Financial Coercion in an Interdependent World:

The United States' Exploitation of the British Empire's Financial System and Britain's Subsequent Withdrawal from the Suez Crisis in 1956

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Abstract

This thesis undertakes an analysis of Britain's economic, financial, and military relationships with Iran, the United States, and the sterling area from 1901 to 1956, asking how American financial coercion led to the erosion of British power, beginning with Britain's withdrawal from the Suez Canal during the Suez Crisis in 1956.

The research presented in this thesis focuses on three key documents, analysing them chronologically: The 1933 Anglo-Iranian Oil Company Concession, the 1945 Anglo-American Loan Agreement, and Britain's Exchange Controls Act 1947 to map Britain's relationships leading up to the Suez Crisis, and then the diplomacy during the Suez Crisis is also analysed. The relationships are analysed using the theory of interdependence and through concepts of dependence, independence, interdependence, hard power, soft power, and coercion. Previous scholars have not looked at Britain's web of international relationships in terms of how they contributed to Britain's withdrawal from the Suez Crisis, instead focussing on Britain's dollar deficit, the run on its gold reserves, and consequent financial crisis.

This thesis finds that Britain's hard power depended on access to oil, its soft and coercive power depended on the sterling area, and Britain and the United States both augmented each other's hard power, creating an interdependence. Britain was using the sterling area to counterbalance its economic dependence on the United States and maintain its political independence. The sterling had a crucial, central role in all of the relationships: if the value of the sterling fell, Britain's hard power, soft power, and coercive power would fall with it. The United States' financial coercion during the Suez Crisis was effective because it threatened the value of the sterling, which threatened to destroy Britain's relationships of dependence, which would destroy the foundation of Britain's power.

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Introduction

In July 1956 Gamel Abdel Nasser, President of Egypt – invigorated by a need to build support amongst the population of Egypt with a decisive response to the denial of funding for the Aswan Dam - nationalised the Suez Canal. The Suez Canal was the most important waterway in the world for many European powers: over two-thirds of Europe's oil passed through it in 1955, and it cut the distance to the Middle East and beyond by several thousand miles.[1] For the British in particular, the Suez Canal found an almost mythical position in the mind of the British people, affectionately referred to as Britain's "*backdoor to the East*".[2]

After months of negotiations, on 5th November 1956, British Paratroopers landed along the Suez Canal to seize the commercially critical waterway.[3] However, by the 22nd of December British troops had withdrawn, British Prime Minister Anthony Eden resigned on the 9th of January 1957 with his reputation in tatters, just two months after the start of British-French operations to seize the Suez Canal.

The swift change of fortune was unexpected in the Eden ministry. While international condemnation played a role, it was financial pressure from the United States of America that coerced the British government into abandoning their seizure of the Suez Canal. The British government had entirely misread the United States' attitude towards a possible British intervention, assuming its key ally and creditor would approve of continued British supremacy in the region. With mounting anti-colonial and anti-imperial sentiments rising in the American populace, and American President Dwight D. Eisenhower being less of an Anglophile than the wartime-president Franklin D. Roosevelt, the United States of America

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[1] Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power, Ch.24
[2] "EGYPT.," EGYPT. (Hansard, 23 December 1929), accessed August 11, 2020, https://api.parliament.uk/historic-hansard/commons/1929/dec/23/egypt.
[3] The Oxford Illustrated History of the British Army,1994, 349

threatened to dump its reserves of British Sterling onto the international markets. This move was an overwhelming threat that rendered the British government no escape: the Eden ministry had to capitulate, withdraw, and eventually recognised Egyptian sovereignty over the Suez Canal. To date, there has not been a thorough analysis of how Britain's web of financial relationships contributed to its Empire's demise at Suez.

This thesis will touch upon previously ignored aspects of the Suez Crisis: the financial relationships that Britain had with both the United States and the British Empire's sterling area. In our investigative journey, we will be pursuing an answer to how American financial coercion led to the erosion of British power, beginning with Britain's withdrawal from the Suez Canal during the Suez Crisis in 1956. At first glance, it appears that the foundation of Britain's status as a world power was the economic strength of its Empire. After the Second World War, Britain's links to its Empire depended on its territories pegging their currency to the British sterling. American pressure during the Suez Crisis threatened to destabilise the value of the sterling, which would break the financial links between Britain and its Empire, thereby stripping Britain of its economic power.

Theoretical Framework

This paper will use Interdependence theory, as a subset of Neorealist International Relations theory, to understand the relationships and actions between The United States and Britain, Britain and its Empire, and Egypt's role in kickstarting the demise of the British Empire. Interdependence theory was first proposed by Robert Keohane and Joseph Nye in 1977 to explain the growing web of non-military, reciprocal relationships across the world. Interdependence theory will be useful in understanding the Suez Crisis due to the web of relationships across multiple dimensions – financial, economic, and military - between

Britain, the United States, and how they contributed to Britain's withdrawal from the Suez Crisis. Most of the factors contributing to Britain's sensitivity to financial coercion have been studied independently - not in the light of how they contribute to the diplomacy of the Suez Crisis - and have not been linked together. Interdependence theory provides a framework in which we can see how various factors were connected through the lens of dependence, interdependence, and power, providing a more holistic understanding of Britain's reaction to the United States' financial coercion during the Suez Crisis.

Within Interdependence theory, the concept of dependence and interdependence are the foundations for the understanding of the relations between nations. Dependence, as defined by Keohane and Nye, is "a state of being determined or significantly affected by external forces". Interdependence, on the other hand, they define as "mutual dependence" – that of reciprocal effects and influence between two nations that is not unidirectional. Dependence and interdependence can both be military or non-military relationships, and it is noted that dependence/interdependence relationships are not binary and exist on a spectrum in terms of the weight of influence two (or more) nations may hold over each other.[4]

As this paper is concerned in part with how the sterling area provided Britain with the capabilities of a global power, and also in part how the United States exercised its power over Britain, the categorisations of the concept of power will be essential to understanding the powerplay between the nations. In his paper, 'Soft Power', Nye defines hard power as the traditional power of "diplomatic notes through economic threats to military coercion", and soft power as "when one country gets other countries to want what it wants", be it through other countries follow its lead (having naturally shared interests, or being offered rewards

[4] Keohane & Nye, Power and Interdependence: World Politics in Transition, 1977

greater than the rewards of opposition), or the states agree to produce a situation that benefits them both.[5] However, David Gompert and Hans Binnendijk in their paper "The Power to Coerce: Countering Adversaries Without Going to War" define hard power as "the use of physical military means to force enemy regimes to change their ways, or to change those regimes", and soft power as the use of institutions, economic assistance, propagation of ideas and other non-military means to encourage societies to be more like (or to like) the user of such power.[6] Gompert and Binnendijk's definition of hard power is contrary to Keohane and Nye's in that it narrows the definition to that of just military power, further proposing a third type of power, "Power to Coerce" to contain the non-violent constituents of Keohane and Nye's definition of hard power, defined explicitly as "using non-military means to pressure unfriendly states to do what they would otherwise not", which covers a wide range from threats, to economic sanctions, to supporting domestic opposition and more. In this paper, I will be focusing on the use of financial policy as a form of coercive, non-violent power that bridges both hard and soft power, as per Gompert and Binnendijk's "Power to Coerce", referred to in this paper as "coercion", also using a narrower version of Nye's definition of "hard power" to mean that of using military force to achieve a desired outcome, and using Nye's definition of "soft power".

The literature on the Suez Crisis has had two main opposing views: one, espoused by Selwyn Lloyd, the Foreign Secretary during the Suez Crisis, was that of the Suez Crisis merely revealed to the world that the British Empire had not been a superpower since the end of the Second World War, and it had lost its economic strength and power beforehand.[7] The alternative view, as stated by Joseph Frankel, was that the Suez Crisis "destroyed Britain's

[5] Joseph Nye, Soft Power: The Means to Success in World Politics, 2004,
[6] Gompert & Binnendijk, The Power to Coerce: Countering Adversaries Without Going to War, 2016,
[7] Selwyn Lloyd, Suez 1956: a personal account, 1978

independent world role in the Middle East".[8] More recently, George Peden states that the Suez Crisis "merely confirmed Britain's dependence on the United States" due to Britain's reliance on American financial support, in agreement with Lloyd.[9] Peden further states that "Britain's world role was changing from the late 1950s, but it is less than clear that this was a consequence of Suez". Considering the financial fallout of the Suez Crisis, James Boughton states that the speculative attack on sterling's value after the Suez Crisis was not so large and sustained that the Bank of England could not handle the outflow, which runs contrary to the common idea that Britain's looming economic collapse was the greatest threat in the Suez Crisis.[10] These scholars have ignored Britain's dependence on international relationships and the sterling's role in those relationships. Therefore, I propose an alternative understanding of the Suez Crisis on British foreign policy, directly contrary to Peden's assertion regarding the Suez Crisis' influence on Britain's world role, and closer to a synthesis of Frankel and Lloyd's insights. I argue that not only was the British Empire no longer a superpower leading up to the Suez Crisis, quietly filling the role of junior partner in the Anglo-American alliance after the Second World War, but the American financial coercion during the Suez Crisis threatened the disintegration of the financial relationships on which Britain was dependent for its hard, soft, and coercive power; resulting in Britain being dragged into a more subordinate position to the United States than before the Suez Crisis.

Academic Relevance

There has been very little, if any, research into the financial relations of the British Empire concerning the Suez Crisis, particularly how the structure of the British Empire's

[8] Joseph Frankel, British foreign policy, 1945-1973, 1975
[9] George Peden, Suez and Britain's Decline as a World Power, 2012
[10] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001, 3

economic relations made it so vulnerable to the United States' financial diplomacy. As such this will be fairly unexplored ground – plenty of research has been done on the economics of the British Empire, the oil politics of the Suez Crisis, and the power relations in the Middle East, as well as the economics of Britain's relationship with the United States. A gap appears when considering how the diplomacy of the United States was so effective, nor does there appear to be literature on what critical weaknesses – that is to say, points of potential exploitation through financial coercion - international monetary arrangements can impose on a state. Britain had been maintaining an artificially high-value sterling for decades, and the pressure from the United States threatened to destabilise the value of the sterling: most scholars, such as Diane Kunz, focus on the depletion of Britain's gold reserves in maintaining the sterling's value.[11] Boughton looked at the effect of sterling's value on the British economy and consequent financial crisis.[12] The central nature of the sterling's value to Britain's international relationships, and Britain's dependence on those relationships, has hitherto been ignored in favour of economic and financial consequences on Britain. The consequences of the Suez Crisis go beyond Britain's economic crisis: I argue that the American financial coercion in the Suez Crisis was a direct threat to Britain's power by threatening Britain's relationships of dependence.

There has been little study on international financial agreements regarding cooperation and coercion between states – financial agreements are most often studied by economists and financiers in terms of the exchange of goods, services and capital, but are seldom studied in the context of international relations. Nye states in his paper *Soft Power* that military intervention had a dominant place in world politics and other forms of power

[11] Diane Kunz, The Economic Diplomacy of the Suez Crisis, 1991, 14
[12] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001

were not a viable option until the 1980s and beyond.[13] However, this paper will show that interdependence and the use of non-military alternatives to coerce nations have been occurring as early as 1956, further noting that the framework to enable this particular example to occur has been in place from 1945 at least. Aggressive financial diplomacy – specifically currency manipulation – has been largely overlooked in international relations scholarship and can be an extremely powerful form of non-violent coercion, bridging soft and hard power.

