertain support of the Country Party. A G Cameron, the leader of the Country Party, had been very critical of the government's handling of Australian exports of primary products and Menzies needed to respond to this. He feared that when parliament resumed on 15 November his government could be defeated.¹⁶ Menzies referred to 'issues which may have very great diplomatic significance and which may go far beyond any commercial transaction on wool. These issues are of such importance that in my opinion they should not be left solely to the British Wool Committee'.¹⁷ For their part the British doubted Japan's willingness or ability to threaten Australia. In the opinion of Whitehall the Japanese lacked the naval capability and were fully occupied with their war in China. In any case if Japan were to attack British, French, and Dutch interests in the Far East, the Americans would be drawn into any resulting conflict.¹⁸

¹⁶ R G Menzies to S M Bruce, nd [17 October 1939]. Cablegram, document 309. R G Neale, ed., *Documents on Australian Foreign Policy 1937-49*, Volume II: 1939, Canberra, 1976. It is worth noting that an Australian Trade Commissioner was appointed to Japan in 1935. The growing autonomy of Australian policy was reflected in the appointment of Sir John Latham as the Minister to Japan and head of the Australian legation in 1940.

¹⁷ R G Menzies to S M Bruce, 5 October 1939. Cablegram, document 265, in *ibid.*

¹⁸ R G Casey, Minister for Supply and Development to R G Menzies, 5 November 1939. Cablegram, document 327, and R G Casey to R G Menzies, 17 November 1939. Cablegram, document 372, in *ibid.*

While the British and Bruce were trying to work towards a coherent policy on this issue, Menzies was demanding a rapid decision, preferably one that allowed for substantial wool sales, rather than the monthly rationing of supplies suggested by the British. There was no abeyance in the flow of criticisms and suggestions from Australia. The Prime Minister blandly pointed out that Japan had agreed to pay 25 per cent above the British price. In part Menzies was intolerant of the lumbering complexity of decision-making in London. On the other hand, he was attempting to rush the British into making a decision which was favourable to the economic interest of the wool industry and in step with Australia's policy of appeasing Japan. A major cause of indecision and delay in the UK was the Treasury's view that nothing definite should be concluded until the Bank of England and the National Bank of Japan finalized negotiations for a new payments agreement, whereby it was hoped the Japanese would be forced into accepting payment in sterling for their exports to the UK. The British government was putting pressure on the Japanese by withholding supplies of raw materials, including wool. Unlike the Treasury, the Dominions Office and the Ministry of Supply were sympathetic to Menzies' concern for a quick decision and declared that they wanted the matter settled with more haste. A key concern of the Dominions Office was that there should not be unnecessary frictions between the British and Australian governments. The Ministry of Economic Warfare took the side of the Treasury, but only because it regarded the withholding of wool and other raw materials as a way of ensuring that they did not reach Germany via Japan. By December, a compromise between conflicting British bureaucracies led to an agreement that there would be monthly sales to Japan, and that the Japanese should not be told

that in order to appease the Australians a block allocation of 200,000 bales had been set aside for Japan. However, this came undone in mid-December when Lord Essendon, who was responsible for wool sales outside the UK, informed the Australian Central Wool Committee that 200,000 bales had been allocated and 25,000 bales could be sent straight away. The Australians revealed this to the Japanese in order to force the hand of the British government. An inter-departmental meeting on 29 December 'took note with some surprise of the fact that the Japanese had already been informed of the block allocation'.¹⁹ Confusion within the British bureaucracy had given the Australians an opportunity to pre-empt the discussions in London and to make it difficult for the British to use wool sales to Japan in the way they had intended. The action of the Australian Central Wool Committee and the Australian government also aroused expectations among woolgrowers that could only be denied at substantial political cost to Menzies.

