Rethinking Operation Robot:
A prelude to monetary ‘genuflection’

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December 2025

Discussion Paper No. 2525

GRADUATE SCHOOL OF ECONOMICS

KOBE UNIVERSITY

ROKKO, KOBE, JAPAN

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Executive summary

This article re-examines Britain's Operation Robot of 1952 and the subsequent Collective Approach from both economic and monetary perspectives.

Operation Robot was a radical plan to restore sterling convertibility through a floating exchange rate. It faced fierce resistance in Churchill's Cabinet and was dismissed after six months. Following Robot's failure, Britain shifted to the Collective Approach, which sought floating-rate convertibility through combined action by the Commonwealth, Western Europe, and the United States. However, America's "pretty frosty refusal" led to its demise. Britain subsequently adopted de facto fixed-rate convertibility, becoming incorporated into the IMF's "fixed but adjustable system."

Traditional historiography has treated Operation Robot as merely a transitional experiment. This article positions Robot and the Collective Approach as interconnected events examined through dual rationales. Economically, floating rates would provide automatic adjustment, while opponents feared depreciation would trigger inflation and unemployment. In monetary terms, Robot aimed to protect sterling's international status. Sterling's "marginal inconvertibility" created exchange control leakages through cheap sterling markets, undermining its credibility as an international currency.

The Collective Approach replaced "floating" with "flexible" rates and attempted to revive the IMF's scarce currency clause. Britain proposed that while debtor countries would adopt deflationary measures, the US should pursue "good creditor policies," particularly tariff reductions. However, the US Treasury remained skeptical, and Congressional protectionism prevented the expected support.

By mid-1955, the Collective Approach had failed. Although floating convertibility was abandoned, the monetary rationale persisted, eventually achieving fixed-rate convertibility through gradual stages.

The article recontextualizes Operation Robot within the "impossible trinity" framework. Through flexible exchange rates, the Robot planners sought to expand policy discretion to achieve full employment. This was not a return to nineteenth-century laissez-faire but a search for a conservative "third way" that would maintain Keynesian full employment and the welfare state while shifting from Labour's control-oriented planning toward market mechanisms.

Robot's failure demonstrated that Britain lacked the power to unilaterally reshape the international monetary system as it had in the 1930s, nor could it rely on Anglo-American alliance diplomacy. The failure, together with the Suez Crisis, pushed Britain toward European integration and onto a path of "genuflection" to the IMF under US dominance. Ironically, this pre-emptive crisis had transformative effects, marking Britain's transition from the American rescue of the nation-state toward the European rescue.

I Introduction

When Operation Robot[1], an initiative aimed at floating convertibility for non-residents[2], circulated as a top-secret in the Treasury in February 1952, Donald MacDougall 'was dumbfounded' and Edwin Plowden reacted with 'one of great puzzlement'[3]. Robert Hall did 'feel much puzzled and perplexed.'[4] This radical scheme, which originated in the Bank of England and was framed by 'Otto' Clarke at the Treasury, faced fierce resistance from cabinet members. Ultimately, it turned out to be a failure: the scheme was dismissed by the Cabinet six months later.

The roots of this failure lay in the prevailing economic orthodoxy, heavily influenced by Lord Cherwell, Churchill's wartime confidant and then Paymaster General. The idea of floating-rate convertibility was at the centre of Cherwell's criticism, as he warned of serious repercussions both at home and abroad: 'At home it would mean a rise in the cost of living, the danger of a wage-price spiral, and growing unemployment', and while abroad, it would signal the end of the European Payments Union (EPU), possibly antagonise the US, and prompt many Commonwealth countries to leave the sterling area.

[1] Operation Robot's active advocates were Richard(Otto) Clarke, Under-Secretary at the Treasury and Thomas Leslie Rowan, Head of the Overseas Division at the Treasury's finance division, and George Bolton, Director of the Bank of England, and the code name Robot was christened after their names (ROwanBOltonOTto). with the implication of 'an automatic regulator' A. Cairncross, *Years of Recovery British economic policy 1945-51*, (London, 1985), p.244

[2] More precisely, it was closer to exchange rate flexibility with wider margins, designed to stay within the limits of 15 per cent either side of the official parity, i.e. around $2.40 - $3.20. T 236/3241 'External Action; Draft memorandum by the Chancellor of the Exchequer', pp.5-6.

[3] In 1951 D. MacDougall was Chief Advisor to R.A. Butler, Chancellor of the Exchequer, and E. Plowden was Chief Planning Officer of the Treasury. MacDougall, *Don and Mandarin: Memoirs of An Economist* (London, 1987), p.86, E. Plowden, *An industrialist in the Treasury: The Post-War Years* (London, 1989), p.144.

[4] T 236/3240, Letter to Edwin Plowden, 22nd February 1952. Robert Hall was Director of the Economic Section, Cabinet Office. E. Bridges, Permanent Secretary, Treasury, was rather sympathetic towards Operation Robot; he did not think that 'the scheme is perfect as it can be and may not be capable of amendment. But at least it seems to me something which we can work on…,' TNA T 236/3240, Memorandum from Edward Bridges to Edwin Plowden, 22nd February 1952.

[5] He was adamant that 'the pound should become convertible only when the balance of payments and reserves were strong enough and when the dollar shortage had been sufficiently alleviated.'[6] To him, Operation Robot represented 'a financial *coup d'état* which could only be achieved in an atmosphere of panic, crisis and extreme secrecy'[7].

In his detailed analysis of Operation Robot in the mid-1980s, Cairncross describes the debate, particularly at official level, as 'the most sophisticated', compared with other debates over exchange-rate policy, but criticises its effectiveness: 'In retrospect, Robot would have been disastrous, politically and economically.'[8] He therefore credits Cherwell with having almost single-handedly stymied Operation Robot in the Cabinet.[9]

The doomed attempt at Operation Robot had a bitter prequel. In 1947, Britain had daringly but unsuccessfully attempted to make sterling convertible, an endeavour that later paved the way for the ignominious devaluation of 1949, when the currency was drastically reduced in value from $4.03 to $2.80. The rush to convertibility in 1947 was 'driven by the demands of Anglo-American relations'[10]. In contrast, Operation Robot was primarily motivated by Britain's assertiveness in seeking the convertibility of sterling which had, though held internationally, been inconvertible. It was, indeed, 'a British plan for mainly British action.'[11] In technical terms, however, the emphasis was on floating rate convertibility rather than the fixed rate convertibility envisaged by the IMF and the US,

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[5] F. Birkenhead, *The Prof in two worlds; The official life of Professor F.A.Lindemann, Viscount Cherwell*, (London, 1961), pp.286-7
[6] Ibid, p.289
[7] Ibid.
[8] Cairncross, op.cit., p.270
[9] Ibid. p.271
[10] R. Middleton, 'Struggling with the impossible: sterling, the balance of payments and British economic policy, 1942-72', A. Arnon and W Young (eds), *The Open Economy Macro model: Past, Present and Future*, (London, 2002), p.116.
[11] J. Fforde, *The Bank of England and Public Policy 1941-1958* (Cambridge 1992), p.448

which thereby sparked a flurry of controversy. The operation' s main features were: a floating of exchange rate for sterling (to keep the rate within the limits of 15 per cent of the official parity of $ 2.80, i.e. about $2.40- $ 3.30), full convertibility into gold, dollars or other currencies on a free market in foreign exchange for 'overseas' or 'external' sterling, and compulsory funding (funded by conversion into government bonds)of 80 per cent of the the sterling balances held by the sterling area and the funding or blocking of nearly all balances held by non-members outside the dollar area. [12]

The idea of floating sterling, however, did not soon die out. That secret scheme, once released from its confines, was transformed into a grand multilateral solution called the Collective Approach. Unlike Operation Robot, which was an emergency response to the balance of payments crisis, this approach would offer a rich vein of enlightened rhetoric; it sought to introduce floating-rate convertibility not only 'as a result of combined action by the Commonwealth, Western Europe and the United States', [13] but as an enlightened project aimed at coupling floating-rate convertibility with 'a multilateral trading and financial system covering the free world' [14]. However, US's 'pretty frosty refusal' led to the demise of the Approach. In its wake, what ensued was the adoption of *de facto* fixed-rate convertibility, and the British economy was irresistibly incorporated into the "fixed but adjustable system" under the guise of 'Butskellism.' [15]

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[12] TNA T 236/3241 'External Action', p.5a, TNA T 236/3240, 'Convertibility', Memo by Clark to Rowan, 25th January 1952. Cairncross, op.cit., p.245. Burnham regards this floating as a 'dirty float,' Burnham, P, *Remaking the Postwar World Economy Robot and British Policy in the 1950s,* (London 2003), p.41.
[13] Burnham, p.109
[14] UK National Archives, T 236/3368, 'Summary of a memorandum by a group of officials on steps to convertibility' by a group of officials, 31 August 1952, p.1
[15] 'If the pound had been set free in 1952 the word 'Butskellism' might never have been invented.' Lord Butler, *The Art of the Possible: the memoirs of Lord Butler* (Harmondsworth, 1973), p.160.

The historiography of Operation Robot has predominantly centred on its domestic economic aspects, often dismissing it as merely a transactional experiment during the post-war transition. But was there truly no transformative element? This article aims to refresh the historical narratives of Operation Robot by not only examining it through the lens of both monetary and economic rationale but also by situating Operation Robot and the Collective Approach as interconnected events rather than isolated occurrences. It begins with an overview of the existing historiography, followed by an exploration of the implications of currency convertibility. The article then addresses the origins of floating convertibility, analyses the key features of Operation Robot and the Collective Approach, and concludes with a re-evaluation of its historical significance

II Historiography of Operation Robot

Operation Robot was a political failure, but its setback has often been the subject of retrospective criticism. A relatively early assessment of Operation Robot was carried out by Andrew Shonfield Operation: ' In fairness it should be said that this robot scheme might well have worked and altered the whole course of British economic policy…There is something in the view that if the bold stroke had been taken then, with everything risked on a single throw, it would have imparted a sharp point and a coherence to Conservative policy.'[16] Samuel Brittain then followed suit. What this unsuccessful attempt left was, he argued, 'a period of delay, during which Britain had most of the drawbacks of sterling convertibility and none of the prestige.'[17] In later years, his view became even more

[16] A. Shonfield, *British Economic Policy Since the War*; Harmonds- worth, Middlesex, Penguin Books, 1958, pp.217-8.
[17] S. Brittian, *Steering the Economy; The Role of the Treasury,* (London, 1964), p.122.

entrenched, framing the complete abandonment of floating-rate convertibility as 'the greatest missed opportunity in British economic policy since World War II'.[18] Peter Burnham subsequently aligned himself with Brittan, positing that Britain could have assumed a leading role in restructuring the international political economy to arrest economic and political decline. He further suggested that 'the plan would have encouraged structural adjustment of the British economic management and jettisoned the politicized form of economic management, with its attendant problem of "overload", which ensnared governments until the late 1970s'.[19]

What has remained an undercurrent beneath the layers of argument about the Robot scheme is its implications for economic management or, as Bulpitt and Burnham suggest, 'the *substance* of the Robot scheme'[20]. The discourse on Operation Robot has centred on whether the idea was designed to solve Britain's balance of payments problems as a short-term remedy, or whether Robot could have represented an attempt at structural reform, using the external market forces of floating convertibility as an instrument of a 'supply-side revolution' [21] . The implication of Robot could be interpreted as transitional or transformative, otherwise stated, contingent or structural.