By investigating the financial diplomacy of the Suez Crisis, this paper intends to provide an insight into the use of financial coercion between nations to achieve political aims. Considering that the contemporary world is now far more interdependent, with huge capital flows and trade across the world, many currencies pegged to currencies such as the US dollar (Saudi Arabia, Bahrain, Kuwait, etc.), huge foreign currency reserves (China possesses over $3trn in foreign reserves), it appears that this sort of financial coercion may still be a viable tool in modern diplomacy: the security threat of China's large US dollar reserves has been discussed and studied extensively within American political, security, and economic communities, with the Congressional Research Service publishing a report on its findings in 2013.[14]

Method

This study will consist of a chronological, qualitative analysis of three major diplomatic agreements, from the Anglo-Iranian Oil Company Concession in 1933 leading up to (and including) the diplomacy of the Suez Crisis in 1956. The first document analysed, in chapter 1, will be the 1933 Anglo-Iranian Oil Company Concession, obtained from the

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[13] Joseph Nye, Soft Power, 1990, 156
[14] Morrison & Labonte, China's Holdings of U.S. Securities: Implications for the U.S. Economy, 2013

appendix of “Enabling the Iranian Gas Export Options” by Maximilian Kuhn. The survival of this agreement depended on the value of the royalties the Persian government was paid, its predecessor was cancelled due to a poor showing in terms of royalties – so, how was the acquisition of oil due to the Anglo-Persian Oil Company Concession Agreement tied to the finances of Britain? We will look at the wording of the document concerning sterling and royalties, and its predecessor document, the 1901 D’Arcy Concession Agreement, within the context of contemporary British national interests.

The second document will be the 1945 Anglo-American Loan Agreement, obtained from the Federal Reserve Bank of St. Louis, will be analysed in chapter 2 to understand the financial and economic interdependence that was developing between Britain and the United States. It is in this document Britain’s descent into that of junior partner to the United States begins, and as such, we must ask, “how did the Anglo-American Loan influence Britain’s dependence on the United States?”

In chapter 3, an examination of the Exchange Controls Act 1947, obtained from “legislation.gov.uk” in cooperation with The National Archives, will provide an understanding of the financial powers of the British Empire.[15] How did the Exchange Controls Act contribute to the exercise of British power in relation to the United States? The document granted extensive powers to the British Treasury to use all foreign currency and gold within the sterling area to address the British dollar deficit, a partial result of the Anglo-American Loan. However, the act provided Britain with further coercive and potentially diplomatic powers.

[15] Further documents that would aid in this analysis, such as trade records and government gold reserves from the National Archives are currently inaccessible due to the coronavirus. Suggestions for further research will be made in the conclusion.

How did American financial coercion during the Suez Crisis of 1956 threaten the value of the British sterling, and why was this such a pivotal moment for the British Empire? Chapter 4 will unravel the key to America's successful coercion during the Suez Crisis in the context of the three documents. This will be done using private letters sent between Prime Minister Eden and President Eisenhower, US Department of State memoranda, obtained from "Gale Primary Sources: US Declassified Documents Online", that present the interests and motivations of the Eisenhower's administration, and the British Joint Intelligence Committee report obtained from the book "Spying on the World" by Richard Aldrich, Rory Cormac, and Michael Goodman, that presents the interests and motivations of Eden's administration.

These documents will be analysed using interdependence theory, and the previously mentioned concepts of hard power, soft power, and coercion will be used as a framework to analyse the financial and diplomatic practices of the time to create a clear and coherent account of the power and dependences surrounding the Suez Crisis.

Chapter 1: The Anglo-Iranian Oil Company

Introduction

Our investigation starts with the financial relationship between the British Empire and the government of Iran, as it was the dominant supplier of Britain's oil. Oil was a critical component of Britain's economic machinery for several reasons: the Royal Navy depended upon oil to fuel its ships which, in turn, projected British hard power overseas to ensure its financial and economic interests were met. Oil was also critical to British industry, with much of Britain's economy becoming reliant on oil. Due to a combination of sterling's status as an international reserve currency making it potentially susceptible to speculative attacks, and oil's critical role in the British economy, a loss of access to oil could lead to volatility in the value of sterling based on international currency speculator sentiment.[16]

This chapter will show how the sterling area functioned in the decades before the Suez Crisis, especially how it began as an informal system to ensure British hard power through the acquisition of oil, with the sterling playing a central role in the agreement. Starting with the origins of Britain's pursuit of overseas oil, then moving into the progenitor of Britain's financial relationship with oil: the 1901 Knox D'Arcy Concession Agreement, and finally, we will analyse the formalisation of the Iranian sterling-oil interdependence in the 1933 Anglo-Iranian Oil Company Concession.

[16] Nicholas Trebat, The United States, Britain, and the Marshall Plan: oil and finance in the early postwar era, 2018, 362

Origins of the Pursuit of Overseas Oil

Britain had extensive coal deposits that had been fuelling its navy since 1822 when the HMS Comet became the first steamship of the Royal Navy.[17] Britain benefitted from its extensive coal reserves to fuel the Royal Navy as it was independent of other powers to provide fuel for its forces. This changed, however, in 1911 when oil had become more widely available and it was realised that oil-powered ships offered many advantages to coal-powered ships.[18]

To keep up with the technological advancement of naval warfare, Britain had to secure access to oil. The United States had been producing oil since 1859, Imperial Russia had annexed oil-producing territory in the Caucasus in 1813. After the Soviet Revolution, the government pursued self-sufficiency in oil, eventually becoming a net exporter.[19] Britain, however, lacked the extensive reserves that the United States and the Soviet Union possessed on its home territory, therefore being forced to acquire oil from overseas and secure the supply chains transporting the oil to Britain, both to ensure the continued function of the Royal Navy, and also to fuel its increasingly oil-reliant economy.

In December of 1911, the pursuit of oil was actualised in British policy. Winston Churchill, then First Lord of the Admiralty, considered the modernisation of the Navy to be key in maintaining British supremacy at sea.[20] The Royal Commission on Fuel and Engines had found and stated in its reports that to maintain naval supremacy it was necessary to

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[17] Rif Winfield, British Warships in the Age of Sail 1817–1863: Design, Construction, Careers and Fates, 2014, 294

[18] John Fisher, Records, 1919, 402

[19] D. L. Spencer, The Role of Oil in Soviet Foreign Economic Policy, 1966

[20] Winston Churchill, The World Crisis 1911-1918, 1923, 133

switch from coal-powered ships to oil-powered. With oil-propelled ships, the Royal Navy could build lighter and faster ships, therefore outmanoeuvring rival fleets.

However, this shift towards an oil-powered navy would dictate a shift in foreign policy. The Royal Navy had previously been powered entirely by British coal, of which Britain had extensive and high-quality deposits and was therefore entirely self-sufficient in coal consumption. Britain was almost entirely lacking in oil deposits, and therefore the pursuit of an oil-powered navy would establish a dependence on resources only found overseas. Churchill recognised the difficulty in pursuing this policy, stating that "to commit the navy irrevocably to oil was indeed to take arms against a sea of troubles...", however, by overcoming the difficulties, Britain would "raise the whole power and efficiency of the navy to a definitely higher level".[21]

I argue that this transformation in British policy would lead to the British Empire becoming an empire of necessity, creating a system – the sterling area – on which Britain would become dependent to attain the oil required for its hard power. Kenneth Wright has spoken on the use of the sterling area to address the dollar deficit, and Warwick Brown discussed extensively the necessity of securing overseas oil to the British navy.[22] [23] Yet, both scholars ignore the possibility of the two topics coming together: the use of financial relationships, via the sterling, to preserve British hard power and political autonomy by securing access to overseas oil, which will be made in this chapter.

Britain successfully acquired access to oil when a British entrepreneur, Knox D'Arcy, acquired an oil concession from the government of Persia, which was eventually cancelled

[21] Ibid., 133
[22] Kenneth Wright, Dollar Pooling in the Sterling Area 1939-1952, 1954
[23] Warwick Brown, THE ROYAL NAVY'S FUEL SUPPLIES, 1898-1939; THE TRANSITION FROM COAL TO OIL, 2003

and from which another concession was developed in 1933. The value of sterling was central to the 1933 Anglo-Iranian Oil Company Concession from the Persian government, which will be our primary subject of investigation of this chapter.

The 1901 D’Arcy Concession Agreement

To understand Britain’s dependence on financial ties to secure foreign oil, it is important to analyse the documents concerning the terms of the operation of the oil company operating in the region. The agreements concerning the Anglo-Iranian Oil Company (initially founded as the Anglo-Persian Oil Company), will be analysed here. The primary document of interest is the 1933 Oil Concession Agreement, however, analysis of its predecessor document, the 1901 D’Arcy Concession Agreement, and the changes between the two agreements, will provide an insight into the changing political and financial interests at the time.

The British government’s first major step towards building an oil supply independent of other major powers was through the purchase of 51% of the Anglo-Persian Oil Company’s shares in 1914, providing the British government with a controlling stake in the company.[24] The Anglo-Persian Oil Company was founded in 1908 from an oil concession granted by Shah Mozaffar al-Din Shah Qajar to William Knox D’Arcy in May 1901 (although D’Arcy sold the rights to this concession to the Burmah Oil Company before he discovered oil, he continued playing a key role in the Anglo-Persian Oil Company).[25] This was a huge development for Britain: D’Arcy’s oil concession not only gained exclusive rights to oil prospecting until 1961 in over two-thirds of the territory of the area of Persia, but it also

[24] Jonathan Kuiken, 2014, Caught in Transition: Britain's Oil Policy in the Face of Impending Crisis, 1967-1973, 276

[25] 1901, D’Arcy Concession Agreement

promised to pay only 16% of profits and an additional 2000 tomans to the Persian ruler. D'Arcy courted the British Admiralty for a loan, which was denied due to oil not yet being considered a strategically valuable resource so he pursued other foreign investors. The British Admiralty eventually reconsidered, although instead of providing a loan, initiated the search for British investors. The British Admiralty convinced D'Arcy to establish a syndicate, the Anglo-Persian Oil Company, with the Burmah Oil Co. in 1905.[26]

The English translation of the D'Arcy Concession, dated 28th of May 1901, contains eighteen articles, of which we shall focus on Article I, concerning the general exclusive rights of the concessionaire (D'Arcy), Article VI, which excludes others from certain transportation rights, and Article X, discussing terms of payment, for understanding not only the importance of the Persian oilfields to Britain but also the financial nature of the relationship concerning the oilfields that Britain had with Persia.