Although they owned the wool, the British could not avoid consulting Bruce or the Australian government over its disposal. The Australians could not be treated with indifference or contempt. The Dominions Office and the Foreign Office searched for a compromise acceptable to the Ministry of Economic Warfare, and hopefully, to the Australians. On 3 January 1940 the Foreign Office contacted the Ministry of Economic Warfare to let it know that the Foreign Office was pleased to approve the sale of 100,000 bales, rather than the earlier 200,000 bales, to Japan by means of monthly shipments in February, March, and April; but commitments would not be made in advance. The Foreign Office believed that in this way British

¹⁹ Record of a meeting held at the Foreign Office on 29 December 1939 to discuss exports of wool from Australia to Japan. DO 35/1089.

diplomacy, the aims of the Ministry of Economic Warfare, and the interests of the wool industry would be reconciled.²⁰ But Bruce was unrelenting and at the end of January he told an interdepartmental committee that Australia's main commercial worry was that a failure to supply neutrals could lead to substitution and this would make it more difficult to dispose of accumulated Australian wool at the end of the war. Bruce made his listeners wince when he declared that it was his belief that British woollen textile manufacturers had too much influence over the Wool Control. It included representatives of a number of manufacturing firms and they were unlikely to favor sales of wool to competing companies in Japan. He suggested that a desire to protect the interests of British manufacturers lay behind the rationing of wool to Japan. The Ministry of Supply pointed out that wool sales to neutrals did have a high priority, but told Bruce that the Wool Control could not be blamed if wool was not allocated to neutrals. If this occurred it was more likely to be as a result of decisions by the Ministry of Economic Warfare. Limits on sales to Japan were not maintained in order to serve the interests of British manufacturers at the expense of the wool-growers or of Australian diplomacy. Rather, the restrictions arose out of broader concerns of British diplomacy and economic warfare.²¹

The British government made decisions and formulated policies in a complex, changeable and uncertain environment. With barely a trace of condescension, in February 1940 Sir Eric Machtig explained to Bruce how Australia's co-operation was crucial to British economic diplomacy:

Our political and economic relations with Japan at present are such that we cannot afford to give

up our most important, if not our sole means of pressure upon her, which consists in our power to keep her short of raw materials. Of these, wool is one of the most important; and for this reason it is felt essential that, while not withholding supplies, we should only furnish them on a month to month basis, and enter into no long-term commitments.

The US complicated the picture, because the British government did not want to do anything on trade matters that would upset the Americans, who were also restricting their sales of raw materials to Japan:

We are anxious to reach some understanding with the United States so as to ensure that her exports of raw materials essential to Germany, such as cotton and oil, shall not reach dangerous destinations. The United States has, at the same time, announced the imposition of a 'naval embargo' upon the export of certain supplies to Japan and the Foreign Relations Committee of the Senate has before it a Resolution which would extend this embargo to all exports to Japan. If we desire the co-operation of the United States in the restriction of her exports to Germany, our policy must clearly be to co-operate with her as far as we can in restricting supplies to Japan. It would be contrary to that policy and would justifiably arouse American suspicion, if we were at this juncture – i.e. just after the lapse of the United States-Japan commercial treaty – to give favourable treatment to Japan in respect of wool or any other commodity.

Machtig reflected on the extent to which British war policy had been compromised by the need to meet the interest of the wool industry: 'We have already gone further than we should have wished in committing ourselves to the supply of 75,000 bales up to the end of April'. He hoped that all this would convince the Australian government to agree to month-by-month deliveries.²²

Nevertheless, Menzies would not be deflected. His protests were passed on by Bruce to the Dominions Office. In a telegram on 6 February Menzies declared that the UK was ignoring Australia's economic and strategic interests in opposing sales of

²⁰ N B Ronald to A B Cohen, Ministry of Economic Warfare, 3 January 1940. DO 35/1089.

²¹ Notes of Meeting held at the Dominions Office on 30 January to discuss the sale of Australian wool to Japan. DO 35/1089.