The transitional view currently seems predominant. As Roger Middleton suggests: '… the most recent works have downgraded the radicalism of ROBOT, at least in its implications for the domestic economy. ROBOT is now understood as more the product of

[18] S. Brittain, 'Black or White Wednesday UK ERM membership in retrospect', Talk at the Institute of Economic Affairs, 16/09/02, retrieved from http://www.samuelbrittain.co.uk/spee23-p.html on 4 August 2008
[19] Burnham, op. cit., p.185
[20] J. Bulpitt, J and P. Burnham, 'Operation robot and the British political economy in the early-1950s: The politics of market strategies', *Contemporary British History*, Vol.13, No.1(Spring 1999), p.5
[21] Ibid., p.27.

contingent circumstances than of some generalized reflection against the (domestic and international) postwar settlement.'[22] Robot might, as Middleton argues, have been a transitional measure, particularly in the light of the domestic political economy. It seems debatable, however, whether Robot can truly be described as a transitional or situational attempt in terms of its global implications.

Another crucial dimension that must be addressed is whether the scheme of Operation Robot was conceived in terms of economic or monetary rationale. A significant part of the existing historiography tends to position Operation Robot within the first perspective rather than the latter. Between Robot's planners and opponents, it could be argued, lay conflicting views on economic and monetary rationale—one being the relationship between a floating rate and the management of the British economy. Whilst Clarke argued that a floating rate would deliver 'equilibrating pressure on the economy'[23]. 'The rate falls; import prices rise; there is stimulus to exports. The whole economy feels these movements and adjusts itself to them.'[24] There were fears that moving to floating convertibility would accelerate the depreciation of sterling, and, as Lord Cherwell suggested, this would result in 'a rise in the cost of living, the danger of a wage-price spiral, and growing unemployment.' [25]

The issue was whether floating rates would provide the economy with flexibility and a self-adjustment mechanism. Similarly, Alan S. Milward, writing retrospectively about Operation Robot, is sceptical of the impact that the restoration of convertibility to non-

[22] R Middleton (2002), p.120
[23] TNA T 236/3240, Convertibility, RWB Clarke, 25th January 1952, p.8
[24] Ibid.
[25] F. Birkenhead, op.cit., pp.286-7

residents through floating exchange rates would have had. He argues that 'The removal of trade controls against imports priced in dollars, however, would certainly have increased their [British goods'] volume and, through the devaluation of the pound, their value.'[26] In response to Burnham's argument, C R. Schenk questions whether Operation Robot alone would have led to structural reforms to increase productivity in British industry, even if it had helped to make exports more price competitive.[27]

As such, the debate on Operation Robot has been overly biased towards the economic rationale. Another important but hitherto generally underexplored issue, apart from the writings of S. J. Procter and S. Newton, is that of monetary rationale, which considers its operation in the context of the sustainability of sterling as an international currency. Procter argues that 'Robot was a plan aimed at protecting sterling's status rather than solving the balance of payments crisis.'[28] Newton does not differ significantly from Procter, as he also contends that Operation Robot should be viewed in the context of sterling as an international currency. However, his argument is informed more by a political economy perspective; not only the Bank of England but also the Treasury, particularly its Overseas Finance Division, sought to defend the international status and acceptability of sterling amidst domestic deindustrialisation. 'Operation Robot in 1952,', he argues, 'marked the postwar resumption of this conscious effort by Britain's dominant class to ensure the identification of finance's needs… it ran in parallel with the liberalism of middle

[26] A S. Milward, *The European Rescue of the Nation -State*, 2nd edition, (New York, 2000), p.388
[27] C R. Schenk, *The Decline of Sterling Managing the Retreat of an International Currency 1945-1992*, (Cambridge, 2010), p.105.
[28] S J. Procter, Floating convertibility: The emergence of the robot plan, 951-52*, Contemporary British History*, 7:1, 24-43, p.38

class consumers, small businessmen and rentiers who make up the electrical bedrock of modern British Conservatism.' [29]

Both arguments are worthy of consideration, but the crucial issue is whether floating convertibility would hasten the demise of sterling as an international currency or contribute to its preservation. The sense of dread surrounding Operation Robot stemmed from the fear that the fixed exchange rate would become unsustainable due to insufficient foreign exchange reserves, ultimately leading to the demise of sterling as an international currency.[30] On the other hand, there was also a view that Robot's plan to unilaterally block the sterling balances—designed to prevent an accelerated fall in sterling—might instead undermine sterling's status as an international currency.[31] The complexity of Operation Robot lay in the dilemma between its economic rationale and market rationale. In fact, it was a major conflict over the economic rationale that led to the abandonment of Operation Robot, which had arisen in response to fears caused by a sharp deterioration in the balance of payments in 1951. However, these fears, it could be argued, were unfounded, as Britain did not experience a severe balance of payments crisis in the following years, apart from the Suez crisis.[32] The British economy at that time managed to maintain relative stability with near full employment until the early 1970s, although sterling was subjected to

[29] S. Newton, Operation 'Robot' and the political economy of sterling convertibility, 1951-1952, *EUI Working paper* No. 86/256, p.37
[30] TNA T 236/3241, External Action, Draft memorandum by the Chancellor of the Exchequer, 26th February 1952, p.2
[31] T236/3240, External Action by Robert Hall, 23rd February 1952, p.2
[32] A small trade deficit of £51 billion in 1951 was followed by a large deficit of £689 billion in 1952, and the current account balance went from a surplus of £307 billion in 1950 to a deficit of £369 billion in 1951, but from 1952 onwards the trade deficit narrowed, and the current account remained in surplus until 1955. Fifty Years of UK Balance of Payments - Pink Book data 1948-1997, ESCoE(Economic Statistics Centre of Excellence), https://www.escoe.ac.uk/research/historical-data/overseas-trade/

intermittent devaluations. The price, however, proved to be the dissolution of the the sterling balances and the demise of sterling as an international currency. Ironically, whilst pegged exchange rates under the IMF regime might have prevented the sudden collapse of sterling as an international currency, the subsequent senility and eventual demise of sterling as an international currency would not have been foreseen, even by the opponents of Operation Robot.

Examining Operation Robot from the combined perspective of economic rationale and market rationale leads us to what economists refer to as a trilemma or "impossible trinity". The rise of economic nationalism during the inter-war period prompted international economic governance through rules and institutions in the post-war era, resulting in a shift in the "impossible trinity". Under the Bretton Woods system, this trade-off involved 'pegged exchange rates with an element of flexibility that allowed devaluation and reduced the need to deflate the domestic economy to remain on a completely fixed rate',[33] necessitating the control of capital movements. The concept is also liked with what John G. Ruggie defines as 'embedded liberalism' which, unlike the classical or disembedded liberalism of the 19th century under the gold standard, is characterised by the idea that 'its multilateralism would be predicated upon domestic intervention', [34] as 'global markets require social legitimacy if they are to be sustained.' [35] Were the Robot planners attempting to move away from this trade-off? Before exploring this in more detail, it is crucial to consider the implications of currency convertibility. This leads

[33] J G. Ruggie, 'International regimes, transactions, and change: embedded liberalism in the postwar economic order, *International Organization* 36, 2, Spering 1982, p.393.
[34] A. Rawi, and J G. Ruggie. "The Principles of Embedded Liberalism: Social Legitimacy and Global Capitalism." In New Perspectives on Regulation, edited by David Moss and John Cisternino, 151–162. Cambridge, MA: Tobin Project, 2009, p.153.
[35] Ibid, p.161

us to examine how currency convertibility was anticipated to develop during a time when the British pound had not yet achieved full convertibility

III The implications of currency convertibility

The main reason for Robot's great controversy was the restoration of convertibility through a hasty transition to a floating exchange rate system. That was, admittedly, a rebellion against the IMF regime of fixed exchange rates, a system, precisely, of an adjustable peg system: the concept of an unauthorized change of par value 'allows a member to make a change in the par value of its currency in certain circumstances, notwithstanding the objection of the Fund…' whereas this special treatment 'has not been accorded to a unitary fluctuating rate.'[36]

It will be necessary here to clarify the meaning of currency convertibility at the time. It would not mean 19th century-style currency convertibility under the gold standard, which had allowed 'a private individual to convert a unit of any national currency into gold at the official fixed rate', [37] : 'it really means that anybody with sterling could come to the Bank of England and demand gold or dollars or other currencies without question.'[38] With the collapse of the gold standard, the concept of currency convertibility transformed itself into the liberalization of gold transactions in the marketplace under the flexibility of the exchange rate between gold and a national currency, and the liberalization of international transactions between national currencies. 'On the eve of World War II, *convertibility*

[36] J. Gold, 'Unauthorized Changes pf Par Value and Fluctuating Exchange Rates in the Bretton Woods System,' *American Journal of International Law*, Vol.65(1971), pp.127-8. Gold adds: 'Nevertheless, there is no automatic ineligibility to use the resources of the Fund in these cases, although the Fund can decide to impose ineligibility if it sees fit.'