Article I endowed D'Arcy with perhaps the greatest prize that could have befallen a single man: the absolute, exclusive privilege to perform all elements of the oil industry in Iran, and although it had not yet been discovered, would soon prove to be some of the largest oil reserves in the world. Parlayed correctly, it could lead D'Arcy to even greater wealth, power, and prestige, and it was down to his carefully designed agreement (and bribing the negotiating Iranians) that led to his prize.[27] The monopoly is important to note as the concessionaire would not risk intervention from competing companies, and a monopoly on all elements of the oil industry, from extraction, transportation, refinement, and sale, would multiply profits (and reduce cost) far beyond just the right to extract the oil.

[26] Daniel Yergin, The Prize, 1990, 126
[27] Ibid., 121

Article VI is of note, for in Article I it was already stated explicitly that D'Arcy as the concessionaire had the exclusive right to "carry away" the petroleum and other products from the Persian Empire. Article VI then appears to not be serving the utilisation of Persian oil products and instead seems to be a political manoeuvre that could court Britain's interest in purchasing D'Arcy's concession. Britain was competing with the Russian Empire for influence in the Middle East, and while Russia had immense oil and gas reserves in its territory around the Caspian sea (which Iran borders to the north), and transporting and selling these would provide Russia influence across the world – Russia's main issue was that of transporting the oil to where it could be purchased, as Russia's access to the ocean could easily be cut off, through the Baltic sea, the Black sea by the Turkish Straits, and the Mediterranean. If Russia could form an overland route to the Gulf through Persia to transport its oil, its oil and gas diplomacy with the rest of the world would not be at the mercy of potentially hostile Baltic and Mediterranean states.

In incorporating Article VI into the treaty, D'Arcy gave Britain the impetus to purchase the concession for the geopolitical gain of containing Russian diplomacy, as well as access to Persian oil. The merging of a business contract, financial relations (through discussions of payment) and geopolitical interest provides an image of a complex political world that D'Arcy was operating in and hoping to use to his benefit. It would also give the British government greater soft power in negotiations should it wish to offer to drop Article VI, as the Imperial Persian Government was foregoing considerable potential oil transportation royalties by doing so.

Article X is the most crucial article in the document. Article X sets the tone for the future financial relations with the Persian government by the normalising the British sterling as the standard currency for royalty payments and also creates an ongoing relationship by paying sixteen per cent of annual net profits to the Imperial Persian Government. It is not explicitly stated that payment of the sixteen per cent annual net profits must be in sterling, however, this was developed in the next concession agreement of 1933 (which was established to replace the D'Arcy agreement) into explicitly stating sterling as the currency to be paid as oil royalties for very precise amounts of oil production. Further, the Imperial Persian Government would own a stake in the initial company founded to the value of twenty thousand sterling. The value of this stake is not just tied to the future value of the shares, but also the value of sterling. This is important, as we are now seeing Persia and Britain's interests being intertwined along the lines of the value of the British pound sterling. This was Britain's first acquisition of oil overseas, and Persia came to supply a huge percentage of the British Empire's oil.[28] As the value of these payments was equivalent to the sterling, any change in the value of sterling changes the value of these payments. An unstable and lower value sterling could result in a damaged relationship with the Persian government by decreasing Britain's soft power of the attractively valued sterling, possibly leading to an attempt to renegotiate the terms of the treaty. We will see in the concession agreement of 1933 that a new term of the agreement foresaw this potential issue, creating the possibility of a payment in other currencies if the value of sterling dropped below a certain threshold in relation to gold – a direct threat to Britain's soft, economic power, and the beginning of the sterling's central role to Britain's relationship with Persia.

The concession provided a complete petroleum monopoly on the southern two-thirds of the Persian territory, as well as a monopoly on the sale and supply of oil. The formation of a monopoly would be beneficial for British foreign policy as the absence of competitors for oil concessions would enable Britain to control the supply, and therefore value relative to

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[28] John Cadman, The Oil Resources of the British Empire, 1920, 587

demand, of oil in Persia. If Britain had to compete with other countries or companies for oil concessions, Britain's soft, economic power in Persia would diminish. Britain would have to negotiate to pay higher oil royalties against other companies that were competing for the same land. This would have increased the cost of oil production for Britain, therefore making fuelling Britain's navy and military more expensive, diminishing Britain's military capabilities through the sheer cost of fueling the Royal Navy. Further, several payments and the value of shares that the Shah would receive were valued in British Sterling rather than Persian toman. Here, the high value of sterling would prove to increase Britain's soft power, as a greater amount of toman could be purchased, and a high-value sterling would maintain positive relations with the Shah due to the greater amount of goods he would be able to purchase when purchasing outside the sterling area.

The 1933 Anglo-Iranian Oil Company Concession

The Anglo-Persian Oil Company, by 1918, was providing over 41% of the British Empire's oil supply.[29] Not only was this oil supply monopolised by the British, but the monopoly brought about financial relations with the Persian government that were predominantly conducted in sterling. This meant that not only did the British government control the oil supply to Britain, its ability to appease the Persian government depended upon the value of the sterling in relation to other currencies if purchases of oil were mostly to be conducted in sterling.

As a result of the positive relationship with the Persian government depending on sterling, in 1932 the D'Arcy concession was cancelled by the Imperial Persian Government due to declining royalty payments.[30] The Imperial Persian Government was displeased with

[29] Ibid., 587
[30] James Bamberg, The History of the British Petroleum Company, 1994

the quantity of sterling it was being paid: it earned less than half in oil royalties than what the British government made in taxes from the Anglo-Iranian Oil Company. British fiscal policy, business practices, and other deceptive methods reduced the “net profits” that the company had to pay royalties on. Britain denied that Persia was able to cancel the contract, attempted to take Persia to the Hague Court, and finally, Persia agreed to take the issue before the League of Nations.[31] Before the League of Nations came to a decision, the Anglo-Iranian Oil Company had been negotiating with the Persian Government and both had agreed to a new concession.[32] The renegotiated concession became a lot more precise in its language and the terms of payment became defined by multiple aspects of the company’s operations, which were harder to hide or shift the legal requirement to pay royalties on, as well as mandatory minimum payments of sterling to the Imperial Persian Government each year. It is here that it is made evident that Britain’s hegemony in Persia depended on sterling: The sterling lost its capacity as a tool of Britain’s soft power in Persia after the Persian government had not received their promised share of sterling as assigned by a concession agreement. Persia’s cancellation and renegotiation of the concession agreement show that Britain was more dependent on Persia’s oil than Persia was dependent on sterling, leading to an imbalanced interdependence between Britain and Persia, with sterling as the fulcrum of the relationship.

The 1933 Concession Agreement formalised the British sterling as the central component to the agreement between the British government and the Iranian government (Persia began to be referred to as Iran in 1935). Article 1 is largely similar to the D’Arcy Article I in terms of the scope of the concession, and the initial articles of the agreement talk

[31] A. C. Millspaugh, “The Persian-British Oil Dispute,” Foreign Affairs, 1933, https://www.foreignaffairs.com/articles/united-kingdom/1933-04-01/persian-british-oil-dispute.
[32] Ibid.

little of finance. However, coming to Article 8, and especially Article 10, everything changes, and we see the intricate web that is being built using the sterling as its foundation.

Article 8 stated that the company “shall not be bound to convert into Iranian currency any part whatsoever of its funds”. By not being bound to convert the profit from the sales of oil to Iranian currency, the sales would, by default, remain in whichever currency they had been sold in. Therefore, should the majority of sales be made to Britain, then the currency would be in British sterling. This is important as the main customers of Iranian oil were enterprises of the British Empire, the transactions would be conducted primarily in London, and therefore the royalties would be paid to the Iranian government in British pounds (as it was not stated that the royalties would have to be converted into Iranian currency). This gave even greater coercive power to the British government over the Iranian government, as it would be able to control transactions being conducted in London, the financial capital of the Empire.

In Article 10, the value of oil royalties for the Iranian government is given an exact amount denominated in British sterling in 10. I. a, “of four shillings per ton of Petroleum sold”, as well an amount tied directly to the sum distributed to stockholders, that of a sum “equal to twenty per cent of the distribution to the ordinary stockholders” in article 10. I. b. As the Anglo-Iranian Oil Company was a British company, the dividends from owning the stock would have been paid in sterling as well. Every aspect of this relationship with Iran is predicated on the sterling being a reliable store of value merely through the sterling being used as the foundation of business conduct. The sterling had been set as an undeniable axiom of the Anglo-Iranian interdependence concerning the Anglo-Iranian Oil Company, an example of Britain’s soft power in play due to its wide international use and the diplomatic acumen to ensure that the sterling was a standard element of the concession agreement.

As part of this concession agreement, Britain risked paying substantially more for the oil it produced if the value of the sterling fell in an inverse relationship with the value of sterling against gold. In article 10. V. a., the concession agreement contains a framework to compensate the Iranian Government against the loss of value in the sterling, we find that Britain's dealings with Iran were predicated on the stability of the sterling's value. If the international value of the sterling dropped – as measured against the value of gold - the cost of oil would go up dramatically for Britain due to a mechanism increasing the cost of the oil royalties increasing by 1/1440 of a penny for every penny increase in the value of gold above six pounds sterling, with the additional risk of an arbitration court deciding that another currency or security would be required as payment. As the previous concession agreement was cancelled by the Iranian government due to the low royalties paid to the Imperial Iranian government, positive relations with the Iranian government concerning oil depended on the total value of sterling they were receiving as royalties. Any decrease in the sterling's value would risk the concession agreement being cancelled again, or at the very minimum, Britain's access to oil would become much more expensive and less certain, negatively influencing Britain's hard power. Britain had successfully wooed Iran with the value of its sterling, an example of the soft power Britain had from sterling's status as a global reserve currency and turned its soft power into hard power via Iranian oil. However, this shows how dependent Britain was on its relationship with Persia: a falter in the relationship with Iran would endanger Britain's hard power by crippling its oil-dependent navy. Iran was not dependent on its relationship with Britain to sell its oil – the United States was also very interested in exploiting Middle Eastern oil, and so the balance of power in the relationship sat with Iran and the Iranian assessment of the acceptability of sterling's value at the time. Britain's sterling area was only hegemonic so long as the value of the sterling remained high, with Iran being ready to drop its association with Britain and the sterling as soon as it was less financially rewarding than other possible relationships.

Conclusion

How, then, was the acquisition of oil due to the 1933 Anglo-Iranian Oil Company Concession Agreement tied to the finances of Britain? The loyalty of (and flow of oil from) Persia to Britain depended on the value of the sterling received as royalties from Britain. This is made clear when we see that Iran cancelled the original treaty decrease in royalties, and the new treaty was precise and measured to ensure a greater share of the wealth produced by the exploitation of petroleum reserves, setting the precise amount of sterling for oil royalties to be paid in. This was the start of Britain's international financial interdependences, the sterling being the crux of Britain's relationship with Iran.

Considering how this contributes to the strength of America's financial coercion during the Suez Crisis, an external actor could disrupt the Iranian-British interdependence by impacting the value of the sterling. Contrary to Boughtman's statement that a sterling devaluation merely threatened a financial crisis, Britain's hard power was directly under threat as well:[33] Britain would lose its soft power with Iran, and the Iranian government would have an interest in decoupling itself from supplying oil to Britain. This would impact Britain's ability to wage war for a sustained period dramatically, decreasing Britain's hard power, and would also result in a great loss of political independence for Britain, as Britain would have to find a new oil supply that another major power may have influence over.