²² For Machtig's views, see memorandum to S M Bruce from Sir Eric Machtig, February 1940. DO 35/1089.

larger quantities of wool to Japan. He repeated the incorrect view that British manufacturers were responsible for this because they had considerable influence over British policy-makers. These matters had been cleared up at an interdepartmental meeting on 30 January, so it could only be concluded that Bruce had not informed Menzies of the outcome of this meeting, or had 'reported that he was not satisfied with what he heard there'.²³ Bruce, of course, knew only too well that once the pressure from Australia eased, his negotiating strength would decline and bureaucracies such as the Dominions Office would lower the priority enjoyed by wool in interdepartmental discussions. Despite his public declarations of Empire-loyalty, Menzies continued doggedly to promote the woolgrowers' economic interests and Australia's appeasement of Japan. He gave an encouraging response to a Japanese request to buy wool after 30 June 1940 on the basis of one crossbred bale for every two bales of merino. The British were surprised to learn that independently of them, negotiations had begun between the Australian Central Wool Committee and the Japanese Consul-General. The Japanese had accepted that the wool would only be delivered in monthly lots of 25,000 bales, but they insisted on the ratio of one bale of crossbred for two of merino.²⁴

The intransigence of Menzies, the role played by Bruce, disunity within the British bureaucracy and the possibility of independent offers and decisions by the Central Wool Committee or the Australian government, all constrained the independence of British policy. The UK had paid a heavy commercial price for Australian wool, but now found that it could not freely use wool in the pursuit of political

or strategic objectives. The Dominions Office acknowledged that already the British had been compelled to compromise their policy by allowing wool to go to Japan under conditions not of their choosing. The Australians were willing and able to force the UK to modify its policy:

Owing to some misunderstanding (possibly deliberate on the part of Australia) in the correspondence between Lord Essendon's organisation here and the Central Wool Control (sic) in Australia, Japan was allowed a three months' programme covering February, March and April. This was contrary to our policy of 'hand to mouth' rationing of Japan, i.e. that the amounts to be released should not be disclosed to Japan more than one month ahead.²⁵

Although there were calls in April 1940 from Australia for a decision on wool sales for June onwards, the British had little choice but to wait. By this time the British government was especially anxious to maintain Japan's uncertainty over raw material supplies, because the British wanted to enlist the support of the Japanese for the British blockade of Germany by sealing the opening at Vladivostok from which goods could then pass to Germany along the Trans-Siberian Railway:

The policy envisages the early opening of negotiations with Japan for an agreement whereby they would co-operate with us. It had been proposed in order to put the Japanese in a receptive frame of mind, to impose drastic restrictions on British imports into Japan prior to and during the initial period of the negotiations. Largely at the instance of the Dominions Office it is now intended not to do much more in this direction than to maintain the existing restrictions both quantitative and by short term allocations and that the present allocation of one month's supply of wool from Australia to Japan is the most which United Kingdom authorities can be reasonably expected by the Commonwealth authorities to agree to at the moment.²⁶

²³ P Liesching, (PL) re-sale of Australian wool to Japan, 6 February 1940. DO 35/1089.

²⁴ P Liesching to Sir Geoffrey Whiskard, 11 March 1940. DO 35/1089.

²⁵ E Machtig 29 April 40. PL DO 35/1089.

²⁶ Attachment to 'Sir E Machtig', 29 April 1940. DO 35/1089.

A decision on wool allocations to Japan for June 1940 was also postponed because the Japanese were being 'deliberately obstructive' over the completion of a payments agreement with the UK, because 'they intended merely to keep the ball in play pending a decision on the far-reaching political issues now under review'.²⁷ Never likely to deprecate its powers, the Australian government challenged the British decision to continue with uncertain volumes of monthly allocations. Once again the Australians could not be ignored and the stiff resistance offered in the past made the British rather tentative and self-doubting.²⁸

By now the Australians were aware of the UK's limited ability to stand in the way of any southward advance by the Japanese. The Australians wanted the British to agree to Japan's demand that they close the Burma Road to China. This represented a radical departure from the UK's existing policy of close cooperation with the US policy of assisting China and embargoing Japan. For Menzies the issues were more pressing: 'Australia is vitally affected and we would not relish having to defend ourselves against even a minor attack from Japan in less than a year from now'.²⁹ In this context wool sales were of diplomatic and strategic importance, as well as a matter of economic gain:

Again it seems to us that suggested approach to Japan with a view to a solution of economic problems and with a statement that the British Government is willing and anxious to assure to Japan supplies of raw materials will be somewhat unconvincing to Japan when she knows that for a long time modest supplies of wool to her from Australia have been withheld.³⁰

III

Throughout the early years of the war the British government gave a high priority to the formation of an alliance with the US in the Far East and Europe. This process was accelerated when Japan signed the Tripartite Pact with Germany and Italy, by F D Roosevelt's consolidation in the presidency of the US, and by growing Japanese military pressure in south-east Asia. In this context the disposition of Australian wool caused another divergence between British and Australian interests. While the British were keen to avoid anything that would cause a rift with the US, they were also desperate for dollar exchange. British exports had been curbed so that the bulk of the UK's resources could be used for the war effort. The UK was under pressure to sell its overseas assets and gold reserves in order to pay for imports from the US. In November 1939 Lord Essendon agreed to supply wool to Canada and the US at a price 15 per cent higher than the imperial purchase price. At this stage the Wool Control knew that large stocks of unused wool would accumulate and that it was most important to sell off as much as possible since storage costs were also growing. The aim was not to 'realise fancy prices but get on with selling it at easy rates as soon as possible'.³¹ The British were quite keen to sell wool, but only if such sales were on commercial terms that did not undermine more important diplomatic and strategic concerns. The US Under-Secretary of the Treasury was told that the UK would do all it could to meet America's requirements once British needs had been met. The Americans were also told that the British did not intend 'to make undue profits from the United States'.³² This was not incompatible with the view from Australia. On the other

²⁷ Minutes, 6 July 1940. DO 35/1089.

²⁸ Ministry of Supply, minutes, 19 April 1940. DO 35/1089.

²⁹ Monthly War Files, July 1940. Telegram (in cypher) to Bruce, 9 July 1940. AA, CRS M100.

³⁰ *Ibid.*

³¹ Note of a meeting on wool prices, 7 November 1939. DO 35/1088.

³² Notes of representations made by other countries. DO 35/1088.

hand, under the influence of the Treasury, the British government rarely lost sight of the possibility of earning US dollars from wool sales. In July 1940 when the Americans eventually suggested that a wool reserve could be established in the US, the Treasury believed that 'our correct course was to force the United States to buy the wool and hold it themselves. This would be very helpful in providing us with much needed dollars and was too good an opportunity to be missed'.³³

The next question was whether the Americans should be induced to buy South African as well as Australian wool. In the Treasury's opinion, if the Americans were buying the wool it was up to them to decide what wool they wanted. The Ministry of Supply did not agree and suggested that it was appropriate to offer a quantity of South African wool, especially as it was accumulating rapidly and would prove more difficult to sell than Australian wool. This issue was left unresolved, but the British government was determined for the time being, to confine discussions 'to the Embassy and keeping the... Australian Ministers out of them'.³⁴ This was easier said than done. The importance of keeping things from the Australian government emerged once it became necessary to discuss the matter with Bruce. The Dominions Office was worried most of all by the British proposal to require that the US take some South African wool, when the US wanted to buy Australian wool. It was decided that a representative of the Dominions Office should meet Bruce, but not in the presence of members of the other ministries. This would enable the Dominions Office representative to hear his views without making any commitment in response. Bruce would know that no firm decisions

or commitments could be made, under circumstances when other ministries were not present. It was also necessary to conceal some of this from the South Africans. P Liesching emphasized to Sir Eric Machtig:

Whatever meeting is held with Mr. Bruce here, it is exceedingly important that not a word should be said in his presence regarding the consideration which we are giving to arranging that part of the wool to be stored in or acquired by the United States is Union wool. Just as the matter has to be dealt with with great discretion on this point at Washington, so it must be safeguarded here. The result of any leakage might be that the Union Government would hold off from our proposals for the joint acquisition by them and ourselves of the Union clip and might dispose of Union wool (outside our general arrangements) in the United States to meet American demands.³⁵