[37] N. Alain, *An Exchange Rate History of the United Kingdom 1945–1992*, (Cambridge, 2020), p.6

[38] TNA T 236/5405, Memorandum dated 29th September 1958.

referred to the ability of a private individual freely to make and receive payments in international transaction in terms of the currency of another currency.'[39]

This naturally gave rise to a period of significant currency volatility, which in turn paved the way for the formation of a 'new currency club' based on the Tripartite Agreement of 1936. This was an initiative designed to restore currency stability. 'As a result, the price of each currency [the pound and franc] was fixed in terms of gold daily by consultation between central bankers and the stabilization funds, except for the dollar which remained at $35 an ounce as a point of stability in a flexible system.'[40] Market convertibility without gold as an anchor required central bank cooperation and intervention through stabilisation funds. The Tripartite Agreement facilitated a transitional process towards a new trade-off under the Bretton Woods system. by creating 'stability at home and abroad by allowing countries to co-operate in striking a balance between international stability and domestic flexibility.' [41]

The war led to the introduction of strict exchange controls and brought an end to currency convertibility 'to prevent capital transactions and to mobilise gold and foreign exchange assets and income.'[42] The postwar Anglo-American initiative to establish an international trade and monetary system demanded that the British pound's convertibility be restored as soon as possible. Post-war changes of sterling accounts were also the result of the Anglo-American Loan Agreement. In response to the war emergency, exchange controls were introduced, leading to the suspension of the full convertibility of sterling,

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[39]Alain, op.cit., p.6
[40] M. Daunton, *The Economic Government of the World: 1933-2023*(London, 2023), p.80.
[41] Ibid., p.79
[42] TNA T 236 3240, Inconvertible Sterling, George Bolton, 16th February 1952

which had previously served as a key international currency. It should be noted that these restrictions were implemented in a divided manner. Non-residents in countries with hard countries, such as the United States and Canada, were permitted to convert their sterling holdings into either the dollar or gold. Conversely, non-residents in countries with soft currencies were not afforded the same status of convertibility. This system was referred to as the Special Accounts system, which, in the aftermath of the Second World War, was superseded by the transferable account in accordance with the terms of the Anglo-American Loan Agreement. This was due to the United States' demand for the lifting of restrictions on current transactions. Consequently, non-resident accounts encompassed the sterling area, the American Account Area, the transferable account area, and all others (bilateral countries): transferable account arrangements 'aimed at fostering the use of sterling as an international currency' and the transferable account countries, 'unlike the Dollar Area countries in effect agreed to use and hold sterling as an international currency' They agreed to accept sterling in payment for current account transactions and agreed to retain the sterling they earned until it was needed for current payments. 'In effect therefore they committed themselves to sterling both as a means of international payment and as an international store of value.' [43] Whilst sterling had become the 'custodian of the whole

[43] B. Tew, International Monetary Co-operation 1945-52 (London, 1952), pp.129-30.
Sterling area: the UK, British colonial empire, Australia, New Zealand, India, Ceylon, Pakistan, Burma, Eire, Iceland, Iraq, Jordan, Libya, and South Africa.
American Account Countries: the US and her dependencies, Bolivia, Colombia Costa Rica, Cuba, Dominican Republic, El Salvador, Ecuador, Guatemala, Haiti, Mexico, Nicaragua, Panama, Philippine republic, Venezuela
Transferable Account Countries: Austria, Chile, Czechoslovakia, Danish monetary area, Egypt, Ethiopia, Finland, Greece, Italian monetary area, Norway, Poland, Spanish monetary area, Sudan, Swede, Thailand, U.S.S.R, Western Germany. Ibid, pp136-7.
'Bilateral 'countries: Argentina, Belgian monetary area, Brazil, Bulgaria, Canada, China, Formosa, French monetary area, Hungary, Iran, Israel, Japan, Lebanon, Paraguay, Peru, Portuguese monetary area, Roumania, Switzerland, Syria, Tangier, Turkey, Uruguay, Vatican City, Yugoslavia.
With regard to the American account area, current account payments were' made into American Accounts

Sterling Area's gold and foreign currency reserve'[44], the currency turned out to be an awkward international currency: it was freely transferable but not fully convertible or almost inconvertible between non-residents — an international currency with marginal inconvertibility or limited convertibility.

The failure to restore convertibility in 1947, with 'a drain on the Sterling Area gold and dollar reserves, forced Britain to suspend 'the right of Transferable Account countries to use sterling from sterling from their Transferable Accounts for making current payments to American Accounts'. [45] As the unification of the convertible dollar-world and the inconvertible sterling-world had failed, these events culminated in the devaluation of sterling in 1949. Nevertheless, Operation Robot's aimed at a departure from marginal inconvertibility or limited convertibility. The UK 'since the end of the war has accepted the principle that sterling in non-resident hand cannot be wholly inconvertible': 'We have recognized this in the provision for gold settlement on the more difficult bilateral accounts when the sterling balances rise above some agreed points. And elsewhere we have given a limited convertibility by the "transferable" and "administrative" arrangements': 'Inconvertibility has applied to the margin outside these arrangements. And in practice it has come to mean inconvertibility into gold or dollars.'[46]

> Being outside our jurisdiction, they [transactions in foreign-owned accounts] cannot be suppressed by our control – unless we got to the point of destroying sterling as an international currency by keeping it out of non-resident hands. [47]

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from accounts of residents of the Sterling Area and from Transferable Accounts', and it was provided that 'the British authorities should on demand freely convert into U.S. dollars all sterling paid into American Accounts.', ibid, p.131

[44] Ibid., p.130

[45] Ibid., p.133

[46] TNA T 236 3240, Inconvertible Sterling.

[47] TNA T 236 3240, Inconvertible Sterling

Operation Robot would, therefore, aim to overcome this 'marginal inconvertibility and consolidate convertibility in non-resident sterling, as limited convertibility had been permitted in four areas under strict exchange controls: the sterling area, the dollar area, the transferable-account countries, and the bilateral countries. This was an attempt to integrate two worlds: 'a greater sterling-based world system' [48]and a dollar-based world system. It was also an attempt at market convertibility. From a market mechanism perspective, the current account deficit could no longer be covered by foreign exchange reserves or public capital borrowing, and the foreign exchange balances would be concentrated in authorized banks, with financing conducted by the market, resulting in a shift to short-term capital transactions. The market-based convertibility of the current account balance would, therefore, eventually transform into short-term capital account convertibility. Moreover, this would integrate the fragmented non-resident markets and ensure that arbitrage between markets functions in non-resident sterling transactions. Nevertheless, the restoration of sterling convertibility in line with such a market mechanism could be seen as conflicting with economic rationale; it would trigger speculation for sterling and necessitate the implementation of austerity measures; it would destabilise a trade-off geared to internal stability, or 'stability at home'.[49]

III The genesis of floating convertibility

There were preliminaries to this debate, which are discussed in detail by Peter Burnham. [50] To highlight the main points, first, floating convertibility was not an argument that suddenly emerged in the balance of payments crisis of the early 1950s. The case for floating

[48] TNA T, T236.3240, Convertibility, RWB Clarke, 25th January 1952
[49] Daunton, op.cit., p.79
[50] Burnham, op.cit., pp.20-40

convertibility, made by Marcus Fleming and Thompson-McCausland, had already been discussed within HM Treasury early in the post-war period. It was not necessarily discussed solely as an economic prescription, but rather in relation to the viability of sterling as an international currency. Second, the Robot proponents, especially Clarke and Bolton, were initially reluctant to embrace floating convertibility [51] : it would be inconsistent with the Labour governments' planned economy, which was based on a rationale of controls. Third, as Burnham argues, three changes in circumstances compelled the Robot Planners to change their minds: rampant cheap sterling by non-residents outside the jurisdiction of exchange control, diminishing expectations of further financial support from the US, and the imminent meeting of Commonwealth Finance Ministers in January 1952.

In addition to these points, it could be argued that the reopening of the exchange necessitated a case for floating convertibility, although the realities supposedly suggested the opposite: 'Discussions in the Bank in early 1951, about a floating rate for sterling and the link between a floating rate and the restoration of convertibility had pointed out that it would be necessary to reopen the London market in foreign exchange. ' [52] The person who initiated this was Bolton. The objective of the reopening of the exchange market was ' to enable London to compete on equal terms with New York and redeveloping a source of invisible income….', and in late 1950, 'the issue arose in another form when Bolton became concerned about the use being made of the official provision of forward exchange

[51] Interestingly, according to Cairncross, the views of the participants in the Operation Robot debate reversed around 1950. Robert Hall, who had once been in favour of a floating exchange rate, turned against it, while Clarke, Bolton, who had once been against a floating exchange rate system, turned for it. Cairncross, op.cit., p.270
[52] Fforde, p.412.

cover.' [53] In December 1951, the London foreign exchange market reopened. Its significance lay in the fact that the the sterling balances would be open to speculation by non-residents in the forward market. Bolton's practical expertise as 'the Bank's market man' [54]allegedly guided him to believe that fixed rate exchanges, even if inconvertible, would be untenable, since it would be easier for non-residents to exploit leakage from the the sterling balances for building up speculative positions for sterling through forward exchange market.

Of all the individuals mentioned above, Fleming was the most distinctive in theoretical terms at that time. Flemming acknowledged that the shift to a floating exchange rate system would be incompatible with the Bretton Woods system. However, he considered 'the Fund conception of discontinuous, rare (and therefore large) exchange-rate arrangements' to be 'unworkable.' [55] He argued that floating convertibility would aim to restore the British pound as a reserve currency by escaping from that system. The logic behind this was its reliance on the automatic adjustment of exchange rate fluctuations under free exchange controls: 'when considering exchange-control and capital movements, we have to bear in mind that floating exchange rates operate largely by <u>harnessing</u> capital movements.'[56] There was, at the same time, pessimism that the Rules of the Game under a 19th century-style gold standard, with the fixed exchange rate underpinning free movements of capital underpinning could not be entirely counted on. It was expected that 'the floating rate system would not weaken the Sterling Area System', as it would provide "a ' respectable way' of devaluing vis à vis the dollars at times of US recession and low

[53] Ibid.
[54] R.S. Sayers, *The Bank of England 1891-1944*, (Cambridge 1976), p.572
[55] TNA T 236/2311, A memorandum to Mr. Playfair by Fleming, dated 3rd March 1950
[56] Ibid.

dollar prices."[57] For Flemming, the transformative implication of a floating pound would be 'a dash for freedom' in the sense that its purpose 'would be to help abolish bilateralism and import restrictions.'[58] It was also viewed as a means of preventing sterling from losing its status as an international currency in the IMF regime: 'We certainly did not do more than make a genuflection in the I.M.F. direction when we devalued the pound….The maxim for the Fund must be: "Adapt or perish!".'[59]

Fleming's argument was not only theoretically clear but also supported by the experience of the relatively successful operation of a floating exchange rate system in the UK in the 1930s: ' I don't know any financial or commercial regime which has a better record than our floating-exchange rate system in the thirties', since the UK 'started in 1931 with virtually no reserves,' yet managed to 'carry out an expansion of internal incomes, prices and employment …without disaster to our balance of payments and foreign trade' and without significant deterioration in its terms of trade.[60] With the benefit of hindsight, this perspective arguably appears forward-looking, given the developments following the collapse of the IMF regime after 1973, which led to the transition to a floating exchange rate system with free capital movements and the preservation of the dollar as the key currency in the process.

