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Correspondence on the trade diversion episode

Unpublished
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LORD CASEY

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EAST MELBOURNE, VIC. 3002

Tuesday, 14th September 1971.

Dear Mr Sissons,

Thank you for your letter of 10th September.

I regret that I have no personal recollection of the matters of which you write. I do not believe that I was, in any important way, concerned with such matters at the time and, if I was, it has certainly all now completely faded from my mind with the passage of so many years.

In the above circumstances, I think you would agree that there would be no useful purpose in our meeting to discuss.

I am,

Yours sincerely,

Casey

D.C.S. Sissons, Esq.,
The Research School of Pacific Studies,
The Australian National University,
Box 4, P.O.,
CANBERRA, A.C.T. 2600.

September 10, 1971

The Rt. Hon. the Lord Casey, K.G., P.C., G.C.M.G.,
C.H., D.S.O. M.C.,
314 Albert Street,
EAST MELBOURNE, VIC. 3002.

Dear Lord Casey,

Please excuse this letter from a stranger. I write at the suggestion of my colleague, Dr. T.B. Miller, who thought that you might be prepared to spare me a few minutes to discuss the Trade Diversion Policy of 1935-36 in connection with a History of Australian-Japanese Relations which is being written in this Department.

In the years that have elapsed since then, several writers have dealt with the subject. The position of most of them is essentially the same as that taken by Giblin at the time (Enclosure A).

The Commonwealth Archives Office has, unfortunately, been able to produce very little material on the subject.

So far the most interesting source of information that has come to light is the private diary of J.P. Moffat, who was at the time the United Consul-General in Sydney. A typescript copy of this is in the Australian National Library. You may be interested in his account (dated 30 June 1936) of a discussion that he had with you on the subject in regard to its application to the United States (Enclosure B). Were you at any stage able to tell him the 'long story' to which you referred ?

Presumably your balance of payments worries were with regard to imports from the United States and not those from Japan. It was hoped that imports from the United States would have been replaced by domestic manufactures thereby increasing London funds. There was, however, as I understand it, no suggestion that Japanese cotton and rayon piece-goods were to be replaced by anything but the higher priced English product.

The principal question that still remains unanswered is the extent to which the increased tariffs were imposed by Australia on Japanese piece-goods as the direct result of pressure by the British Government. Moffat had different views on this at different times. For example his diary entry for

6 May 1936 indicates that he believed the statement attributed to the Secretary of the Chamber of Manufactures that it was the British Trade Mission (Sir Ernest Thompson) that had persuaded the Lyons Government to restrict both American and Japanese trade. But his entry for 3 and 4 November 1936, in which he records the substance of an interview with Liesching of the British High Commission, shows that he found Liesching's remarks convincing.

> He said that his task here was far harder than in Ottawa; that Canada - and South Africa - knew what they wanted and had developed a national consciousness. Australia was still colonially minded, more so even than Rhodesia or Kenya; wanted to do what she thought England wanted, but illogically didn't want advice or even full information from England before she acted.
>
> ....
>
> What had happened last May was as follows: he and his chief knew that Australia was going to make a move restricting trade. It was only twenty-four hours or so before the new policy was tabled that they were handed a copy of the program ...

Moffat's account (27 and 28 February 1937) of a discussion with McClure Smith of the Sydney Morning Herald shows a similar attitude.

> ... He said that he had been surprised how many people believed that the trade diversion policy against the United States and Japan was inspired by Whitehall, where as a matter of fact he knew that it had embarrassed the Foreign Office and perhaps other sections of the Government.
>
> I said the trouble was the British policy was not clear, that the Foreign Office and the Board of Trade did not always walk hand-in-hand, that representatives of Lancashire and Yorkshire came out purporting to speak on behalf of certain governmental agencies, etc., and that the man in the street could not tell just what British policy was. I said it was a great pity that the Foreign Office did not do more to impress its views upon Australia.

Finally there is Moffat's entry of 11 and 12 February, 1937.

> Squire also picked up from Townsend, who was with Page and Menzies in London last year, the story of the trade diversion measures from that angle. He said that Menzies had disliked it from the beginning, but that Page and Murphy were so exultant that they did not even take too much to heart a snub direct given them by Neville Chamberlain, who said that it would not make one whit of difference in Anglo-Australian negotiations.

(D.C.S.S. underlining)

I apologise for writing to you at such length. I thought, however, that it was only proper to give you an accurate picture of the kind of things that I hoped to discuss before asking whether you were prepared to see me.

I shall be visiting Melbourne from September 28th to October 5th; but if this were an inconvenient time for you, I could make a special visit to Melbourne later in the year.

I am very sorry indeed to trouble you with this matter.

Yours sincerely,

D.C.S. Sissons
Fellow.

ENCLOSURE A.

Giblin on Trade Diversion, 1936

.....