[33] James Boughtman, Northwest of Suez: The 1956 Crisis and the IMF, 2001, 443

Chapter 2: The 1945 Anglo-American Loan

Introduction

The 1945 Anglo-American loan was the beginning of the web of financial relationships that Britain was entangled in during the Suez Crisis. The document provided the foundation for which Britain, its Empire, and the United States to interact financially and commercially, in return for the United States providing Britain with a line of credit totalling $3.75 billion.[34] This loan was considered to a vital life-line for the British economy: Britain's economy had been ravaged by the Second World War, with much of its economy reoriented to war production, rather than the of high-value export-oriented trade its economy revolved around previously.[35] Much has been written about the 1945 Anglo-American loan and its implications for the economy, however, no literature exists on the effects of the 1945 Anglo-American Loan on the implications for Britain's power. The agreement came to be a defining feature of the Anglo-American relationship, with the Exchange Control Act 1947 invoked in direct response to the British economic problems caused by the 1945 Anglo-American Loan, shaping their post-Second World War relationship.

Financing Britain's Post-War Recovery

After the Second World War, Britain's economy had taken a beating: not only had two-thirds of its pre-war export trade been lost by 1945 due to Axis U-boats sinking much of the merchant marine, but the entire economy had been geared towards military production,

[34] Anglo-American Loan Agreement, 1945
[35] Lawrence James, The Rise and Fall of the British Empire, 1994, 520

with a huge loss in production capacity due to the Axis powers bombing industrial areas of Britain.[36] [37]

In contrast, the United States' economy was untouched during the Second World War. Safely flanked by both the Atlantic and Pacific oceans, the industrial strength of the United States was brought to bear on the Axis powers by arming the Allied powers, Britain and the Soviet Union, through the Lend-Lease program, mitigating the diminished industrial output of Britain. Much of the remaining equipment after the war was purchased from the United States at 10% of the original value of the items, the amount to be repaid, with interest, over the course of 50 years, for a total of £1.075 billion.[38]

With the end of the Lend-Lease Agreement came the 1945 Anglo-American Loan. In addition to the Anglo-American Loan, the United States was providing loans and other financial assistance to Western Germany, France, and Italy, to rebuild the economies and turn the former enemies of Germany and Italy into allies.[39] Though formerly allied with the United States during the Second World War, the Soviet Union was looming over the now-weakened European states. The threat of an expansionist Communist ideology, as well as an increase in anti-Communist sentiment in American policymakers, meant that the United States desired powerful and competent allies to hold back the Soviet Union and halt the spread of Communism.[40]

[36] Ibid., 520
[37] Natasha Sheldon, "The Windrush Generation and the Rebuilding of Post War Britain.," HistoryCollection.com, July 9, 2018, https://historycollection.com/the-windrush-generation-and-the-rebuilding-of-post-war-britain/
[38] Kennedy Hickman, "World War II: The Lend-Lease Act." ThoughtCo. https://www.thoughtco.com/the-lend-lease-act-2361029 (accessed August 11, 2020).
[39] Henry Kissinger, Reflections on Containment, 1994, 113
[40] Stephen McGlinchey, The Marshall Plan, the Truman Doctrine, and the Division of Europe, 2009, 2

In addition, before the Second World War, the United States had pursued a policy of free trade, in the hope to open up new markets and expand the penetration of American businesses outside of the United States and had been long petitioning the government of Britain to remove trade barriers in the sterling area, for example, a trade agreement between the United States and Britain in 1938 was considered a success due to the United States breaking through Britain's system of Imperial Preference.[41] However, was cancelled due to the outbreak of the Second World War. The United States also pushed for the inclusion of lowering trade barriers and economic cooperation into the United Nations' Atlantic Charter of 1941, arguing that it would result in mutual economic prosperity.[42]

There has been no debate on the non-economic goals of the 1945 Anglo-American Loan, and there has similarly been little literature on the use of international financial agreements regarding cooperation and coercion – financial agreements are usually the discussion of economists and financiers, rather than the subject of international relations research. As such, this chapter intends to provide a small foundation for both of those academic gaps by starting with two overarching theories and discussing the merits of each when considering the 1945 Anglo-American Loan Agreement.

According to Daniel Deudney and G. John Ikenberry, a key element of liberal theory is that free trade and capitalism, spreading through major supranational organisations such as the IMF, are mutually beneficial to all nations involved because increased commerce between nations decreases the chance of war due to the threat of cutting off profit.[43] Nations with large amounts of trade between them are less likely to engage in conflict. Should this be true, then

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[41] W.R. Carney, Imperial Preference – Foreign Attitudes, 1956, 52
[42] Ibid., 53
[43] Deudney & Ikenberry, The Nature and Sources of Liberal International Order, 1999

we would see Britain embracing free trade with the United States and happily opening the sterling area to international investment and trade. However, this is not what happened, as Britain reneged on parts of the 1945 American Loan Agreement very rapidly.

The second theory that offers an insight into international relations here would be the realist tradition. Realist theory would understand the United States as the hegemon in the interaction, imposing its will as much as possible on to Britain to expand its power and secure itself against foreign threats. However, as part of its expansion of power involved the removal of trade barriers with the sterling area, and the United States was held great influence over the IMF which could potentially punish Britain, coercing it further into cooperation, the unaggressive behaviour of not imposing the United States' will onto Britain *when it could* becomes troubling for realist theory.

Therefore, in contrast to realist and liberal understandings of the 1945 Anglo-American Agreement, interdependence theory will be a viable tool to understand the agreement and the relationship that developed from it. Interdependence theory will enable us to see the multiple axes of the dependence and interdependence between Britain and the United States, and therefore build a map of the relationships and balance of power based on dependence that comes from the document. The United States was motivated to contain the Soviet Union post-Second World War, and therefore required as much military might as it could muster to hold back the expansionist communist forces – a role that Britain could play due to its large military and an extensive array of naval and air bases around the Middle East and Asia.[44] In return, the United States would be funding the reconstruction of Britain's economy *and* military. Britain was not economically capable of supporting its military across

[44] Elizabeth Monroe, British Bases in the Middle East: Assets or Liabilities?, 1966

the world after the Second World War.[45] Therefore, the United States was dependent on Britain to assist in holding back the Soviet Union, however, Britain was dependent on the United States' funds to maintain its military. As a result, while the two nations were interdependent, we see that Britain was more critically dependent on the United States' economy than the United States was dependent on Britain's military. This provided the United States with a great amount of leverage through the soft power of aiding Britain, in exchange for the exercise of British hard power in alignment with American interests.

American Interests and British Needs

In 1945 Britain sent John Maynard Keynes to the United States to negotiate the possibility of a gift to aid in Britain's post-Second World War recovery due to the extensive financial losses incurred from the Second World War, however, Keynes returned to Britain with the American offer of a low-interest loan instead.[46]

Early in the 1945 Anglo-American Loan Agreement, it is stated that "[t]he purpose of the discussions has been to arrive at mutually advantageous solutions" concerning the post-Second World War demobilization, financial assistance for Britain, and commercial policies between the two nations. This brings us to our question for this chapter, "how did the Anglo-American Loan of 1945 influence Britain's dependence on the United States?"

The document states that a line of credit will be extended to Britain of $3,750,000,000 at an interest rate of 2% per annum, for the distinct purpose of facilitating the purchase of American goods and services by Britain. This low-interest rate indicates that Roosevelt's administration was not as interested in the direct returns on the loan as its sole terms of

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[45] Randall Bennett Woods, A Changing of the Guard: Anglo-American Relations, 1941-1946, 1990, 374
[46] Robert Skidelsky, John Maynard Keynes, Fighting for Freedom, 1937–1946, 2001

repayment: it would gain more by investing in the American economy, then growing at an average of over 4% per annum.[47]

By maintaining a reserve of gold and dollars, Britain could ensure its international purchasing power through the purchase and sale of sterling on currency markets when needed to maintain its value against gold. Also, a reserve of US dollars would provide a buffer against any shortages of dollars for the future, which was likely to happen due to its reduced exports to the United States as a result of its reorientation to a war economy. However, this line of credit was only extended for five years, and for Britain to maintain its reserves of dollars long-term it would have to balance its trade deficit with the United States within those five years, in addition to paying the interest and principal sum of the Anglo-American Loan, otherwise, Britain would merely be delaying a future currency crisis.

The agreement also states that there would be a relaxation of "import and exchange controls, including exchange arrangement affecting the sterling area". However, the sterling area arrangements had been designed specifically to prevent the outflow of dollars, once again to prevent a sterling currency crisis.[48] This was reinforced and formalised further, as shall be discussed in Chapter 3, in direct violation of the 1945 Anglo-American Agreement.

In the section entitled "Understanding Reached on Commercial Policy", Britain is painted as being in full agreement with all points of the commercial policy. The commercial policy, "include[ed] definitive measures for the relaxation of trade barriers of all kinds", referring to "tariffs and preferences, quantitative restrictions, subsidies, state trading, cartels, and other types of trade barriers". The sterling area is the primary target for this agreement.

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[47] "United States GDP Growth Rate1947-2020 Data: 2021-2022 Forecast: Calendar," United States GDP Growth Rate | 1947-2020 Data | 2021-2022 Forecast | Calendar, accessed August 11, 2020, https://tradingeconomics.com/united-states/gdp-growth

[48] Kenneth Wright, Dollar Pooling in the Sterling Area 1939-1952, 1954

The sterling area was currently a series of informal agreements between Commonwealth nations and Britain, such as inter-institutional arrangements of banks centred in London, and other formal arrangements, for example, Imperial preference and the practice of dollar pooling. The opening of the sterling area to American investment would be a resounding victory for the United States' through the expansion of their power of economic coercion: the British Empire constituted over 19% of the world's GDP as late as 1913.[49] Information regarding the sterling area's economy in 1945 is scarce, however, Britain, Australia, New Zealand, India, and South Africa alone constituted approximately 24% of the global GDP in 1945.[50] If American companies gained unfettered access the British markets, American business interests would gain a voice in British economic policy, expanding American soft power through the voice of American business. In addition, the growth in the global supply of goods denominated in US dollars would also contribute further to Britain's dollar deficit. It is here we see cracks appear in the sterling area, and the beginning of how American financial coercion led to the erosion of British power in the Suez Crisis: the sterling area was sensitive to the growth of dollar-denominated sales, which would exacerbate Britain's dollar deficit (and, as a result, decrease Britain's gold reserves) by increasing British economic dependence on the United States. Should Britain be unable to free itself of this dependence on the United States, it would be at risk of the United States exercising its coercive power in the future. The United States could exercise its coercive power through threatening Britain into a position in which it would have to default on its loans or seek assistance from the International Monetary Fund or coerce Britain economically through denying exports or preventing dollars from flowing to Britain.