Fleming's arguments represented a significant theoretical contribution to the concept of Operation Robot, establishing a direct link between floating and convertibility. Clarke's work was notably influenced by Fleming's ideas, whilst Thompson-McCausland's

[57] Burnham, 2003, p.25
[58] Ibid.
[59] Flemming, op. cit.
[60] Ibid.

arguments gradually gained attention and support from Bolton. It was not until April 1951 that Thompson-McCausland began explicitly arguing for floating convertibility in response to Bolton's memo of March of that year, which implicitly argued against floating convertibility. Thompson-McCausland argued on the grounds of the impracticality of allowing the economy to adjust to a fixed market rate; ‘The old principle of fixing a rate and then adjusting the economy to it is no longer practical for us’.[61] He supported a departure from 'adjustment by crisis' where ‘a policy of fixed rates in which the inevitable adjustments come only when a crisis forces him’ prevailed under the IMF regime[62].

In contrast to Fleming, who espoused a theoretical perspective on floating convertibility, Thompson-McCausland's arguments appear to have been shaped by the challenging experience of accompanying Keynes in economic negotiations with the US during wartime. In his memorandum dated 4th May 1951, he mentioned that ‘the principle of stable rates and free exchanges embodied in the Fund articles were only acceptable, even in theory, on condition that they were accompanied by free access to the Fund’s resources and a scarce currency clause of the kind that Lord Keynes thought he had secured.’ [63] ‘The Americans,’ he added, ‘have effectively removed from these two resources so that the remaining principle of the Fund must amount in practice to a capitulation by the non-dollar world to the Americans at any time America is in heavy or continuing surplus, …’[64]

Even more notably, he linked an early move towards floating convertibility, which allowed non-residents to exchange sterling freely, with the retention of sterling as

[61] BOE Archive, ADM 14/28, ‘Floating Sterling’, p.1, Thompson-McCausland’s memorandum dated 9th April 1951
[62] Ibid.
[63] BOE Archive, ADM 14/28, Thompson-McCausland’s untitled memorandum to the Governor, dated 4th May 1951, p.11
[64] Ibid, pp11-2

an international currency. He emphasized that 'inconvertibility is no longer possible for sterling in non-resident hands. Choice must be made between (a) making a sterling a domestic currency with little or no international use, and (b) retaining sterling as an international currency…' [65] Scarcely less important is the fact that, even before he explicitly argued for floating convertibility, retaining sterling as an international currency would ease the pressure on the sterling balances. 'Among means of improving the international utility of sterling,' he argued, 'the most serious consideration should be given to international merchanting and commodity markets conducted in sterling.' 'Convertibility into other currencies,' he emphasized, is a quality of minor monetary symptoms.'[66] He argued:

> An international currency is international in virtue of its convertibility into goods, without the need to change it into any other country's money. Every expansion in the volume of sterling turned over internationally reduces the proportionate weight of the sterling balances.[67]

What can be observed in Thompson-McCausland's line of thinking is an attempt to prioritise currency multilateralism over trade multilateralism, in a situation where it was difficult to reconcile the former with the latter as long as the dollar remained a scarce currency. Moreover, it could be suggested that there lay a faint yearning for a return to the era of British Empire-led 19th century-globalisation. At that time, Britain was able to manage its external position 'on a small gold[reserve], because our [Britain's] short-term assets and liabilities were about balanced…'[68] Sterling's role as a vehicle currency for the

[65] BOE Archive, ADM 14/30, Untitled memorandum, Thompson-McCausland to the Governor, p.3 dated 31st October 1951
[66] BOE Archive, ADM 14/28, Untitled memorandum, Thompson-McCausland to the Governor, p.15 dated 22nd December 1949.
[67] Ibid
[68] BOE Archive ADM 14/28 'A fluctuating £', Memorandum by John Fisher, dated 12th April 1949.

short-term capital transactions associated with trade finance made such a situation possible. Balanced short-term capital positions—which, in other words, was indicative of a balanced basic balance (the sum of the current account and the long-term capital account)—was the guiding principle behind managing sterling as an international currency in the 19th century. If the basic balance could be maintained by lending money to meet short-term liabilities, —namely, by financing short-term liabilities with short-term loans— speculative pressure on the sterling balances as short-term liabilities would be alleviated. However, whereas the 19th century, under the gold standard, saw domestic equilibrium sacrificed for the sake of external equilibrium, his argument for floating rate convertibility would allow for more independent monetary policy, particularly by increasing the degree of policy discretion in the domestic economy. In this respect, it was not exactly a return to the 19th century, but rather a policy shift back to the 1930s.

Furthermore, his case for floating convertibility required the unification of 'the two worlds' (the dollar-world and the non-dollar world) through the elimination of direct controls on visible trade. A division between the two worlds encouraged rampant unofficial markets such as cheap sterling transactions 'by which persons outside our jurisdiction can convert their sterling, at a discount, without our controls being able to stop them'[69]. This was detrimental to British traders, as they could not access the unofficial markets available to other overseas merchants, negatively impacting confidence in sterling.[70] Furthermore, Thompson-McCausland was sceptical not only about the effectiveness of exchange controls but also about that of direct controls such as import restrictions, which were largely

[69] BOE Archive, ADM 14/28, Thompson-McCausland's untitled memorandum to the Governor, dated 4th May 1951, p.5
[70] Ibid, pp 5-6.

ineffective, especially in the post-war period. ‘Restriction of imports’, he argued, ‘so far from reducing costs and prices, tends to inflate them further’, as the restriction was discriminatory in that it ‘decide[s] source of supply on currency grounds to the exclusion of price grounds’, it ‘only increases maladjustment, as was very plain in 1949 when exporters in the United Kingdom has to add to their other competitive difficulties the burden of raw material costs markedly higher than those of their American competitors’.[71]

VI The Political Economy of Operation Robot

These discussions proved instrumental in developing the concept of Operation Robot. Whilst the Fleming and Thompson-McCausland arguments constituted the theoretical foundation for Operation Robot, it is difficult to identify a clear trajectory towards Operation Robot solely on the basis of these arguments. In addition to the three backgrounds mentioned by Burnham above, Churchill's return to the Prime Minister's Office is also thought to have triggered the move. ‘Churchill’s administration,’ however, ‘was not intent on a counter-revolution which would sweep Keynes out of Whitehall.’[72] The Churchill-led Conservative government could not abandon the Welfare State, a legacy of the post-war Labour government. Reaffirming their commitment to the legacy, the government undertook methodical reforms, adopting a market-based economic liberalism rather than the control-based planning of the Labour Party. The key was floating convertibility. As Fforde suggests:

> This [floating-rate convertibility] was bound to have some political attraction, especially for Churchill. It would be novel and exciting and not just an intensified version of stale Crippsian austerity, even though it itself entailed a heavy dose of that treatment.[73]

[71] Ibid p.7
[72] Newton, op.cit., p. 16.
[73] Fforde, p.430.

Churchill's political hunch may have initially sensed that floating convertibility would appeal to those particularly disillusioned with physical controls during the war, since in the debates of the post-war years, planning tented to be identified with the use of wartime 'physical controls. [74] According to one biographer of Butler, 'Despite the advocacy of Cherwell, Churchill was instinctively in favour of the float, though he admitted that he did not understand the issue fully.' [75] As Newton suggests, 'Butler, desiring to abandon controls but keep the full employment of resources, opted for Clarke's suggestion of a floating exchange rate.'[76] The essence of Operation Robot lay not so much in a return to nineteenth-century *laissez-faire* as in a shift of *modus operandi* towards the post-war welfare state paradigm, from the supply-side planning of the economy that Labour was concerned with, to the facilitation of market mechanisms combined with demand management. As even Keynes agreed with Treasury officials that 'domestic economic policies could not offset completely, a loss of export markets'[77], the move to a floating exchange rate, causing sterling to depreciate, would be expected to increase external demand and thereby contribute to the achievement of full employment.

On the facilitation of market mechanisms, there were subtle differences in emphasis between Clarke and Bolton: the former emphasising the real economy and the latter the foreign exchange market. Clarke had two aspects in mind: short-term and long-term: 'The advantage of a floating rate is that the fact that the rate falls; import prices rise;

[74] A. Cairncross (ed.) Richard Clarke, *Anglo-American Economic Collaboration in War and Peace 1942-1949* (Oxford, 1982), xxi.
[75] P. Cosgrave, *R. A. Butler: an English Life*, (London, 1981), p.101.
[76] Newton, op. cit., p.17
[77] Peden, G. C, *British Economic and Social Policy Lloyd George to Margaret Thatcher* (Oxford, 1985), p.142

there is a stimulus to exports. The whole economy feels these movements and adjust itself to them.' [78] This points to a reliance on the automatic adjustment function of a floating exchange rate regime. On the other hand, Clarke also mentions the structural effects of a floating exchange rate system in his memorandum: 'if the rate is the equilibrating factor, and not the reserves, the institution of convertibility becomes possible, without reserves – and that the fact that a falling rate brings constructive pressure on the economy avoids the difficulty that if we were given reserves we should rush through them instead of making adjustments.' [79] He even mentions the removal of exchange controls and the structural impact on the sterling area as a result of thr transition to floating convertibility.[80]

Turning to Bolton's argument, unlike Clarke, he argued for floating convertibility from a more market-oriented viewpoint. For him, the basic issue was the invalidity of marginal inconvertibility introduced during the war. As 'transactions in foreign-owned sterling through trade and commodity transactions have grown up and foreign dealers have been steadily improving their skills', exchange controls could not suppress these transactions.[81] Marginal inconvertibility would not only lead to 'the point of destroying sterling as an international currency by keeping it out of non-resident hands', but also shut British merchants and markets from international business, 'leaving traders in other countries free to take over the business on terms which our traders cannot touch.'[82] Moreover, Bolton's argument for floating was in line with the straightforward fact that there were no longer enough foreign exchange reserves to support sterling's fixed exchange rate

[78] TNA T 236/3240, Convertibility, RWB Clarke, Para h25
[79] Ibid, Para 27.
[80] Ibid.
[81] TNA T 236 3240, Inconvertible Sterling, George Bolton, 16th February 1952
[82] Ibid.