Apart from the principles involved, the most dangerous feature of the new policy is the threat to wool, on which our whole economy is based. Japanese imports were already subject to very severe customs duties, and this new savage discrimination against Japan can be expected to stir national resentment to a frenzied dance, whenever it suits Japanese authorities to call the tune.

... [H]igh prices for wool would not be nearly so effective in encouraging substitutes as the passionate national sentiment of a people devoted to taking any and every means to overcome their dependence on wool. That is the prospect before us. Japan was buying wool in large and increasing quantities. She is showing ability to make textiles of wool so cheaply for export as to open up new markets for wool, which neither Great Britain nor Australia could attempt, and so more than make up any loss on account of substitutes. This promising development was nipped in the bud ... The tragic possibilities are endless. In return, there seems a prospect that Great Britain will buy a little more inferior beef at unprofitable prices in place of the better product of Argentina.

More broadly, looking at the gloomy internal situation, one would have expected a conciliatory foreign policy for the next few years, until international relations are improved, or we have at least done something adequate for defence. Two leading features of such a policy would be to enhance in every way our friendly relations with the United States of America, and to avoid with particular care any action calculated to provoke Japan. Both these important considerations appear to have been deliberately flouted.

Quem Jupiter vult perdere, dementat prius.

[Extracts from Joseph Fisher Lecture by Professor L.F.Giblin, 25 June 1936 as reproduced in D.B.Copland and C.V. Janes, Australian Trade Policy: A Book of Documents 1932-37 (Sydney: Angus & Robertson 1937) pp. 301-02]

ENCLOSURE B.

Extract from Private Diary of J.P. Moffat,
U.S. Consul-General in Sydney

[30 June 1936]

Dick Casey, the Federal Treasurer, spent today in town; we lunched together and later on Lilla and I joined Mrs. Casey and himself at a small cocktail party. He talked without reserve about the trade situation and said that the one thing he wanted to impress upon me was that the reasons for action given in the Australian note of June 6 were scrupulously exact. ... Phrased in somewhat different terms from those contained in the note, his constant anxiety was to protect the present Australian exchange rate. ...

I told him that never once had we objected to Australia or any other country restricting its imports in order to protect its financial position provided it were not done in a discriminatory manner. It was what Australia had done and the way Australia had done it that had given such a tremendous shock to the Government and to public opinion at home. He did not deny that other ways and means might have been found to accomplish the same result and said that some day in the future he would tell me a long story. That did not, however, change the absolute need to encourage local industry and to increase purchases from Great Britain as the sole market for Australian primary products, which was susceptible to material increase. ...

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24th October, 1984.

Dr. W.J. Hudson,
Editor of Historical Documents,
Department of Foreign Affairs,
PARKES, A.C.T. 2600.

Dear Bill,

Many thanks for your letter (August 23rd) and the enclosures from Casey's correspondence with Hankey. Please excuse my delay in replying. I've been somewhat disorganised by visits to the Australian Archives Sydney and Melbourne offices.

What fascinating letters they are. By the time you have finished with him there will be hardly an incident in inter-war public affairs either here or in Britain about which you don't have extensive expert and inside knowledge!

It was very good of you to pass this on to me. As you will see from the enclosed correspondence, I tried to get such information from Casey himself in 1971 - but without success. I had to let the matter drop and content myself with a rather unsatisfactory paragraph (pp. 32-33) in a work-in-progress paper, The Australian-Japanese Trade Negotiations 1935-36 : The Negotiators, Their Objectives and Their Administrative Environments, that I produced in 1975. As there may be one or two other points in this paper that might, conceivably, interest you (e.g. an early attempt by Latham to give External Affairs a coordinating role in economic negotiations) I have taken the liberty of enclosing a copy.

With thanks and best wishes,

Yours sincerely,

D.C.S. Sissons

Encl: 2

FOREIGN AFFAIRS

23.8.84

Dear David,

In view of your trade discussion interest, I thought you might like to have copies of these three letters from Casey to Hankey. The first, of 30 March, adds significantly to one's (or, anyway, my) understanding of the whole business.

These are from the Hankey Papers at Churchill College, Cambridge. A Dr David Day - a Melbourne gentleman, I assume - former student of Lloyd Robson - copied a mass for me. Miscellaneous stuff, and includes copies of Casey letters to his brother, Battershee and Glendyne.

Regards,

Bill Hudson

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WITHOUT PERMISSION.

COMMONWEALTH OF AUSTRALIA.

THE TREASURY,
CANBERRA, F.C.T.

AIR MAIL.

30th March, 1936.

PERSONAL AND
CONFIDENTIAL.

Sir Maurice Hankey, G.C.M.G. etc.,
Offices of the Cabinet,
2 Whitehall Gardens,
LONDON - S.W.1. ENG.