But Bruce was one step ahead of the Dominions Office and on the telephone before Liesching's memo had reached Machtig's desk. Bruce had learned of the US scheme on the diplomatic grapevine, and having anticipated the Dominions Office ploy, he requested a meeting as soon as possible with representatives of the Dominions Office, Foreign Office, Ministry of Supply and the Treasury.³⁶ The Australian government had also been alerted to the whole scheme through R G Casey its representative in Washington.³⁷ Bruce agreed that the UK owned the wool and that the US should pay for it, but it seemed to him that the key issue was whether there was likely to be a surplus of wool that would be difficult to sell. With France out of the war a surplus over and above UK requirements was probable. He was close to the emerging consensus within the British government, when he expressed the opinion that it would be ideal to sell the wool to the Americans, but if this was not possible 'would it not be a good move to get the

³³ Sir E Machtig. Mr Liesching. 17 July 1940. United States Suggestion for Creation of a wool reserve in the United States. DO 35/1089.

³⁴ *Ibid.*

³⁵ PL 17.7.40, minute. DO 35/1089.

³⁶ Minutes Sir E Machtig, 17 July 1940. DO 35/1089.

³⁷ Minute 19 July 1940. DO 35/1089.

wool away from Australia and into the United States where it would at least be readily accessible'.³⁸

There were political and strategic pressures in Australia and the Pacific that made it necessary to conclude the arrangement with the Americans, who continued to reject the UK's efforts to include some South African wool. The Americans had pointed out that a possible Japanese naval threat in the Pacific made it necessary to lift as much Australian wool as possible, sooner rather than later. By August 1940 the Dominions Office was convinced that the Australians simply had to be told that the Americans wanted Australian wool, but that the British government had been trying to persuade them to take some South African wool as well; the Ministry of Supply agreed. By September 1941 the Americans were moving closer to war with Japan and were willing to buy 250 million lbs of wool. Now wool sales were part of a larger set of problems associated with lend-lease and British payments for US military aid. The fundamental economic objective of the British government was outlined by the Foreign Office in September 1941: 'Proposals now under discussion in Washington for sale to United States Government of wool in the strategic reserve or to be shipped for that reserve during the rest of this year arise primarily from the urgent need to augment our current dollar resources which are gravely depleted'. When similar negotiations had taken place in December 1940 the Americans had refused to pay for wool. Now with war in the Pacific likely and some concern over the ability to ship wool from Australia, the Americans had to give ground and the British believed that the time was ripe 'to avail ourselves of this means of obtaining dollars which we urgently require'. The British could only hope that the Australian

government would be sympathetic to the pressure on them to dispose of some South African wool, although the negotiators in Washington were instructed not to advance the interests of Australia over those of South Africa. In any case most of the wool would have to come from Australia, and the Australian government was aware of the US preference for Australian wool. The Australians were demanding that the US pay more than the UK had paid to the woolgrowers. Also, if the best quality wool was sold to the Americans at cost, there would be little margin for meeting losses when disposing of inferior wools: 'Anticipation of Australian growers of dividend would not materialise'. The Australian government searched in vain for a counter-pressure to the UK's need for dollars, a need that made the British anxious to complete a sales contract with the US. The Australian government hinted that it would accept a trade-off between British and Australian interests, but stressed how crucial the outcome was for Australia's economy and capacity to contribute to the war effort.³⁹

As time passed the British grew more desperate to earn dollars and could not resist effectively the demands of the Americans. Like Australia the UK would benefit from a higher price, but the short-term pressures on the British government were overwhelming. The British negotiators were resigned to the American price, which left the British government and the woolgrowers with a small margin for profit. They did not believe they could get a better one and were paralysed by a fear that the US could withdraw from the whole deal. In October 1941 the Defence Supplies Corporation of the US agreed to buy all the Australian wool that could be shipped by 31 December 1941 at 10 per cent less than the f.o.b. commer-