He assumed, from a very pragmatic point of view, that the market should seek a new equilibrium point for sterling—which would direct the economy—rather than trying to maintain the fixed exchange rate and allowing the economy to be directed by it.

Thus, Clarke and Bolton had somewhat different perspectives on Robot, with the former advocating it rather from an economic rationality perspective and the latter rather from a market rationality perspective, advocating the unification of a "two world system" of a dollar and sterling world with convertibility. Robot's opponents reacted strongly against its economic rationale. Maintaining a fixed exchange rate without convertibility, though, would not eliminate the problem. The structure of sterling as an international currency was conducive to exchange control leakages in the form of cheap sterling transactions, which would remain a structural disorder for sterling and eventually lead to potential devaluation pressures. For the planners of Robot, opponents' views were rather naïve, as there was hope—or optimism—that US support would be forthcoming in the face of a falling exchange rate and dwindling foreign reserves. Operation Robot actually began rather disillusioned with such optimism. Given the dilemma between the economic and monetary rationale shared by both parties, the end of Operation Robot did not put an end to the quest for floating convertibility. This eventually led to the Collective Approach.

After Robot's unilateral move towards floating-rate convertibility encountered serious doubt over its feasibility, the Collective Approach was adopted to discuss a new method for acheiving floating-rate convertibility. The transition from Operation Robot to the Collective Approach brought to light previously hidden struggles and, by no means sufficiently, consolidated views on how to restore convertibility. During this transition, there were twists and turns that are well documented, especially in Peter Burnham's well-

organized book. These developments need not be addressed in any detail except insofar as they can be sorted out from a couple of perspectives.

First, the main features of Operation Robot were : (i) floating convertibility into gold, dollars, or other currencies on a free market for 'overseas' or 'external' sterling ; (ii) compulsory funding of 80 per cent of the sterling balances held by members of the sterling area and the funding or blocking of nearly all balances by non-sterling area countries outside the dollar area.[83] This plan was aborted at the Cabinet meetings at the end of 28th and 29th February 1952, followed by the Budget of 11th March. Then, over the summer, the 'new look' Operation Robot proposed by the Robot camp and its counterproposal from the opposition camp were pitted against each other. The counterproposal, made mainly by Robert Hall on 25th March, unlike Robot's proposal for a one-world solution through restoring floating convertibility, aimed to address the dangers of external instability through 'greater insulation from the effect of world dollar shortage'[84]. That was based on two world solutions, insulating inconvertible sterling from the convertible dollar, and was designed to create 'a Sterling Union.' In this case, it would 'amount to the absorption of E.P.U. into a reformed sterling area; a Sterling Union in which each member is responsible for balancing his own accounts with the dollar area'.[85] Hall's idea, based on the two world concept, failed to gain the support not only of the Robot camp but also of MacDougal from

[83] Cairncross, op.cit., p.245. TNA T 236/3241 'External Action; Draft memorandum by the Chancellor of the Exchequer'

[84] T 236/ 3240, 'The Future of Sterling', Robert Hall, dated 25th March 1952, p.13.

[85] Ibid., p.15. In 'a reformed sterling area, Robert Hall envisaged that the sterling area would continue to trade freely with each other, but the dollar pool would be dissolved, and foreign reserves would belong to each country. He also referred to the amendments of the EPU which would (a) reduce or eliminate automatic gold payments, and (b) give wider credit margins, and (c) revise the rules about non-discrimination to allow higher trade balance between debtors, such as France and the U.K.

the opposition camp, mainly because of its introverted insularity and lack of constructive visions for the expansion of exports to the dollar world.

Clark's criticism of Hall's plan was well received in the Treasury and the Bank, so Robot II did "walk again". The 'new look' Robot was, unlike the original one which had focused too much upon floating, more concerned with stability, considering the sterling balances of Commonwealth countries and coordination with the European Payments Union. Butler suggested on 28th June 1952 that:

> It [Robot II] is a combination of a floating rate of exchange, convertibility in the market for people outside the sterling area, and holding action on the sterling arear. The main difference between this and the former plan is that the present one contains no provision for the formal funding of the sterling balances of sterling area countries, since this does not now seem to be necessary… [86]

Regarding 'a floating rate of exchange', the parity of sterling would remain at $2.80, without any attempt to maintain the margin of $2.78 and $ 2.82, with its range initially kept within the limits of $2.50 to $3.10'. The gold and dollar reserves would be used 'to intervene constructively in the exchange market in order to secure maximum stability in the rate at a level consistent with the real international value of sterling'.[87] Its purpose would be to let the market determine the appropriate level for sterling. What Butler meant in terms of 'convertibility in the market for people outside the sterling area' was to limit convertibility to 'sterling currently earned by countries outside the sterling area (which will be designated as "external sterling") 'with the transferable account being unified with American and Canadian accounts, albeit on a currently earned sterling basis [88]. However,

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[86] TNA T 236/3244, 'External Financial Policy: Memorandum by the Chancellor of the Exchequer', 28 th June 1952, p.2
[87] Ibid. 'External Financial Policy,' Appendix. Telegram No.3
[88] Ibid. 'All existing balances on American and Canadian Accounts …will be transferred to External Sterling Accounts.' Ibid.

‘we cannot do this[make sterling convertible] if we are liable to have converted all the sterling debts—or balances— which we owe to countries outside the sterling area’[89]; the sterling balances of non-sterling area (except American and Canadian accounts) would ‘be frozen sufficiently to prevent any appreciable offerings of such balances of the London market in exchange for dollar or other wanted currencies’. [90] In terms of the sterling area, Robot II would give up the blocking and funding of sterling area balances, but ‘by negotiation and release, the sight liabilities of the UK would be drastically reduced’, [91]: ‘All that they[the sterling area]’ , as Butler suggested, ‘would be required to do about the sterling balances would be to co-operate with us in producing an agreed assessment of the extent to which the balances represent “a sight liability” upon the United Kingdom economy.[92]

As far as cooperation with Western Europe was concerned, a fundamental incompatibility remained between Operation Robot and the EPU, unlike Hall's plan to unite the Sterling Area and the EPU, since the former was committed to the convertibility of floating rates. The new scheme, therefore, sought to focus on ‘the genuine co-operation…, particularly on the financial side’, whilst allowing for Britain to withdraw from the EPU’s monthly settlements mechanism.[93] Meanwhile, having noticed that the Bank of France and the IMF had adopted the unexpectedly reassuring tone of Operation Robot in informal discussions with them, the Treasury and the Bank of England became complacent.

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[89] TNA T 236/3244, ‘Draft of Announcement to be made on a Saturday or Sunday (Second Draft)’, p.4
[90] TNA T 236/3244, ‘External Financial Policy’, Appendix. Burnham, p101.
[91] Burnham, op.cit., p.102
[92] TNA T 236/3244, ‘External Financial Policy’, p.5
[93] Burnham, op.cit., p.97

Secondly, Robot II presented by Butler was rejected again at the end of June, despite its refurbishment, as most of cabinet members were overwhelmed by 'the arguments of Cherwell that the plan was both reckless and unnecessary and by the continuing opposition of the Foreign Office'.[94] 'The mood in Threadneedle Street was by now weary and irritable.'[95] These developments, however, did not allow Britian to put new policy measures on hold, as confidence in sterling and its external monetary system declined. Pressing situations necessitated a further redesign of a new external economic policy as the Collective Approach. The redesign was conducted by an interdepartmental Working Part chaired by Herbert Brittain, third secretary of the Treasury. [96]

During discussions within the Party, the proposal for an Atlantic Payments Union (APU) as an alternative to Operation Robot, put forward by Cherwell, was scrutinized. This proposal, like Hall's, was a two-world solution. But its novelty lay in the idea that it would involve not only the EPU but also the US in the APU. In contrast to Operation Robot , which was designed to eventually leave the EPU, the APU would be an extended EPU, including the US and Canada, 'set up on lines similar to the EPU', with each county's balance of payments position being settled through its central bank account with gold and credit.[97] The intention seems to have been to keep pace with Europe, allowing trade liberalisation to take precedence and delaying currency convertibility. As the APU would allow commercial multilateralism to take precedence over currency multilateralism, it came under withering criticism, particularly from the Bank's Thompson-McCausland, who

[94] Fforde, ibid, p.468
[95] Ibid., p.469
[96] The Party was composed of other Treasury representatives, the Economic Section of the Cabinet Office, Cherwell's office, the Foreign Office, the Board of Trade, the Commonwealth Relations Office, the Colonial Office, and the Bank. Ibid., p.470.
[97] Burnham, ibid, p.113

argued that the plan to incorporate the Sterling Area into the APU would turn the APU into a US dollar area and dismantle the Area.[98] This was, in a way, incompatible with the opposition camp, which was committed to maintaining the sterling area. On the other hand, probably as a response to the charge that the opposition camp were expecting too much from the US on the pressing issue of dollar scarcity, the proposal for the APU aimed to address the issue of the IMF's scarcity clause by involving the US in the APU.[99] Cherwell's plan attracted little support, but the plan, as Fforde suggests, 'did however serve to open up a debate about how the Commonwealth, Western Europe, and North America might in practice collaborate in an appropriate forum so that the principal inconvertible currencies could also become convertible…'.[100]