[49] Goedele de Keersmaeker, Polarity, Balance of Power and International Relations Theory: Post-Cold War and the 19th Century Compared, 2017
[50] Maddison Project Database, 2018

Conclusion

The 1945 Anglo-American Loan Agreement sets the foundation for Britain's dependence on the United States leading up to the Suez Crisis. The trade deficit that came from Britain's economic dependence on the United States' resulted in continuous pressure on Britain's gold reserves, which would prove critical during the Suez Crisis, laying a foundation for how American financial coercion led to the erosion of British power, contributing to Britain's withdrawal from the Suez Canal.

The critical point to note when considering the Anglo-American Loan Agreement is that Britain later violated the agreement concerning exchange controls and trade barriers, which will be explored in the next chapter. By rapidly reneging on the agreement, we find that Britain may, rather than being in full agreement as the document states, agreed to the conditions out of the need for funds from the United States, and was dreading the impact of the convertibility of sterling required by the agreement.

By extending a line of credit to be drawn upon to purchase American goods and services, the United States intended on using Britain's need to rebuild its economy as a method of immediately invigorating American business and building exports between the two nations. This would develop Britain's dependence on the United States as the source of its materials required for reconstruction and entrenching Anglo-American supply chains would maintain this dependence for a long time, increasing the coercive power that the United States had over Britain due to the lack of reciprocal economic dependence.

The low returns delivered by the United States 2% interest rate indicates that the true economic benefits would lie in the opening of the British Empire's sterling area to international trade. Tariffs and high-value of the sterling kept American investment out of the world's largest trading bloc. The *real* return on investment was the opening of the British Empire's economy to American interests, growing American soft power through Britain's government sharing interests with American businesses operating in the sterling area and strengthening British dependence on American business.

In sum, to answer the sub-research question, "how did the Anglo-American Loan influence Britain's dependence on the United States?", Britain developed an economic dependence on the United States that was not reciprocal, giving the United States economic coercive power over Britain. However, an interdependence was present: the United States was dependent on Britain for its hard power, its naval and military bases across the Middle East, to aid in containing the Soviet Union, just as Britain depended on American military cooperation to contain the Soviet Union. Britain's economic dependence lay the foundation for the continuous run on Britain's gold reserves, which would play a crucial role in Britain's withdrawal from the Suez Crisis in 1956.

Chapter 3: Britain's Exchange Controls Act 1947

Introduction

The Exchange Controls Act 1947 greatly expanded the web of financial relationships Britain was part of. Britain attempted to offset its dependence on the United States by formalising international monetary arrangements with the sterling area, using the arrangements to directly offset its dollar deficits created because of its economic dependence on the United States. In a struggle to become less dependent on, and less under the influence of, the United States, Britain became more dependent on the sterling area.

Britain was bound by the 1945 Anglo-American Loan Agreement to relax "import and exchange controls, including exchange arrangements affecting the sterling area". Further, it was found in Chapter 1 of this paper, the value of the British sterling was central to Britain's access to Persian oil. Similar arrangements existed with other Middle Eastern client states, especially as the Anglo-Iranian Oil Company operated in other countries such as Iraq, too.[51] With the obligation to remove import and exchange controls, yet a vested interest in maintaining the high-value sterling for its oil supply, Britain's parliament, during the Labour government of Prime Minister Clement Attlee, chose to enact the Exchange Controls Act in 1947, contrary to what was agreed in return for financial support from the United States in the 1945 Anglo-American Loan agreement.

Further, as part of the Exchange Controls Act 1947, the British government formalised the transfer and appropriation of foreign currency and gold, creating a shared pool of foreign currency to be drawn on primarily by Britain across the sterling area. This came to

[51] Daniel Silverfarb, The Revision of Iraq's Oil Concession, 1949-52, 1996

be known as “dollar pooling” and was key to addressing Britain’s dollar trade deficit. To understand Britain’s dependence on the sterling area, and its pivotal role in offsetting its dependence on the United States, this chapter intends to understand how the Exchange Controls Act 1947 contributed Britain’s power.

The Birth of a Financial Empire

Britain had been slowly relinquishing direct power over its remaining colonies but maintained financial ties. The British Empire had instituted a system of “Imperial Preference”, a system of low or zero tariffs for sterling area imports and high tariffs for non-sterling area imports as an exclusionary measure, and for a long time had an informal arrangement of banking and financial relations, which began to be formalised in the Exchange Controls Act 1947.

Leading up to the Exchange Controls Act 1947, the pound left the gold standard in 1931. This was so Britain’s macroeconomic policy was no longer subordinate to maintaining sterling’s value against gold, as doing so was damaging the purchasing power of British workers’ wages, proving increasingly unpopular as time went on.[52] Many currencies of the British Empire followed and were pegged to the sterling instead of gold.[53]

Shortly after leaving the gold standard, on the 18th of August 1932, came the Ottawa Agreements, intending to consolidate and formalise the emerging and growing economic relationships between Britain and its empire. The Ottawa Agreements eliminated many tariffs on Commonwealth goods and increased tariffs on non-Commonwealth goods.[54] This brought many benefits for Britain and the empire: this system, known as “Imperial Preference”,

[52] Harry Richardson, Economic Recovery in Britain, 1932-9, 1967
[53] A. J. B., The Sterling Area, 1944
[54] Glickman, The British Imperial Preference System, 1947

secured these imports against foreign competition – no longer were New Zealander shepherds concerned about American wool replacing the New Zealand share of British wool consumption, for example. Trade amongst the members of the Empire jumped dramatically from 1932: in 1931 only 28.7% of' British imports were from the empire, by 1937 that figure had jumped to 39.4%.[55] Britain secured access to the resources of the empire without competing against international rivals, keeping prices low. Britain was at the centre of imperial trade, finding itself the primary trading partner with all nations of the empire except Canada.

The Exchange Control Act 1947 was implemented in October 1947. The document gives the Treasury of Britain immense powers concerning the flow of currency (both sterling and foreign), capital, and gold. Further, the Treasury was empowered to centralise and exchange British citizens' and residents' foreign currency and gold for sterling.

The Treasury's Powers over Transactions

In Part I, Article 1 of the Exchange Control Act 1947 stated that no British citizen or resident, except for dealers authorised by the British government, may purchase or sell gold or foreign currency outside of Britain. All exchanges by British citizens and residents must occur within Britain, and further, the foreign currency and gold "may be put or the period for which it may be retained as may from time to time", indicating that the British treasury may use private citizens foreign currency and gold at will.[56] This does not include currency that has been issued within the sterling area, described in the document as "scheduled territories". This provides Britain with the immense power to utilise its private citizens' gold and foreign

[55] Ibid.
[56] Exchange Control Act 1947

currency for the needs of the government, such as purchasing dollars to pay the dollar-denominated Anglo-American Loan.

Article 2 continues, stating that all gold and foreign currency, held by private citizens, may only be sold to authorised dealers. This centralises the marketplace: no longer may two private citizens engage in trade of currency or gold between themselves, legally, British government authorised dealers *must* be involved. Further, all citizens and residents of Britain must obtain the consent of the Treasury to possess or use gold or any other foreign currency, with the Treasury being capable of revoking that consent at will. Also, the Treasury has permission to force any citizen or resident to sell their gold or foreign currency to the Treasury for sterling. Once again, this not only centralised the gold and foreign currency market in Britain, but gave Britain's Treasury the powers to obtain any gold or foreign currency within Britain for sterling, and use it as it sees fit, such as purchasing dollars with gold or other foreign currencies. This power is magnified further when, in Article 3, all owners of gold or foreign currency must notify the Bank of England of their possession of gold or foreign currency.

From Article 1 to Article 3 in the Exchange Control Act 1947, we see that Britain has developed its soft powers within the sterling area dramatically to directly address the dollar deficit. This gold and foreign currency pooling meant that Britain could mitigate the United States' coercive power over Britain caused by Britain's economic dependence on the United States, but in doing so created a new financial dependence on the sterling area. Britain found itself caught in the centre of economic dependence on the United States and financial dependence on the sterling area. The value of the sterling was critical to the dollar pooling mechanism: as the constituents of the sterling area benefit from the purchasing power of the high-value sterling, the dollar pooling that Britain relied upon depended on the high-value sterling. If the sterling's value decreased, the sterling area would disintegrate and the dollar pooling mechanism, used to counteract Britain's dependence on the United States, would disappear with it.

In Part II of the act, starting with Article 5, all British residents and citizens are denied the ability to pay other persons' who are resident outside of the sterling area. Now, we see the British government addressing not just the symptom of the trade deficit, the dollar deficit, but the problem: the outflow of US dollars to the United States, or, as written in the Act, "payment to or for the credit of a person resident outside the scheduled territories". This article merely deals with payments within Britain (to accounts of people who are resident outside of Britain), but Article 6 states similar for payments directed outside of Britain. All payments are subject to the will of the Treasury, indicating that they can happen, but only with permission from the Treasury. This means that while transactions will not necessarily be stopped, the Treasury has the power to deny these transactions from occurring, potentially weaponising financial transactions in the case of conflict by preventing all transactions from leaving Britain, or even transactions occurring between British bank accounts that are owned by non-resident people or entities. By being able to stop any payments from occurring, tied with being the financial and commercial hub of the world – amplified by the British sterling's status as a global reserve currency, international trades being conducted in sterling in London-headquartered banks, and the sterling area being mostly served by London-headquartered banks – meant that Britain had gained an *immense* power of coercion over any nations that conduct business in or with Britain or the sterling area: over 60% of international trade was conducted in sterling.[57] Britain had power, beyond that of hard or soft power, that

[57] "Taking a Pounding," The Economist (The Economist Newspaper), accessed August 10, 2020, https://www.economist.com/finance-and-economics/2015/10/03/taking-a-pounding.

few other nations possessed: the ability to freeze the sterling accounts of individuals, regimes, or even regions, and prevent individual transactions from occurring. As this power was dependent on the sterling area, if the sterling area disintegrated and a new currency became the international reserve currency, Britain would lose its hegemonic power of financial coercion as well.

This was directly against the 1945 Anglo-American Loan Financial Agreement between Britain and the United States made on December 6, 1945, in which both that “they will impose no restrictions on payments and transfers for current transactions”. The British Government stated it was restricting “capital outflow” rather than “current transactions”, and despite the protest of the United States, the United States chose to not pursue Britain for being in contravention of the 1945 Anglo-American Loan Agreement. This ensured a higher value sterling due to a lack of availability on international markets, reinforced trade in the sterling area, and reduced the flow of US dollars out of Britain, mitigating the effects of Britain’s economic dependence on the United States and providing Britain with powers of economic coercion.[58]

Dollar Pooling

Dollar pooling came into effect in 1939 in the early stages of the Second World War, as part of the 1939 Defence (Finance) Emergency Powers Act. All dollar-denominated assets across the British Empire were surrendered to the treasury of the respective governing territory. All gold and dollars that were obtained through this act in the territories of the

[58] Newton, The Sterling Crisis of 1947 and the British Response to the Marshall Plan, 1984

Empire, beyond a certain threshold, were sold to the Bank of England in exchange for sterling.[59]

Dollar pooling continued under the Exchange Controls Act 1947 as a series of practices in which the sterling area member countries imposed exchange controls resulting in the surrender of dollar-assets to the authorities of the constituent counties, sterling area members agreed to sell their surplus dollars to the Bank of England in exchange for sterling, and finally, members implemented a licensing system for businesses to prevent the outflow of dollars through purchasing dollar-denominated goods.[60] Most dollars were held by the Bank of England, with other member countries holding their limited reserve of dollars. This made the Bank of England the centre of the British Empire's dollar purchasing power, and in control of most dollar-denominated assets, making the British government the most powerful dollar-spender in the British Empire.