³⁸ *Ibid.*

³⁹ For this paragraph including the quotations, see PL 8 October 1940. Creation of a reserve of 250,000,000 lbs of Australian wool in the United States. DO 35/1089.

cial price. This was not an unreasonable compromise given the declining negotiating strength of the British. The Treasury warned that unless the wool sale went ahead by the end of March 1942, the UK would run out of dollars. The Treasury wanted to avoid selling gold to the US while negotiating over UK dollar requirements. Those handling the wool negotiations in the US were informed, that it was 'most important to get in wool proceeds during the next few days'.⁴⁰

IV

A common war effort, ethnic loyalty, and imperial sentiment were not enough to prevent another outburst of commercial bargaining in 1942. The British government was aware that the agreement between the two countries allowed for negotiations each May, and in 1941 the British wondered if they had been excessively generous in 1939. Given Australia's failure to co-operate with the British government's policy of manipulating Japan's wool supply, the British considered whether to exercise their right to seek a review of the purchase price. It was suggested that Australia could be asked to share in the losses as well as the profits that flowed from the imperial wool purchase. But once again the political constraints on the British came to the fore. The Australian High Commissioner was informed: 'We assume that any such review would create great difficulties for your Government, which we are anxious to avoid and accordingly we have decided not to raise the question in this form'.⁴¹ In addition, the Ministries of Supply and Economic Warfare believed that a fall in the purchase price paid to Australia would have to be translated into lower issue

prices at which the British Wool Control sold wool in the UK and to neutrals: 'An immediate result of such a reduction would probably be resentment in the USA. in view of their recent heavy stock purchases and a virtual cessation of new export orders'.⁴² The Ministry of Supply and the Dominions Office combined forces to oppose the other suggestion, that Australia be asked to share in the losses as well as the profits from the resale of wool during and after the war. They pointed out that the Australians would offer great resistance to such a change.⁴³ What was more, Australia could 'ask for an increase in the buying price now to enable them to set aside a reserve against the possibility of loss at the end of the war'.⁴⁴

At this point Bruce's action in 1940 came into play. In May 1940 Bruce had raised the possibility of Australian wool-growers sharing in profits from resales by the British government within the UK. It seems that the beguiling Bruce had used this slightly outrageous claim to short-circuit preliminary moves by the British to renegotiate the imperial wool purchase. He had made the British aware of what could be asked of them and this had encouraged them to be cautious about making demands of their own.⁴⁵ The British had to take into account the possibility that the Australians could ask for a share in the profits from sales by the British government in the UK. Also, Australia would ask to be closely involved in the UK's wartime selling policy. This would hamper the ability of the UK to use wool in economic warfare, for diplomatic purposes, and to earn precious US dollars. The Australians had demonstrated just how difficult they could be over sales to

⁴⁰ Outward telegram (Cypher) from Foreign Office to Washington, 20 March 1942. DO 35/1087.

⁴¹ Draft letter to the Australian and New Zealand High Commissioners from the Minister without Portfolio. DO 35/1088.

⁴² Note of a meeting held at the Treasury on the 2 May. DO 35/1088.

⁴³ *Ibid.*

⁴⁴ A R Duncan, Ministry of Supply to Sir Kingsley Wood, Chancellor of the Exchequer, 26 May 1941. DO 35/1088.

⁴⁵ Dominions Office to Sir Geoffrey Whiskard, 8 June 1940. DO 35/1088.

Japan. In this way the British expressed and reinforced the limits to their power. The Dominions Office noted in May 1942:

In 1941 there was considerable pressure here for the United Kingdom to take up the question, not so much because the price was thought to be too high, but rather because this would be an indirect means of negotiating for revision of certain other features of the arrangements which were regarded as being too favourable to Australia. After a good deal of discussion here and inter-changes between Ministers, this proposal was eventually dropped.⁴⁶