The Collective Approach was not just intended to build on Operation Robot, including moving to floating rate convertibility, but also to address the concerns of the opposition camp through external coordination rather than a unilateral policy. In this approach, Britain introduced the new term 'the flexible rates,' whilst making sterling convertible at a floating rate. Two additional points could be made regarding what 'flexible' meant in this context. Firstly, Britain would 'continue to attach great importance to stability of the rate'; 'we are not abandoning the present official par value of $ 2.80 and we will consult with the Fud again before we fix a new par value' , based on the assumption that 'there appear to be good grounds for saying that it[the IMF] has power to do so['to acquiesce in a flexible rate on such a vague basis ']', whereas the IMF's attitude 'will no doubt governed by the extent to which our operation has the goodwill of the United

[98] Burnham, ibid, pp.114-5
[99] Burnham, ibid, pp.113
[100] Fforde, ibid., p.471

States'.[101] Secondly, the UK would facilitate comprehensive communication with the Commonwealth on the management of exchange rate policy: although 'any new formal machinery will be necessary', 'we can assure them that we shall be ready to explain our general policy from time to time at the appropriate level, namely, between the Chancellor and Financial Ministers and between Governors of Central Banks.'[102]

It was, argues Burnham, at the Collective Approach that 'Cabinet Ministers had endorsed a proposal for floating rate convertibility.'[103] More precisely, that was a proposal for floating rate convertibility 'in the context of one-world multilateralism' [104], which drew Eden— who had been a fierce opponent of Operation Robot— to the Collective Approach, with the opposition camp around Cherwell sidelined. This, in a way, also meant that floating rate convertibility had transcended its economic significance and taken on monetary diplomatic overtones. As the report of a cross-ministerial Working Group set up in July 1952 suggests:

> If, however, sterling were at a floating rate at the time of such a dollar "lurch," it would automatically depreciate under the pressure from the dollar, and by so depreciating-again because of the number of countries that would probably follow-would tend to spread the burden of adjustment over a much wider area much earlier… it is at least doubtful whether it is within the power of the United States Administration significantly to control the periodic lurches of the United States economy while it is organized as at present. But on the assumption that it would be possible for the United States Administration to take urgent and emergency action should we be better placed to call on them to take such action if we had a fixed than if we had a floating rate? [105]

[101] TNA T 229/600, 'Commonwealth Conference – Preparatory Meeting of Officials' 21st October 1952, pp 1-2.
[102] TNA T 229/600, 'The Economic Conference of Commonwealth Prome Ministers: Draft Memorandum by the Chancellor of the Exchequer and the President of the Board of Trade', pp. 4-5.
[103] Burnham, ibid, p.119
[104] Burnham, ibid, p.118

[105] TNA T230/263, Steps to Convertibility, 22 August 1952, p.9

‘Lord Swinton said the plan “might be a regarded as a clever financial manoevre [*sic*],” ‘Lord Salisbury said that the plan was “in effect a ‘ganging up ‘against the United States.”[106]

Two factors seem to have contributed to the coherence of the formulation of the policy towards the Collective Approach. One was, as Eden feared, the geopolitical concerns of Britain’s pursuing unilaterally in the external economy amidst Cold War diplomacy. Those concerns encouraged Britain to coordinate its external economic policy with the Commonwealth countries, European countries, and the US. Secondly, and mainly from an economic perspective, the opposition camp's fears that floating convertibility— accompanied by a sharp depreciation of sterling— would only worsen the terms of trade and lead to a larger trade deficit had a certain validity. This necessitated a reorientation of monetary diplomacy so that the US, as a creditor country, should seek to pursue a more stimulative economic policy and tariff reductions as an internationally coordinated action. Whilst trade multilateralism and currency multilateralism (convertibility), as the British government recognized, were mutually contradictory amidst the dollar's scarcity[107], the Collective Approach could be considered enlightened in the sense that the latter would hopefully lead up to the former by pressurizing the US to adopt good creditor policies with trade liberalisation. However, in order to achieve a more sustainable approach to trade liberalisation, it was recommended that the pace of this process be slowed down as ‘the

[106] TNA T236/3368, The “Collective Approach” Plan: Notes on some of the criticisms at the meeting of Ministers on Thursday, 4th September 8th September 1952.
[107] Daunton, op.cit., p.280

long-term objective' at 'the Collective Approach -Mark II'. [108] At the same time, the Approach could be seen as Britain's hesitant response to Western Europe's attempt to build monetary multilateralism through commercial multilateralism under the EPU, in the context of West Germany's economic recovery and increasing trade interdependence within Western Europe: 'In the role of bringing European countries together, Britian was initially vigorous but later dilatory.' [109] Fforde cites this from Thompson-McCausland's memo in 1953:

> The Collective Approach had served a worthwhile purpose by provoking widespread debate that had 'served to implant the idea of a good creditor in America, of some approach to central reserve lending by the IMF, and *of a phase beyond EPU in Europe.'*[110] (My italics)

V The Collective Approach and Its Aftermath

With the British government poised to adopt the Collective Approach, the focus shifted to the Commonwealth Conference and the negotiations with the US. Whilst the approach had generally won the backing of Commonwealth nations without major disturbances, —including a proposal to move to floating convertibility—the negotiations with the US stalled, and the Collective Approach ultimately failed. A notable aspect of the negotiations with the United States was the Britain's use of the case for floating convertibility as a tool of monetary diplomacy in matters relating to balance of payments adjustment. It was also an attempt to revive the scarce currency clause, which had become 'a dead letter' after the

[108] Burnham, p.121, TNA T 236/3089, Collective Approach – Mark II, Memorandum by Clarke to Rowan, 6th October 1952.
[109] Henry Pelling, *Britain and the Marshall Plan*, p.126, (London, 1988)
[110] Fforde, op.ci.t, pp.497-8

war, and to reconstruct the debate between Keynes and White. It would be worthwhile, henceforth, to describe the process in a little more detail.

The Commonwealth governments generally agreed with the proposals, on condition that Britain 'should explore with the US in the first instance the possibility of securing international agreement for a course of action on the Approach'.[111] Then, anticipating the coming to power of Eisenhower in 1953, Britain presented its plans to the Americans in March 1953, and shortly afterwards submitted two memoranda to the US: 'A Collective Approach to Free Trade and Currencies' and 'Freer Trade and Currencies: The Role of United States Policies'.

These memoranda intentionally shunned the term 'floating.' Whilst claiming that convertibility would pave the way for freer trade and multilateralism, they prefer "flexibility" and "stability" as terms for exchange rate policy: 'there should be more flexibility in the exchange rate than is now the practice…The objective of policy would be to maintain exchange rate stability, subject only to major trends in the sterling area's relationship with the rest of the world.'[112] The reason for a considerable shyness about the term 'floating' was that, in the Commonwealth Economic Conference held prior to Anglo-American negotiations, floating rate controversy aroused considerable suspicion from most of the Commonwealth countries.[113] What allayed their suspicion were 'British assurances that, although the aim was stability, considerations of market management and cyclical disturbance required exchange-rate flexibility.'[114] It was in this context that the inadequacy

[111] TNA T229/601, A Collective Approach to Free Trade and Currencies: Memorandum submitted to the United States Administration by Her Majesty's Government in the United Kingdom, 10 February 1953, p.2
[112] Ibid, p.6
[113] Fforde, op.cit., p.478
[114] Ibid

of Britain's reserves, which posed a great danger of acute exchange rate instability, pointed to the need for Britain to seek financial support from the IMF in the form of a "stand-by" credit. The stand-by credit Britain envisaged was almost close to an automatic access to the Fund in the sense that it should 'be drawn on as requested, for an agreed period of not less than twelve months, with agreed provision for extension thereafter.'[115]

The memoranda, on the other hand, reiterate the necessity of adjustment by both creditor and debtor countries: 'the solution of balance-of-payments problems may require action both by creditors and by debtors'[116]. Britain, admittedly a debtor country, should adopt the internal policies biased mainly towards deflationary measures, such as the tightening of credit and a check on the growth of government.[117] But, at the same time, it is strongly emphasised that the US should adopt the good creditor policies. In particular, an explanation offered in the memorandum of 'Freer Trade and Currencies: Role of United States Policies' is unequivocal about the importance of 'energetic and enlightened action' by creditor as well as debtor countries, introducing a considerable emphasis on the scarcity of the dollar.[118]

Before proceeding any further with Anglo-American negotiations, it is worth pausing to give a thumbnail sketch of the scarce currency clause from a historical point of view. Looking back over the post-war international monetary system, particularly in the light of conflicts between the US and Britain, twin issues came into focus amongst the architects of Bretton Woods: convertibility and adjustment. These twin issues

[115] T239/601, op.cit., p.6
[116] T239/601, op.cit., p.8
[117] Ibid, p.3
[118] TNA CAB 129/60/43, Freer Trade and Currencies: Role of United States Policies, p.14

corresponded exactly with the twin Articles: Article VII of the Lend-Lease Agreement (on the obligation to introduce convertibility) and Article VII of the IMF's Articles of Agreement (concerning the scarce currency provision).[119]

It was, as Harold James suggests, the Anglo-American wartime alliance that established Bretton Woods.[120] More precisely, it was Bretton Woods that settled the twin issues as a compromise between the American desire to impose convertibility on the sterling area and the British attempt to make the US take on the burden of adjustment as a creditor country.[121] Yet, the essential truth behind the twin issues was the wreck of Keynes's plan: the IMF as an internal stabilising mechanism. Keynes expected that this mechanism would ensure well-balanced burden sharing between creditor and debtor countries, coupled with automatic access to the Fund. Hence, if Keynes's idea had been put into practice, the twin issues would not have been raised; because 'debtors would pay charges, have compulsory repurchases obligations and be encouraged or even required to devalue', whereas 'creditors would also pay charges and if necessary would be encouraged as appropriate to expand, revalue and/or make international development loans.'[122] On the other hand, White's plan, which became increasingly dominant over the direction of policy, contained 'a much less comprehensive adjustment mechanism'.[123] Since this plan did not accept automatic access to the Fund, the burden of adjustment was, naturally, placed mainly on debtor countries.