This empire-wide centralization of dollars was used to address Britain's dollar deficit. Not only had Britain empowered itself to take possession of the foreign currency denominated assets and gold within Britain, but the sterling area's agreements also enabled Britain to reinforce its treasury against the continuous outflow of US dollars, even after the flow of US dollars had decreased due to the Treasury-imposed difficulties of possessing foreign currency, and even transferring money outside of the sterling area.

This restriction on dollars, and the Exchange Controls Act 1947's easing transfer of sterling within the British Empire, made Britain the source for the majority of investment across the Empire and prevented the United States entering the sterling area markets due to

[59] Kenneth Wright, Dollar Pooling in the Sterling Area 1939-1952, 1954, 560
[60] Ibid.

restrictions on dollar investment.[61] This meant that British businesses had far greater access to the resources within the Empire and resulted in many of the resources that would have been sent outside of the Sterling Area staying within it and flowing towards Britain, as was seen by the increase in British Empire-origin imports from 1931 to 1936, post-Ottawa Agreements, resulting in Britain's economic dependence decreasing slightly from the United States in favour of an increase in economic dependence on the sterling area territories.

The sterling area's dollar pooling rebalanced Britain's economic dependence on the United States. Britain's economic dependence on the United States created a financial Achilles' heel: the outflow of dollars resulted in diminishing gold and foreign currency reserves. Britain patched over this weakness by using the soft, enticing power of its market and empire-bound sterling investment to institute empire-wide dollar pooling, counteracting Britain's dollar deficit. If successful, Britain would eliminate a potential source of American coercion by removing the risk of defaulting on its dollar-denominated loans, also removing the need to take further dollar-denominated loans to fund its dollar deficit. It is here, in the Exchange Control Act 1947, that Britain formally moves from an imbalanced military and economic dependence on the United States to being at the centre of a multi-directional web of interdependence. Caught between economic and military dependence on the United States at one end, and financial dependence on the sterling area at the other, Britain wielded its soft power in the sterling area to counteract the coercive economic power the United States held over Britain.

[61] Robertson & Singleton, The Commonwealth as an Economic Network, 2004

The Sterling Area's Soft Power

In a House of Commons debate on the 24th March 1947, concerning the Exchange Control Act 1947, Patrick Gordon Walker, Under-Secretary of State for Commonwealth Relations, recognised, and this point was agreed upon by many Members of Parliament, that Britain's market – the sterling area and the imperial preference system – was a great weapon to use in future negotiations, stating that "in negotiations now, and in the future, Britain will have one great weapon which no other country has, namely, the weapon of her market".[62] Other countries, particularly the United States, desired to export their goods to the sterling area due to the huge potential for increasing revenues and profit thanks to globally uncompetitive prices made possible due to high tariffs keeping foreign competition out of the sterling area, yet precisely because of those tariffs they were unable to enter the British Empire's markets. The United States desire to entire the sterling area's markets is also evidenced in Chapter 2, as part of the 1945 Anglo-American Agreement. As the sterling area totalled over a quarter of world trade, and the seductive purchasing power of the sterling, access to the sterling area was a very valuable economic prize that Britain could use as leverage in its future diplomatic negotiations.

In January 1952 the British government took measures to address the "dollar crisis", the substantial imbalance of trade between Britain and the United States (a product of the overvalued sterling making it cheaper to purchase internationally, but more expensive to sell internationally) to correct inflation and to eliminate the dollar deficit. The dollar crisis was problematic for Britain because to maintain the value of the sterling against the dollar Britain would have to rapidly spend its dollar and gold reserves, opening Britain to financial

[62] "EXPORT AND IMPORT TRADE," EXPORT AND IMPORT TRADE (Hansard, 24 March 1947), accessed August 14, 2020, https://api.parliament.uk/historic-hansard/commons/1947/mar/24/export-and-import-trade.

instability and difficulty in conducting financial transactions concerning dollars. To correct the dollar crisis, Britain provided funds for investment into colonial territories in the hope to correct the dollar deficit, targeting resources that the US would be interested in purchasing.[63] Britain earned a substantial amount of dollars in exports to the United States but still purchased more dollar-denominated goods to the US than it sold, with a cumulative total deficit across the sterling area of $653 million in 1952.[64] All independent Commonwealth nations, such as Australia, New Zealand, and South Africa, had dollar trade deficits, however, less independent colonies had dollar surpluses due to their economic dependence on the independent nations of the Commonwealth for development, as well as their exports of raw materials to the United States and few of dollar-denominated imports. This was a long-term strategy and would not alleviate the immediate stress of maintaining the value of the British pound – high inflation, and rapid deterioration of gold and dollar reserves. If the sterling lost value against the dollar it would become difficult for Britain to purchase many of its necessities, such as food and construction materials, from the United States.

Conclusion

How the Exchange Controls Act 1947 contributed to the exercise of British power can be considered in various ways. We see that the Exchange Controls Act of 1947 provided the British Treasury with the power to use all the gold and foreign currency within Britain, as well as all government surpluses of the sterling area, for its use. Also, the outflow of gold and foreign currency was prevented, ensuring maximum utilisation of all gold and foreign currency held within the country to prolong the life of Britain's gold and foreign currency

[63] Richard Butler, The Balance of Payments Situation, 1952
[64] Ibid.

reserves in the face of the dollar deficit as well payments for the 1945 Anglo-American Loan that Britain had to repay in dollars.

The act also created a separate trade bloc in the world that the rest of the world did not have immediate access to. This meant that Britain was independent of other superpowers material interests, however, Britain's hard and soft power were both dependent on the sterling area continuing their preferential trade with Britain. Due to the preferential trade depending on both the high tariffs non-sterling area tariffs and the high value of the sterling, Britain's independence, and the very existence of the sterling area, the final form of the British Empire, depended on the high value of the sterling. If the sterling dropped in value, the sterling area would be able to find more lucrative and economically beneficial trade deals outside of the sterling area.

Finally, the sterling's status as a world reserve currency, and London's status as the financial capital of the world, gave Britain powerful coercive abilities when the 1947 British Exchange Act was implemented. Britain could stop all transactions occurring within Britain. This would later be used during the Suez Crisis of 1956 against Egyptian accounts.[65]

When considered together, the Exchange Controls Act 1947, created the environment for Britain to extricate itself from its economic dependence on the United States. This resulted in Britain's financial dependence on the sterling area's dollar pooling and exchange controls to maintain an element of independence from the United States, as well as an uncommon coercive weapon: the ability to control transactions in the global reserve currency.

Also, the constituents of the sterling area depended on the high-value sterling to aid them in their imports, creating an economic interdependence between Britain and the sterling

[65] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001, 435

area, with the crux of the interdependent relationship being the high-value sterling. If the sterling dropped in value, the sterling area would look to more profitable trading partners, as well as break the dollar pooling arrangements. This would prove crucial to the Suez Crisis: if the sterling dropped in value and the sterling area disintegrated, Britain would lose its economic soft power, the enticing possibility of accessing sterling area markets and its powers of coercion. This is in addition to the findings in Chapter 1, in which Britain would likely lose access to oil due to a drop in the value of sterling oil royalties, crippling Britain’s hard power capabilities. The loss of the sterling area’s dollar pooling would prove fatal: Britain would no longer be able to stave off the dollar deficit and would likely succumb to American financial coercion or go bankrupt.

Chapter 4: The Suez Crisis and American Financial Coercion against Britain

Introduction

It is in the Suez Crisis of 1956 that Britain's Achilles' heel, the sterling - the central node in all its relationships of dependence - was finally exploited. After Britain acted against the interests of the United States, the United States' Eisenhower administration threatened to destabilise the value of the sterling, potentially crippling the British economy.[66] With previous cancellations of the Persian oil concession in recent memory and the sterling area's dependence on a high-value sterling, the United States' threat resulted in Britain's withdrawal from the Suez Canal.[67] However, how did American financial coercion during the Suez Crisis of 1956 threaten the value of the British sterling? In this chapter, we shall look at American motivations and methods to coerce Britain into following the United States' interests against the backdrop of Soviet influence in the Middle East, as well as the differing assessments of the Suez Crisis according to the British and American governments.

The Soviet-American Tug-of-War for Egypt

Four years after the signing of the 1947 Anglo-American Loan Agreement, in 1952 the Egyptian Revolution occurred. A group of Egyptian Army officers known as the "Free Officers Movement", with an anti-imperialist and nationalist agenda, overthrew King Farouk and ended the British occupation of Egypt. During a speech by Gamel Abdel Nasser celebrating the British withdrawal from Egypt on the 26th October 1954, a member of the

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[66] David Watry, Diplomacy at the Brink: Eisenhower, Churchill, and Eden in the Cold War, 2014
[67] The National Archives, "Britain, Egypt and the Suez Canal," The Cabinet Papers (The National Archives, Kew, Surrey TW9 4DU, November 26, 2008), https://www.nationalarchives.gov.uk/cabinetpapers/themes/egypt-suez.htm.

Muslim Brotherhood failed an assassination attempt, and in the subsequent political crackdown, Nasser asserted himself as the leader of Egypt, formally becoming president in June 1956.