From 1940 to 1942 Australian wool-growers were also divided over whether to ask for an increase in the price, but politically active woolgrowers within the Australian Woolgrowers' Council were of the opinion that 1942 was the best time to push for a better price, despite the reluctance of some of the Council's members. Production costs had increased and smaller growers who produced crossbred wool were protesting that prices on spot markets had risen beyond the imperial purchase price.⁴⁷ So the Australian government sent H V Evatt, the Minister for External Affairs, and W S Robinson, a leading figure in major Anglo-Australian mining companies, to the UK. They informed J M Keynes, that they would be seeking an increase in the price of wool of 22½ per cent. The British bureaucracy did not have a common view. For its part the Dominions Office returned to the assumptions that had guided British policy in 1939 and concluded 'that it would be a mistake to haggle over a price increase, especially as we shall probably have to finance Australia in any case'.⁴⁸ The Ministry of Supply suggested that in return for acceding to the price increase the UK could ask for a change in the original agreement so that Australia would share some of the losses from bulk purchase

arrangements. But not surprisingly the Ministry of Supply eventually decided not to pursue the matter because it was anticipated that the Australians would respond by demanding a direct say in the UK's selling policy, which would create problems for the Ministry of Supply and the Wool Control.⁴⁹

However, the British government wanted to make some savings. A representative of the Ministry of Supply met privately with Robinson and put it to him that perhaps the Australians could reduce the amount paid to them by the UK to cover storage costs. The British did not feel that they could ask for much more, because a public declaration in Australia had limited their options. A meeting of the major ministries was informed that 'from the political standpoint the main factor seemed to be that the Commonwealth Government had announced that Dr Evatt had been instructed to seek an increase of price. They had thus committed themselves in public on the proposal for an increase and it seemed pretty clear in the circumstances that something would have to be done to meet them'.⁵⁰ But there was some room for negotiation and it was decided to agree to an increase of only 15 per cent. The plan was to initially offer only 12½ per cent and then concede up to 15 per cent in return for an adjustment to the ¾d storage charge.⁵¹ The British were convinced that they could not give the impression that they were unmindful of Australia's economic well being, as to do so would make it politically difficult for the Australian government to continue to contribute to the war effort and could dampen popular support for the UK's cause.

Evatt and Robinson's case rested on an increase of 10-15 per cent in production

⁴⁶ Price to be paid for Australian wool, 13 May 1942. DO 35/1088.

⁴⁷ M Chesson, general secretary, the Wheat and Woolgrowers' Union of Western Australia to the secretary, Australian Wool Board, 3 January 1942. E246/11.

⁴⁸ Price to be paid for Australian wool, 13 May 1942. DO 35/1088.

⁴⁹ *Ibid.*

⁵⁰ Report on meeting held at the Treasury, 14 May 1942. DO 35/1088.

⁵¹ *Ibid.*

costs since 1939 and a deterioration in Australia's external balance. Although the British Treasury had armed itself with arguments against these two claims, it was decided to concede a price rise, although the initial offer had been changed to 10 per cent rather than 12½ per cent, as the former was at the bottom of the range of Australia's estimate of increased costs of production. In return Australia would be asked to pay to the UK any profits earned from storage charges, and Robinson had already agreed to this. Such profits would amount to what was left over after the real costs were deducted from the ¾d per lb paid by the UK to cover expenses from warehouse to f.o.b. This was not an onerous concession for Australia to make and was outweighed by the benefits flowing from the higher price. The ¾d had been annoying the British since January 1940. Generally, the acceptance of an increase of 15 per cent by the Australians was regarded as something of a victory, given previous examples of Australian commercial bargaining. Interestingly, while Evatt was negotiating over the new price for wool, the British were also persuaded to lend sterling to Australia to ensure that Australia's London reserves were not depleted. No interest was charged on these loans for the duration of the war, and how they would be repaid was left open for discussion at the end of hostilities. The willingness of the British to make these loans showed that they recognized that Australia did have balance of payments problems, which incidentally, would be alleviated to some extent by the improved price for wool. Since September 1939 import prices had risen by 50 per cent while the prices of Australia's exports were held steady, so the terms of trade had moved against Australia. Imports had been curbed while export production had been maintained, but the external balance remained unstable. Australia needed to earn more from exports in order to pur-

chase the imports required for the war effort and to service the American armies gathering in Australia. For the Australian government an improvement in the commodity balance was preferable to overseas borrowing, so it was glad to receive the 15 per cent increase in the price of wool.⁵²