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[119] H. James, *International Monetary Cooperation since Bretton Woods*, (Oxford, 1996), p.63
[120] Ibid
[121] Ibid
[122] Bank of England, 'The International Monetary Fund: use and supply of resources,' *Bank of England Quarterly Bulletin*, p.46
[123] Ibid

With the plan being 'conceived in terms of controlled access' to the Fund[124], it was the provision of the scarce currency clause that would compensate the lack of a comprehensive adjustment mechanism. This clause was expected to encourage the Fund to consult with creditor countries and to make recommendations to bring scarcity to an end[125], including the possibility of exchange restrictions against a scarce currency country.[126] British planners then expected that the clause create a situation in which the concept of the IMF as a forum for consultations between debtors and creditors would become a reality.[127] Hence, Roy Harrod, at the beginning, was genuinely pleased with the US's inclusion of the scarce currency clause. He writes: 'I was transfixed. This, then, was the big thing. For years we had complained of the Unites States'attitude as a creditor. For months we had struggled in vain to find some formula which would pin them [the Americans] down to a share of responsibility. Now they had come forward and offered a solution of their own, gratuitously. This was certainly a great event…'[128] Horsefield suggests: 'the scarce currency clause provisions may have emerged as a natural precaution against a future scarcity of dollars.'[129] Furthermore, the clause is regarded 'as an exception to the general rule of discrimination provision…in the context of free trade multilateralism'. [130]

The scarce currency clause, however, was never been operated, contrary to Harrod's expectations. With this clause failing to correct the dollar shortage, he gradually

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[124] Ibid

[125] T 236/5985, 'I.M.F./I.B.R.D. Eighth Annual Meeting, I.M.F: Future of the I.M.F. and access to the Fund's resources,' UK Treasury's memo, 25 August 1953, p.14

[126] Bank of England, op.cit., p.46

[127] TNA T236/5985, op.cit., p15

[128] R. Harrod, *The Life of John Maynard Keynes*, (Harmondsworth, 1972), pp.544-5, James, op.cit., pp45-6

[129] J.K. Horsefield, *The International Monetary Fund, 1945-1965: Twenty Years of International Monetary cooperation, Vol I, Chronicle* (Washington, 1969), pp.45-6.

[130] R. Patalano, Surplus country adjustment: revisiting the post-World War II Scarce Currency Clause, *Cambridge Journal Economics* 2019, 43, 1149-1182, p.1150.

became frustrated, describing the long duration of the dollar shortage as 'one of the most brazen pieces of collective effrontery that has ever been uttered.'[131] Technical problems also arose. The Article VII of the IMF provides for the identification of a scare currency in two cases: 'the general scarcity of a particular currency 'approach (Section 1 of the Article) and 'the technical scarce currency 'approach (Section 3 of the Article). The former provides that 'if the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting for the causes of scarcity and containing recommendations to design to bring it to an end', which implicitly entails that the Fund could recommend discrimination, whereas the latter provides that ' a currency can be declared scarce only if it is scarce in the sense that the Fund's ability to supply the currency is inadequately scarce'. 'Countries are explicitly allowed to adopt discriminatory exchange restrictions' against the currency declared scarce, but Britian hesitated to adopt this technical approach; 'Fund members would be reluctant to borrow to meet a fundamental disequilibrium and, indeed, the Fund ought not to allow them to draw for that purpose….' [132] The UK, therefore, had no choice but to take 'the general scarcity of a particular currency' approach, which would require persistent negotiations with the IMF and the US.

When it comes to the memorandum of 'A Collective Approach to Free Trade and Currencies' and 'Freer Trade and Currencies: Role of United States Policies,' Britain was hamstrung by a scarcity of dollars in two ways. One was pressure from the imbalance between the sterling area and the US, and the second was pressure from the imbalance in

[131] R. Harrod, *Are these Hardships Necessary?* (London,1947), p43, James, H, op.cit., p.89
[132] TNA T236/4047, The Collective Approach Committee Note by the Secretary, Relationship Between O.E.E.C code of Liberalization and New World Trade Rules: Discrimination against a Persistent Creditor

the US transactions with the rest of the world. These two imbalances tended to build up intolerable pressure on sterling under the circumstances where 'In effect there are only two major international currencies: the United States dollar and the pound sterling, and about one-half of all international transactions is [*sic*]financed in sterling.'[133] Britain was really annoyed by an embarrassing situation in which sterling, as a major international currency, incompatibly coexisted with the world dollar shortage. It was therefore expected that sterling convertibility would resolve this incompatible situation by allowing the UK and the sterling area to look to third markets as well as the US for the required increase in their dollar income.[134] The sub-section of the memorandum contains many suggestions for urging the US efforts to provide 'greater opportunities for exporting to the US', such as a reduction in US tariff and the removal of law and procedures that constitute impediments to exports to the US. Its implicit purpose was to reaffirm the stance in favour of trade diversification through currency convertibility.

The Anglo-American talks over the Collective Approach which had begun in March did not develop as Britain had expected. Whilst the Americans generally endorsed the objectives of the Approach, they did not commit themselves to the details.[135] As Fforde suggests, 'the Eisenhower administration was not ready to decide upon any comprehensive plan for freer trade and payments.'[136] In response to the UK's memoranda, the US drew up the so-called Randall Commission Report[137], whereby the US recommended the establishment of a stand-by credit facility and a more active utilisation of the IMF's

[133] TNA, CAB 129/60, Freer Trade and Currencies: Role of United States Policies, p.3
[134] Ibid
[135] T230/268, 'The Collective Approach: where we stand', 1 June 1954, p.2
[136] Fforde, J, op.cit., p.491
[137] 'Report to the President and the Congress by the Commission on Foreign Economic Policy,' by the Commission on Foreign Economic Policy in the US (chaired by Clarence Randall), 21 January 1954

holdings of gold and reserves, with a view to strengthening Britain's reserves as part of a controlled and gradual approach to full convertibility.[138] From a British point of view, however, these recommendations fell far short of the ideal good creditor policies which the UK wanted the US to adopt.[139] The fact that the US government required Congressional action fully planted doubts into Britain about the US's intentions, since a protectionist-prone US Congress could effectively strangle the President's policy biased towards liberal tendencies; 'The whole history of the United States has shown that where Congress is in charge to this extent, bad policies are made.'[140] The US Treasury harboured strong doubts over the feasibility of convertibility, on the grounds that sterling convertibility would not help Britain and the sterling area to make significant strides towards a strong competitive position with the dollar area.[141] Since internal demands would place a heavy strain on production, resources, and manpower, the countries of the sterling area—given the privilege of converting sterling—would rapidly drain away British reserves to buy their necessities in cheaper markets.[142]

In December 1953, the US's frosty attitude became apparent. As for the chances of the United States at least making progress with good creditor policies, 'Mr. Humphrey [Secretary of the US Treasury] said no more than that we might see some improvement in their procedures under the Buy American Act…' With regard to convertibility, particularly in response to the Chancellor's enquiry about whether the US could back a convertibility operation 'in some way, through the International Monetary Fund e.g. if the Fund could

[138] Burnham, op.cit., p.143
[139] T230/268, op.cit., p.10
[140] Ibid
[141] Burnham, op.cit., p.130
[142] Ibid, pp.130-1

borrow on the market or get a standby credit from the Federal Reserve, Mr. Humphery was not forthcoming on these suggestions. …Mr Humphrey made it absolutely clear that there is no hope whatever of the Unites States Administration going to Congress for an appropriation to increase the assets of the Fund. In general, the impression given is that Mr. Humphrey is cordially anxious to see sterling keep itself afloat but has little or no thought of moving far from his own position on dry land to take part in a life-saving operation.'[143] With regard to the stand-by facility, Mr Randolf Burgess of the US Treasury warned Britain not to expect an easy access to the standby facility: 'any country would have to justify its policies to the International Monetary Fund before it was granted the standby.'[144]

By the summer of 1955, it became evident that 'the original strategy of the Collective Approach had all but failed: no large stand-by or other help, no floating rate, no strong balance of payments.' [145] The underlying aim of the Collective Approach was to ensure that the US adopted good creditor policies, but a 'ganging up' approach against the US by floating convertibility did not prevail, thus failing to invoke the scarce currency clause.

Part of a meeting held at the US Treasury on 2 June 1954 is worth quoting, as it clearly showed a perception gap regarding the scarce currency clause between two countries; whilst the UK aimed for a wider application of the clause, the US evaded invoking the clause.

> SIR EDMUND HALL-PATCH [UK] said he could not see where in the United States' proposals provision was made for creditor countries to be pressed to make

[143] TNA FO 371/105115, Discussion with the secretary to the United States treasury, 22nd December 1953
[144] TNA FO 371/105115, Note of Discussions with the Secretary to the United States Treasury at No.11, Downing Street, on Wednesday 16 December 21st December 1953, p.10
[145] Fforde, J, op.cit., p.542

their share of adjustment to resolve balance of payment difficulties. This was a matter to which H.M. Government attached the highest importance. …

> MR. BURGESS [US] said…In all probability it would not be necessary to invoke Article VII formally but the fact of its existence would lead to prior informal consultations to remove the causes of the difficulty.
>
> SIR EDMUND HALL-PATCH [UK] said that in his experience the scarce currency clause was a dead letter. It was to be hoped that in the new era now beginning it could be revived and made to work properly. The dollar position had been satisfactory for the last two years, but with the gradual ending of aid and the possibility that United States Government military expenditure abroad would eventually decline, the problem of the creditor nation could not be neglected in making long-term achievements.[146]

Concluding remarks

The Collective Approach eventually failed, as floating convertibility had, indeed, been taken off the table as a contribution to Britain's external balance. However, the scheme proposed by Robot proponents for floating convertibility as its economic rationale died, but its monetary rationale —to restore sterling as an international currency— continued. This resulted in achieving fixed-rate convertibility, albeit on a step-by-step basis. The first stage, designed to unify transferable sterling(that is, all non-dollar and non-resident sterling) was achieved in February 1955. The second stage, dubbed 'Operation Unicorn' , aimed to abolish 'the barrier between the Transferable and American Account Areas(that is to say the resumption of convertibility) '. [147] Although the Suez crisis and the ensuing sterling crisis delayed this for a few more years, it was finally achieved at the end of 1958. The first stage gradually made transferable sterling 'a useful international currency in a fairly large part of the world which had no other practical means of payment, as U.S. were

[146] TNA T 236/5986, Note of a Meeting held at the United States Treasury on 2nd June 1954 at 4 p.m., p.3.
[147] Fforde, p. 498, Burhnam, pp.155-74

still to scarce to serve that purpose'[148], whereas the second stage was shaped by a gradual transition 'dollar gap' to the 'dollar glut'.