Egypt was caught between the interests of the west and the Soviet Union and proved to be adept at exploiting the competing interests for its gain. Before the overthrow of King Farouk in 1952, the United States had been attempting to integrate Egypt into its "Post-War Petroleum Order", the United States' arrangement of Middle Eastern alliances to contain the Soviet Union.[68] Further, the United States assisted Egypt in the negotiations to remove British forces from the Suez Canal Zone, resulting in the United States making commitments to provide military aid and funds for economic development to Egypt.[69] On the 24th of February 1954, the Baghdad Pact was formed as an anti-communist alliance between Iraq and Turkey, in addition to Pakistan, Iran, and Britain, with the organisation being headquartered in Baghdad. This enraged Nasser, as it threatened to make Iraq the leader of the Arab world instead of Egypt, contrary to Nasser's political ambition. It was when Britain and the United States denied weapons to Nasser in 1955 that Egypt approached the Soviet Union, resulting in the Soviet Union sending aid to Egypt in 1955.[70]

The Soviet Union was exploiting Britain's withdrawal from Egypt to initiate its Middle Eastern offensive to expand its influence in the region, where the Soviet Union could threaten the supply of oil, communications, and trade for the western world due to the Suez Canal.[71] The United States and Egypt were unable to agree on arms deals and the funds for

[68] Alexander Shelby, The Political Dilemma: American-Egyptian Relations and the Postwar Petroleum Order, 2018
[69] William Pillow, United States Policy Toward The United Arab Republic, 1945-1959, 1966
[70] Holbik & Drachman, Egypt as Recipient of Soviet Aid, 1955-1970, 1971
[71] (Unknown), NSA Archives: The Suez Crisis:A Brief Comint History (U), 1988

economic development that it was promised in previous negotiations, and as a result, turned to the Soviet bloc instead of the west.[72]

After failing to obtain weapons from the United States, Egypt purchased weapons from Czechoslovakia in September 1955. This was met with outrage amongst western nations and was considered a huge increase in the Soviet Union's influence in the Middle East, which Britain saw as a major threat to its oil supply.[73]

As Egypt-Soviet relations warmed, Egypt chose to recognise Communist China as the legitimate government of China on May 16th, 1956. The United States was losing the diplomatic war for influence in Egypt, and just two months later, on July 19th, 1956, the United States withdrew the promised financial support for the Aswan Dam, outraging Nasser once more. In response to withdrawing its economic aid for the Aswan Dam, on July 26th 1956, Egypt nationalised the Suez Canal.[74]

British and American Diplomacy During the Suez Crisis

Once Egypt had nationalised the Suez Canal, the British government decided that military action was going to be used to seize the Suez Canal from Nasser. In the diplomacy running up to Britain's military response, Prime Minister Anthony Eden was trying to convince Dwight D. Eisenhower, President of the United States, to support Britain's military action against Egypt. He likened the appeasement of Nasser to the appeasement of Hitler, as Nasser threatened to destroy western Europe (by controlling the Middle East's oil) – quite a drastic assessment.[75] In a private letter dated the 8th of September 1956, Eisenhower explains

[72] Jon Alterman, American Aid to Egypt in the 1950s: From Hope to Hostility, 1998
[73] Selwyn Lloyd, Suez 1956: A Personal Account, 1978
[74] Jon Alterman, American Aid to Egypt in the 1950s: From Hope to Hostility, 1998
[75] Anthony Eden, Private Letter from Eden to Eisenhower 6th September 1956 (GALE| CK2349301944), 1956

that he is not convinced of Britain's arguments for military intervention, while not disagreeing with Eden's assessments of Nasser's intentions, and advocated for diplomatic and economic sanctions instead.[76]

The United States was advocating for a long-term approach to keep itself and Britain in the international community's favour by not making movements that could be considered aggressive, especially as these actions would be an attempt to maintain Britain's empire, which ran contrary to the United States' ideological and strategic interests. By preventing aggressive actions from taking place the United States would be able to condemn Soviet interventions around the world, such as the recent Soviet intervention in the Hungarian Revolution on 4th November 1956, without appearing hypocritical.

American Interests in the Middle East

The US Department of State recognised the importance of Suez Canal to western Europe and understood that poor handling of the situation could cut off Europe's oil supply, weaken NATO, and would potentially open the Middle East to Soviet influence.[77] One note to the Joint Chiefs of Staff concerning the "Nationalization of the Suez Maritime Canal Company By The Egyptian Government" explicitly states that a chief interest of the United States is that the Middle East is not pushed into closer affiliation with the Communist Bloc.[78] The United States' other interests in the region, such as private American investments in Middle Eastern oil companies, access to military bases, and especially the American relationship with the Baghdad Pact Organisation – the Middle Eastern alliance formed to

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[76] Eisenhower, Private Letter from Eisenhower to Eden 8th September 1956 (GALE|CK2349443152), 1956
[77] Note by The Secretary To The Joint Chiefs of Staff on Nationalization of the Suez Maritime Canal Company by the Egyptian Government, 31st July 1956
[78] Ibid.

contain the Soviet Union – would be at risk if the Middle East at large moved into a closer relationship with the Soviet Union.[79]

The note goes on to discuss Britain's interests, as well as the necessity to maintain Britain and Western Europe's economic strength to ensure their functional participation in NATO as a safeguard against the Soviet Union. In this note, American motivations consist of preserving Western relations with the Middle East to keep the Middle East under American and Western influence and outside Soviet influence.

The United States feared that it would be associated with anti-British sentiment, lose access to Middle Eastern oil for both itself and Western European powers, and disrupt the positive relations it had built with the Arab nations if it supported Britain militarily. This report stated that 40% of the oil that travels to Western Europe does so through pipelines crossing from the Persian Gulf to the eastern coast of the Mediterranean, and the rest comes via the Suez Canal.[80]

It was not an impossibility to receive oil through routes alternative to the Suez Canal, therefore, rather than western European nations being dependent on the Suez Canal for oil, they were dependent on positive relations with the Arab states for oil. This explains Eisenhower's insistence that Britain takes economic and diplomatic approaches to resolve the Suez Crisis: an association of Americans with anti-British sentiment would have a direct negative impact for the United States' policy of containing the Soviet Union by contributing to a breakdown of anti-Soviet alliances in the Middle East. Due to the potential loss of access to oil for western Europe on which their economies and militaries were dependent to

[79] Ibid.
[80] Ibid.

function, the hard power of the European states that the United States had been arming to counter the Soviet Union would also be weakened.

For the United States, British military action in the Suez Crisis could potentially have catastrophic consequences for its policy of containing the Soviet Union. As a result, the United States was caught in a web of relationships to contain the Soviet Union: The United States was dependent on western Europe to augment its hard power to contain the Soviet Union. As a result of western Europe's dependence on Middle Eastern oil, the United States had an indirect dependence on the Middle East to continue supplying western Europe's oil. As a result, the United States was more inclined to use soft power in the Middle East to avoid alienating oil-producing governments, as well as keeping Middle Eastern governments American sponsored alliances, such as the Baghdad Pact, which it was dependent on to contain the Soviet Union from entering the Middle East.

British Interests and Estimation of the Suez Crisis

In Britain, The Eden ministry and Foreign Office saw the seizure of the Suez Canal as a potential death blow to the British Empire. On the 10th of September, 1956, Ivone Kirkpatrick, the Permanent Under-Secretary at the Foreign Office (the highest civil service position in the Foreign Office) noted that according to British knowledge, Nasser intended to "wreck" Britain through acquiring control of the oil-producing countries of the Middle East.[81] In a letter to the British ambassador to the United States, Roger Makins, Kirkpatrick states that this would be a death-blow for Britain, for "if Middle Eastern oil is denied to us for a year or two, our gold reserves will disappear. If our gold reserves disappear, the sterling area disintegrates. If the sterling area disintegrates and we have no reserves, we shall not be

[81] Keith Kyle, Suez: Britain's End of Empire in the Middle East, 2003, 225

able to maintain a force in Germany, or indeed, anywhere else".[82] Kirkpatrick further notes that, in lacking both reserves and the sterling area, Britain will not be able to afford to defend itself, finally stating that "a country that cannot provide for its defence is finished".[83] As the most senior civil servant in the Foreign Office, the Permanent Under-Secretary not only ran the day-to-day business of the Foreign and Commonwealth Office of directing diplomatic efforts, but also reported to the Foreign Secretary, Selwyn Lloyd, and directly influenced Prime Minister Anthony Eden also, in some cases feeding into Eden's fixation of Nasser as an Egyptian Hitler.[84] Therefore, it was through the Ivone Kirkpatrick that the need to preserve British gold reserves, in the pursuit of ensuring the sterling area's survival became policy, the goal being the survival of not just the British Empire, but Britain itself.

In the British Joint Intelligence Committee's report "Egyptian Nationalisation of the Suez Canal Company", dated the 3rd August 1956, it was stated that foregoing military intervention would lead to Arab states weakening their ties to Britain, also potentially leading to the loss of access to oil, either through delayed shipments, attacks on oil facilities, or renegotiations of oil treaties. A lack of military intervention was also considered to potentially weaken the cohesion of the Baghdad Pact, the Middle Eastern anti-Soviet alliance, and therefore adopting non-military means risked the Soviet Union growing its influence in the Middle East.

For Britain, a decisive blow against Egypt would cement itself as the supreme power in the Middle East once again and ensure itself an uninterrupted supply of oil on which Britain was dependent for the functioning of its military. Further, by securing access to oil,

[82] Ibid., 225
[83] Ibid., 225
[84] Ivone Kirkpatrick, The Inner Circle, 1959

Britain would prevent a run on its gold reserves, ensuring the sterling area did not "disintegrate", as Kirkpatrick prophesied. Due to the essential nature of the sterling area to Britain's economy, Britain would continue its ability to defend itself and project hard power with its forces in Germany as Kirkpatrick mentions, in anticipation of Soviet aggression, and elsewhere. For the Eden ministry, the very survival of Britain was at stake in the Suez Crisis, and the only solution was to seize the Suez Canal.

American Financial Threats

After the British operation to seize the Suez Canal began on the November 5th, 1956, the United States condemned Britain and worked to instigate a withdrawal from Suez. By November 7th, a ceasefire was declared, but by November 15th, the economic situation in western Europe was dire. Due to Egyptian troops sinking several ships in the canal to prevent passage by western European ships, an attack on an oil pipeline to Iraq and other oil infrastructure, oil could no longer reach western Europe.[85] President Eisenhower refused to deliver oil or provide economic assistance until the occupying forces withdrew.[86]

The refusal of economic assistance consisted of several parts. The United States pressured Britain with the threat of a devaluation crisis through dumping American reserves of sterling onto the international markets, of denying Export-Import Bank of the United States (EXIM) loans to Britain, denied the possibility of payment waivers on the Anglo-American loan, and also threatened to deny Britain funds from the International Monetary Fund.[87]

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[85] "Suez Veteran," BBC ON THIS DAY | 23 | 1956: 'Laughing stock of the world' (BBC, December 23, 1956), http://news.bbc.co.uk/onthisday/hi/witness/december/23/newsid_4417000/4417574.stm.
[86] Daniel Yergin, The Prize, 1991, 491
[87] James Boughton, Was Suez in 1956 the First Financial Crisis of the Twenty-First Century?, 2001

EXIM loans were essential to Britain to fund its imports of necessities from the United States government, enabling Britain to purchase American goods with dollars it didn't currently have and repaying the US government later. Denying payment waivers meant that Britain would default on its loans to the United States, ruining its international credit. Defaulting on loans had been used in the past as a diplomatic tool to exert incredible pressure on a country – for example, in 1882, Egypt was invaded by British forces due to Egypt defaulting on its loans to Britain and France, resulting in Britain taking control of Egypt's treasury and foreign relations.[88] Though invasion was unlikely, defaulting on the Anglo-American loan would open Britain to huge foreign influence on the governance of the British Empire.

Denying Britain access to IMF funds would limit the Britain possibilities to take out loans to support the value of the sterling. The United States threatened to sell its immense reserves of British pound sterling on the international market, which would have made it extremely difficult for the British government to purchase dollars or gold to shore up its reserves with sterling it had in its possession due to an overwhelming alternative supply unless it chose to devalue the sterling. A devaluation crisis would have been debilitating, crippling Britain's imports from the United States and elsewhere, also leading to the breakup of the sterling area due to the sterling's loss of purchasing power.