V

Australia's dominion status and the fact that the UK was the sole buyer did not bestow overwhelming power on the British government. In the case of restrictions on wool exports to Japan, the British government tried to use its apparent control of Australian wool to pressure Japan into supporting the blockade of Germany and to secure other objectives, such as payment for Japanese exports in sterling. The Australian government had somewhat different commercial and diplomatic interests, which were connected and mutually reinforcing. Bruce and Menzies adhered firmly to a policy of selling wool to Japan. This policy had the advantage of meeting the material interests of the woolgrowers, the political needs of the Menzies government which had to mollify the Country Party, and the diplomatic objective of appeasing Japan at a time when the UK seemed to be losing the capacity to defend its interests in the Far East.

Far from easing the financial burden of war on the UK, the wool purchase increased it. Bruce and the Australian government obtained a satisfactory price from the British by clever bargaining that involved a willingness by Australia to concede less than was surrendered by the British government. The price paid was acceptable to most of the leaders of the

⁵² Memorandum for Dr Evatt, from W S Robinson, 14 May 1942. DO 35/1088. For Australian borrowing from the UK see K Tsokhas, 'S M Bruce, Imperial Relations and War Finance, 1939-1943', *Australian Journal of Public Administration*, 49, no 4, 1990, pp 442-55.

wool industry and members of the Australian government, who understood that it was not in the interests of woolgrowers to have a price that was high enough to encourage substitution of wool by synthetics. There were other benefits. The price uncertainty of the 1930s was eliminated by the guaranteed price paid by the UK. Woolgrowers would share in the profits from the resale of wool outside the UK by the British government. Given the loss of major markets in Europe and shipping shortages, the industry would have faced ruin if the British had not purchased the wool. When the British reconsidered what had been agreed to in 1939, they could not bring themselves to demand that Australia share in the risks and the losses. From earlier experiences they knew that Bruce and the Australian government would offer stiff resistance and would counter with new demands of their own. To the extent that all the wool was purchased, the UK assisted Australia's balance of payments, and stimulated investment and capital accumulation. The British recognized that this was vital to Australia's ability to contribute to the war effort.

For their part the British were assured of an adequate supply of wool for their armed forces. They also gained ownership of large stocks of unused wool, but they could not convert ownership into total control because the Australian woolgrowers retained a residual interest in the wool and were entitled to 50 per cent of any profits from resales. The British did not make policy on their own, and did not have a monopoly of information. While the British conception of the uses of wool grew wider, under the imperial wool purchase they had agreed to consult the

Australian government over resales to neutral countries such as Japan and the US. Whatever the formal commitments, the British assumed that they had to discuss resales with the Australian government, and the Australians never doubted that it was perfectly legitimate for them to express views and make demands. In the case of wool sales to Japan, British policy was influenced by a need to respond to Australian interests and perceptions. Indeed, decisions in Australia compromised British policy. The British government found it difficult to withhold information from Bruce, the Central Wool Committee, and the Australian government. The British government was further constrained by a concern within the Dominions Office and the Foreign Office to avoid political conflict with Australia. In the case of wool sales to the US the British tried secretly to promote the sale of some South African wool, but their deception was not very costly for Australian woolgrowers as the vast bulk of the wool bought by the US came from Australia. The British government and the woolgrowers also had interests in common. Both stood to benefit from sales of wool to the US at high prices, but the British were not in a strong negotiating position. Desperate for dollars, the UK sold the wool to the Americans for less than the Australians or the British would have preferred. Nevertheless, wool sales to the US helped to stave off further sales of British overseas assets and gold. Even so, the imperial wool purchase demonstrated how difficult it was to mobilize the resources of the dominions behind British strategic and foreign policy objectives.