Criticism of Operation Robot persists. Against Nigel Lawson, a former Chancellor of the Exchequer, who sees Robot as 'the moment when a free-market ideology could have been adopted and twenty years of failed economic policy avoided,' Martin Daunton dismisses his view as 'ahistorical wishful thinking, for the risks were too great in 1952.'[149] Daunton's argument seems valid when viewed in the historical context of the prevailing preoccupation of the time with full employment and the thirst for the welfare state.

So, was Operation Robot really lacking in economic rationale in light of historical thinking? The historical lessons of the 1930s are ambivalent. One of these lessons is that floating convertibility functioned effectively during the interwar period. An attempt to revert to the gold standard during the interwar period failed, and the discipline of the gold standard was eventually sidelined as the emphasis shifted from external to internal stability. The exchange rates were left to the market mechanism. Floating convertibility proved to be an effective means of fostering trade within the British Empire, particularly following the introduction of Imperial Preference. Another key insight from the 1930s is that devaluation through floating sterling could have a contagious effect, potentially leading to devaluations in other countries and the adoption of protectionist measures, such as beggar-thy-neighbour policies. The Tripartite Agreement of 1936 and the subsequent Bretton Woods system emerged in response to the challenge of aligning internal and external balance, thus creating a breeding ground for the IMF's concept of fundamental

[148] G. Bolton, *A Banker's World: The Revival of the City, 1957-70: Speeches and Writings of Sir George Bolton*, ed. R. Fry (London, 1970), p.27.
[149] M. Daunton, ibid, p.303. Nigel Lawson, 'Robot and Times literary supplement, TLS, ISSN 0307-661X, Nº 5312, 2005, pp. 11-13

disequilibrium. This concept allowed for some mild inflation to achieve full employment and exchange rate depreciation as an adjustment to inflation differentials.

Were we to contextualise Operation Robot and the Collective Approach within the broader historical framework, we could situate the former in the context of Britain's exit from the gold standard (although Operation Robot's exit from Bretton Woods was unsuccessful), whilst the latter could be situated within the context of the Tripartite Agreement of 1936. Bolton's tenure at the Bank of England began in January 1933, approximately two years after Britain's departure from the gold standard. He was 'employed primarily on work in connection with Foreign Exchange': in January 1941, Bolton assumed the role of Advisor to the Governor, having previously served as Principal of Foreign Exchange. [150] He was one of three key figures within the Bank who were primarily responsible for determining 'The $4 rate in 1939'.[151] This was a change 'from the peg rate of 4.68 in a free market to the official rate of 4.03 in a controlled system…' and that was 'the decision to abandon the defence of sterling in a free market…'[152] This experience is alleged to have instilled in him a profound understanding of the way markets ultimately determine the value of a currency.

In light of the theoretical frame of reference, known as the 'impossible trinity', Operation Robot could be regarded as an attempt to take the plunge and diverge from the Bretton Woods system. In contrast, the Collective Approach could be seen as an attempt to pursue a degree of flexibility within its framework. The objective of the Collective Approach was not the establishment of a *de jure* floating exchange rate regime, as would

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[150] BOE Archive, ADM33/26, Richard Sydney Sayers, Papers: Records of Interviews.
[151] Ibid. 'The rate $4 in 1939 was effectively decided by Bolton, Siepmann, Cobbold....Bolton asserted that "this is one of the most deliberate things."'
[152] Sayers, p. 573

emerge in the 1970s; rather, it was to facilitate flexible exchange rates within a wider band, which was not necessarily incompatible with the IMF's stated objectives. Although Operation Robot's plunge into floating would have constituted a disaster, the Collective Approach's pursuit of flexible rates appears to have proved a reasonable economic strategy within the context of the early 1950s. At the time, the fear of deflation was more prevalent than the fear of inflation; it was also a time when the evil of "inexpedient" deflation was more hated than the "unjust" inflation.[153] Those who criticise Robot planners' attempt to adopt floating, in retrospect, may have been too influenced by the rise in inflationary expectations triggered by the oil embargo of the 1970s. Furthermore, the Collective Approach's a pursuit for flexible exchange rates within the framework of Bretton Woods, if it had been implemented, might have helped to avoid the abrupt end of Bretton Woods amidst the extreme 'dollar glut' of the 1970s.

Furthermore, Operation Robot should not be seen as a return to 19th-century *laissez-faire*; Clarke was a Keynesian, and the Conservative government had inherited the welfare state concept. It was through flexible exchange rates that the Robot planners, especially Clarke, sought to increase the scope for policy discretion to achieve full employment. Economically, this was an attempt to make a new trade-off in the trilemma: abandoning pegged rates as a source of stability, whilst allowing exchange rates to be managed alongside the control of capital exports in order to maintain the stability of the domestic economy. It was also a search for a conservative 'third way' in terms of the use of market

[153] 'Thus Inflation is unjust and Deflation is inexpedient. Of the two Deflation is, if we rule out exaggerated inflations such as that of German, the worse; because it is worse, in an impoverished world, to provoke unemployment than to disappoint the rentier.' John M. Keynes, *A Tract on Monetary Reform.* 1923.p.40.

mechanisms in a mixed economy, designed to move away from the physical control-oriented planned economy of the post-war Labour government.

Moreover, there is the question of how Operation Robot should be viewed in the context of the restoration of sterling as an international currency. In considering this, we should bear in mind the structural changes in the UK's balance of payments. Over the 20th century, Britain's balance of payments entered a mature phase in which the trade deficit was covered by a surplus of investment income from capital exports. Operation Robot was designed to restore sterling as an international currency, thereby increasing sterling-denominated capital exports and re-establishing the City as a hub for international capital for 'overseas sterling'. This is not necessarily just a monetary rationale, but also an economic one: ex-ante capital exports in the form of monetary transfers are accompanied by an ex-post increase in exports in the form of real transfers, as was the case in the 19th century. The Robot planners' insistence on funding and freezing the sterling balances can also be seen as an attempt to maintain the maturity transformation function and continue capital exports within the sphere of the sterling area. It is important to note that short-term capital inflows declined over the course of the twentieth century, reflecting the decline in the UK's credit rating as a capital exporter. The export of long-term capital, with the burden of the sterling balances as short-term liabilities, would have entailed a risk of a deterioration in the basic balance of payments, resulting in a fragile balance of payments due to short-term borrowing and long-term lending. One line of argument could suggest that the sterling balance, which could be termed the 'pound glut', was an emergency product of the hot war rather than a reflection of the pound's nature as an international currency: 'it must be remembered that at this time[the war] Britain was the only large market for these

countries'[neutral countries'] exports'.[154] This is analogous to the 'dollar glut' as dollar balances amassed during the Cold War. The issue of the sterling balances should have been addressed with greater seriousness during the Bretton Woods Conference, but, as Daunton suggests, 'White …withdraw a major concession to Britain that the Fund would buy blocked the sterling balances – a change with serious repercussions as Britain struggled to deal with the financial consequences of the war.' [155] One potential solution, as proposed by the Robot planners, would have been to freeze or fund the balances, excluding them from market mechanisms. As Thompson-McCausland notes, this could have sustained sterling's role as a vehicle currency or a short-term capital exporter for trade finance, with Britain not encumbered by the necessity of maintaining the sterling balances. As a result, the proponents of Operation Robot adopted a kind of destructive creation of sterling as an international currency. Clarke suggested:

> As we approach convertibility, the sterling area automatically ceases to exist, for its only reason for existence is the inconvertibility of sterling…The real question is whether we should hasten this process or not.[156]

And finally, how does Operation Robot fit into the framework of global economic governance as a whole? 'The restoration of current account convertibility in 1958', argues Daunton, 'marked the end of a long period of adaptation and implementation of the Bretton Woods agreement.'[157] For almost a decade following the end of the war, Bretton Woods was unable to fulfil its original mandate of restoring currency convertibility. This was a period of dysfunction in embedded liberalism, so to speak, when Bretton Woods failed to anchor its liberalism. In the course of these developments, the UK sought to establish a

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[154] Tew, op.cit., p.128
[155] Daunton, op.cit., p.166
[156] TNA T236/3240, 'Convertibility', To Leslie Rowan from R.W.B.C25th January 1952
[157] Daunton, op.cit., p.431.

link between the convertibility of its currency and multilateral trade, from Operation Robot to the Collective Approach. This was an attempt to complement the Bretton Woods system, but it was also a process in which Britain was overruled by the sheer power of the United States.

The UK government's shift to the Collective Approach was more aligned with the Bretton Woods framework, as it would reinstate the scarce currency clause with the term 'floating' rates replaced by 'flexible 'rates. However, the Bank of England paved the way for market convertibility, albeit at a fixed rate, in the London foreign exchange market fully equipped with forward exchange market facilities. For Bolton, convertibility at a fixed rate 'is of course equivalent to readoption, to a very large extent, of full gold standard… From the purely technical angle we should anticipate a strong bear movement against sterling, in …the strong probability that we should be forced to a devaluation'[158]. Bolton, who left the Bank of England, and then joining BOLSA (The Bank of London and South America) after the failure of Operation Robot 'in the belief that the international use of sterling would virtually cease',[159] created the offshore dollar market— that is the Euro-dollar market— effectively liberalising capital movements as a conduit for short-term capitals manipulated by non-residents. The Euro-dollar market, facilitating the forward exchange market's activities and destabilising short-term capital movements, gradually triggered the eventual collapse of Bretton Woods, or the demise of the Bretton Woods trade-off, which aimed to ensure internal and external stability aligned with capital controls.

In a way, Operation Robot was a pre-emptive crisis. Ironically, therefore, it had a transformative effect. As a national strategy, Britain could no longer wield the national

[158] TNA T 236/3244, 'Convertibility at a fixed rate', 30th June 1952
[159] Bolton, op.cit., p.26

power to leave the gold standard as it had done in the 1930s by spearheading a break with the nineteenth-century trade-off. On the other hand, as it turned out, Britain could no longer rely on sterling-dollar diplomacy within the Anglo-American alliance that had led to the formation of the post-war international economic order. It could be argued, on the basis of pure *Milwardian* logic, that, with Britain unable to break out of the framework of embedded liberalism, the failure of Operation Robot, together with the Suez Crisis, pushed Britain into Europe and became the trigger for Britain to abandon the American rescue of the nation-state in favour of the European rescue of the nation-state. Moreover, Britain's failure to move away from 'adjustment by crisis' under the IMF regime meant following a path of genuflection to the IMF, overruled by the US.