Under this financial coercion, Britain withdrew from the Suez Canal in December 1956. Its prestigious position as a global power in tatters, the United States now publicly known as the true global power, it faced a devaluation of the sterling despite its acquiescence

[88] Hopkins, The Victorians and Africa: A Reconsideration of the Occupation of Egypt, 1882, 1986

to the United States: governments and individuals around the world had lost some faith in the sterling, flooding the markets and pushing the value of the sterling down.[89]

Britain approached the IMF in 1956 after the Suez Crisis. There was speculation that the British government would have to abandon sterling parity and approached the IMF seeking funds so it could maintain the value of its sterling.[90] The worst fears of British financial officials were coming true: it was only on October 17th 1956, in a letter to Chancellor of the Exchequer Harold Macmillan, Cameron Cobbold, Governor of the Bank of England from 1949 to 1961, explicitly stated that he saw the devaluation of the sterling as endangering the sterling area, stating that a devaluation "would probably lead to the break-up of the sterling area (possibly even the dissolution of the Commonwealth)…", and that "we should regard a further devaluation of sterling as a disaster to be fought with every weapon at our disposal", echoing the similar sentiment of Ivone Kirkpatrick.[91] Britain's economic dependence on the United States was laid bare for all to see, and the instability of its financial situation was revealed, also. Britain's financial dependence on the sterling area depended on its ability to control the sterling in circulation, however, the Eden administration did not anticipate disruption to that control from the United States. The United States had successfully turned its soft power, Britain's economic dependence on the United States, into a coercive power via the large amounts of sterling the United States acquired through Britain's trade imbalance and the continuous run on Britain's gold reserves as a result of this dependence. Britain was in a far more complex web of interdependence with the United States' than the Eden administration had realised.

[89] James Boughton, Was Suez in 1956 the First Financial Crisis of the Twenty-First Century?, 2001
[90] Ibid.
[91] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001

Conclusion

The United States' goal during the Suez Crisis was to contain the Soviet Union. The United States depended on its Middle Eastern partners to prevent Soviet access to Middle Eastern oil fields, and, especially, access to the Suez Canal, from which the Soviet Union could potentially choke western Europe's access to oil.

As a result, Britain's interests of preserving its access to oil were secondary: for the United States the entirety of Europe, and by extension, itself, were under threat from the Soviet Union. Britain's most senior diplomats, as well as the Eden ministry, were aware of Britain's dependence on the value of the sterling to maintain the sterling area, and therefore the economic and defensive well-being of Britain as well. However, the British foreign-policy makers saw access to oil as the most critical element of holding the British empire together and did not foresee other threats to the stability of the sterling, which would prove to be much more essential to the survival of the British Empire than oil. During the Suez Crisis Britain took military action to secure its access to oil, not just for oil's sake, but to prop up the high value of the sterling.

How does this fit in with our overarching investigation of how American financial coercion led to the erosion of British power and withdrawal from the Suez Crisis? During the Suez Crisis, Britain intended to secure the future of the British Empire, which required securing the high value of the sterling through ensuring Britain's access to oil. The United States' financial coercion struck at the centre of Britain's web of interdependence, the value of the sterling, which was holding Britain's empire together. In the face of America's financial threats, Britain's only option to prevent the disastrous disintegration of the relationships it was dependent on for its power was to submit to the United States.

Conclusion

From the turn of the 20th century to the final retreat from the Suez Canal, Britain's hard, soft, and coercive power depended on the sterling, maintaining an artificially high value compared to the dollar. How, then, did American financial coercion lead to the erosion of British power, beginning with Britain's withdrawal from the Suez Canal in 1956? As Britain's power was dependent on the sterling area, the relationship between the sterling area and Britain rested on a high-value sterling: when the United States threatened the sterling's value, the central pillar of the relationships contributing to Britain's power was in critical danger. To prevent a guaranteed financial crisis and the disintegration of the sterling area, Britain had to fall in line with the United States' interests, publicly relegating itself to that of junior partner in the Anglo-American alliance, but it was too late to save the sterling.

When Britain became the majority stakeholder in the Anglo-Persian Oil Company in 1914 it became dependent on the value of the sterling to ensure a stable supply of oil and uphold its ability to wage war and project power overseas due to its oil-dependent navy. This dependence on sterling's value deepened following the 1933 Anglo-Iranian Oil Company Concession as the agreement gave the Iranian government the option of taking Britain to an arbitration court to demand payment in another currency, should the Iranian government no longer find sterling a worthwhile currency to be paid in.

Following the Second World War, the 1945 Anglo-American loan formed Britain's economic dependence on the United States. Due to this dependence, Britain developed a dollar deficit. The sterling's high value aided in purchasing dollar-denominated goods due to the differences in purchasing power, critical for reviving the post-Second World War economy. To prevent a financial disaster caused by the dollar-deficit, Britain enacted the

Exchange Controls Act 1947, counteracting Britain's economic dependence on the United States by creating a financial dependence on the sterling area, with the system of dollar pooling mitigating Britain's dollar deficit. The sterling's high value was central to the relationship with the sterling area, as a high-value sterling aided in the sterling area countries purchasing imports from outside the sterling area.

As a result, we see that Britain was dependent on many governments, with the sterling being the crux of all the interdependent relationships. The function of the favourable relationship between Britain and the Persia, Britain and the United States, and Britain and the many countries of the sterling area shared a single, quantifiable, and manipulable commodity: the sterling. The United States' threat to disrupt the sterling's value was a threat to disrupt the central node on which 20th-century British power was built.

Britain's partners, while certainly benefiting from their relationships with Britain, were not as dependent on Britain as Britain was on them. The United States' benefit from British military presence across the world but was economically supporting that presence. The Persian government earned a great deal of income from the Anglo-Iranian Oil Company, but it could always sell its oil elsewhere. The sterling area benefit members' non-sterling imports and Empire-bound exports, but as soon as trading with non-sterling area nations became preferable, the sterling area could be dropped, the practice of dollar pooling with it. The aforementioned relationships were essential to Britain, but the relationships were not reciprocally essential to Britain's partners.

Britain's actions during the Suez Crisis threatened the United States, as the Soviet Union intended to expand its influence in the Middle East, especially Egypt. The United States had been operating a policy of containing the Soviet Union, and if the Soviet Union acquired influence over Middle Eastern oil or the Suez Canal, Western Europe's oil-dependent economies and their ability to wage war would be crippled, undoing the United States' efforts to counterbalance the Soviet Union. A temporarily embarrassed Britain was less problematic for the United States than the Soviet Union gaining a foothold in Middle Eastern politics.

As a result, the United States coerced Britain, and Britain suffered the fate of a destabilised sterling – the global reserve currency was subject to speculator sentiment, and shortly after, Britain had to approach the IMF to prevent its gold and foreign currency reserves running out.[92] Britain further suffered an oil shortage, a currency devaluation crisis, and eventually, many sterling area nations left the bloc, pegging their currency to the dollar instead of the sterling.[93] [94] In 1968, Prime Minister Harold Wilson announced that almost all British troops stationed "east of Suez" would be withdrawn, the bases handed over to the United States.[95]

This understanding of Britain's web of dependences is different from contemporary understandings of the Suez Crisis in that we see Britain was struggling against its status of junior partner to the United States, taking every measure possible to maintain political independence, although in doing so it created a dependence on the sterling area. Britain reneged on agreements, took measures to prevent American access to Middle Eastern oil, and excluded the United States' from trade with the sterling area, with the United States' need for anti-Soviet allies being the prime motivator for the United States' to not address these issues.

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[92] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001
[93] "BBC ON THIS DAY | 29 | 1956: Motorists Panic as Petrol Rations Loom," BBC News (BBC, November 29, 1956), http://news.bbc.co.uk/onthisday/hi/dates/stories/november/29/newsid_3247000/3247805.stm.
[94] The Editors of Encyclopaedia Britannica, "Sterling Area," Encyclopædia Britannica (Encyclopædia Britannica, inc., July 24, 2020), https://www.britannica.com/topic/sterling-area.
[95] J. Pickering, Britain's Withdrawal East of Suez, 1998

Previous scholars, while aware of Britain's financial situation and the United States' coercion, have not considered Britain's military, economic, and financial dependences when explaining the effectiveness of the United States' financial coercion during the Suez Crisis. When considering Boughton's finding that the run on sterling post-Suez Crisis was not "large and sustained", and that Britain had enough reserves to handle speculator attacks on sterling to prevent an economic crisis, it appears that the financial crisis must have had implications beyond just Britain's economy.[96] Interdependence theory has shown that Britain's relationships of dependence were threatened by the instability of sterling's value. Wright spoke of Britain's utilisation of the sterling area to pay the dollar deficit, and Yergin recognised Britain's dependence on oil.[97] [98] Kunz has discussed the contribution of Britain's dollar deficit to the effectiveness of financial coercion.[99] However, no literature has found the crucial link that binds these relationships of dependence together – the sterling – and how the interdependent web of relationships created the perfect storm for Britain's coerced withdrawal from Suez, until this thesis. These shortcomings ignored how Britain's various dependences influenced the Eden administration's behaviour in the seizure of the Suez Canal and its withdrawal. In doing so, this thesis shows that Britain withdrew not just to save itself from an economic crisis, but that Britain's hard power, soft power, and ability to resist further subservience to (and dependence on) the United States were at stake in the Suez Crisis, and these interests were embedded in the financial, economic, and diplomatic structures of the British Empire.

[96] James Boughton, Northwest of Suez: The 1956 Crisis and the IMF, 2001, 3
[97] Kenneth Wright, Dollar Pooling in the Sterling Area, 1939-1952, 1954
[98] Daniel Yergin, The Prize, 1990, 480
[99] Diane Kunz, The Economic Diplomacy of the Suez Crisis, 1991, 14

While the present research was solely qualitative and theoretical in nature, there is much quantitative research that could be done concerning the topic. Further research is possible that could provide insight into the nature of British dependence on the sterling area, which would provide the opportunity to find cause and effect. The BP archives (currently unavailable due to the ongoing Coronavirus pandemic) contains information regarding the oil royalties paid to Iran, providing insights into the causes of the D'Arcy Concession Agreement's cancellation. Similarly, precise information regarding the origin and destination of sterling area imports, exports, and transfer of capital both before and after the Exchange Controls Act 1947 would provide quantitative evidence concerning the Exchange Controls Act 1947's influence on the sterling bloc's trade with the Empire and the rest of the world, particularly the United States.

In an increasingly interdependent world in which Britain's self-sufficiency diminished and dependence on foreign territories and governments grew, the effectiveness of non-violent coercion against Britain grew as well. Now, in the 21st century, monetary and economic unions are found across the world, accusations of predatory lending for the Belt and Road Initiative abound, trade wars are ongoing, and the threat of foreign currency reserves are being examined.[100] [101] Perhaps, then, the Suez Crisis was the progenitor of a new era of financial warfare in our ever more financially and economically interdependent world.

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[100] Wade Shepard, "How China's Belt And Road Became A 'Global Trail Of Trouble'," Forbes (Forbes Magazine, January 29, 2020), https://www.forbes.com/sites/wadeshepard/2020/01/29/how-chinas-belt-and-road-became-a-global-trail-of-trouble/.

[101] "A Quick Guide to the US-China Trade War," BBC News (BBC, January 16, 2020), https://www.bbc.co.uk/news/business-45899310.

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