My dear Maurice,

An event of consequence is taking place - Maie is writing to Adeline. She is making such a song-and-dance about it that I feel in honour bound to parallel the event by at least a note to you. It will, I expect, as usual, turn out to be a recital of our own local troubles and difficulties - and will largely ignore your infinitely greater problems. However, I will say (if I may) that you're making an extraordinarily brave shot at a very devil of a problem in this Franco-German racket. I expect that it is not unhelpful to have a man like Bruce as President of the League Council at this time - but the main solution has to be hammered out by you people. I expect, by the way, that, as Great Britain is next on the list to find a President for the League, that you'll probably get Bruce to remain as President till September - as it might be embarrassing to have to emasculate Eden by making him President at a time when he is one of the principal protagonists.

One's impression of Eden, at this long range, is that he's stacking up pretty well. From my remembrance of things, I can well realise that Vansittart's position may be one of considerable difficulty. He used to be markedly pro-French - and may well (although this is a guess) have been one of the factors that encouraged the Hoare-Laval formula for the carving up of Abyssinia - that brought Hoare down in flames. If one is right in this, Vansittart must be rather diminished in stature by the incident. I can well imagine him looking over the list of Embassies and wondering which one he'll choose for himself. If and when it comes to choosing a new head of the F.O., I

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can't, from my knowledge of the men, get past Lampson - although I expect Drummond and to a lesser extent Phipps are well in the running. I don't know Clark.

However, the above is all idle speculation. Geographically and in point of time, I'm too far away to be able to add anything of any value. However, this is'nt going to stop me commenting on the position - to the extent, at least, of saying that the sooner all the shackles are removed from Germany the better. It seems clear that, Hitler's Reich being built on national pride, he will be impossible to deal with while peace treaty blots on the German escutcheon exist. The demilitarised zone is the last of them - barring their de-colonisation, which is not so easily cured.

I imagine your main problem is to get France to cool down and accept the new Rhineland position. When everyone concerned has blown off enough steam over the unilateral repudiation of treaties, I imagine Britain will endeavour tactfully to get a new series of "Locarno" type treaties negotiated, with Germany on a completely equal basis with everyone else. The Franco-Russian treaty may unduly complicate this aim - I don't know enough about it.

I mentioned Bruce and the possibility (or, rather, the advisability in the general interest) of his going into British politics, in my last letter to you. Since then, the press cables from London have been busy with speculation on the subject. I don't know if anything is afoot; I hope so. He seems to me so obviously fitted for the job, particularly after his term as President of the League Council.

Menzies and Page are in London. I don't know if you will have seen either of them. Unless you've known Page for some time you are unlikely to be impressed, but under a rugged exterior he does possess some unusual gifts - particularly those of imagination, immense energy and drive, a good deal of resourcefulness, and complete imperturbability in awkward corners.

And now for my own troubles - if I may unburden myself for your private ear:

I have been struggling for 8 months with the man-sized problem of our overseas balance of payments - and at long last have come to some sort of conclusion in my own mind about it all. I won't bother you with all the manifold argument (on which I have personally written many hundreds of thousands of words in Memoranda for our Cabinet) - but the gist of it is this -- that, in the absence of resumption of Australian borrowing in London, we have only the proceeds of the Sale of our Exports with which to pay our interest and sinking fund on our debt to you, and also pay for our imports. With

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increasing prosperity, we are tending to import at a higher level than we can afford, at our present exchange rate and bearing in mind the first charge on our London funds - the interest and sinking fund on our overseas debt. We have (for your personal and confidential information) to cut down our imports by some means or other. The 'MEANS' is what is exercising me: Neither the United Kingdom nor Australia wants us to default on our overseas interest payments(and of course, come what may, we won't) - and neither you nor we want the exchange rate to slip. This exchange rate business is one-way traffic. You can depreciate your currency as easily as kiss your hand, but it is almost beyond mortal power to appreciate it again. If your exchange rate slips, it apparently slips for good. So that we want at all costs (or nearly so) to save our exchange rate from slipping. And it need not slip if we are intelligent - provided we don't experience the nasty phenomenon of a flight of Capital. I've had two experiences (luckily both minor ones) of a panic flight in the last two years - but we've been able to stop both of them - however, it is an anxious business when it starts, as one is fighting something which one can't see, and which is'nt influenced by logical processes of thought - mob stuff.

However, to get back to my main argument: We have a variety of more or less mechanical means open to us to diminish the flow of imports - all of them unpleasant to all concerned. The one that appeals to me most - and I find it hard to get away from, as a logical argument - is that we should encourage sufficient overseas interests to start manufacturing goods here that are now imported, to provide the Australian community with what it wants without the necessity to import them. Based on our present income from exports, we should aim at producing £5m. or £10m. worth of goods in Australia that are now being imported. This would bring us to something like balance in our overseas balance of payments and relieve us of the recurring periods of anxiety about our exchange rate.

I don't know how much all this reads to you as sense. I have been so steeped in it all that I may be short-circuiting too much to someone who is not dealing with this problem every day.

Our position is getting better all the time - in that we have at the moment three big industries in course of establishing themselves here - paper pulp, tin plate and basic heavy chemicals. Every year shows more and more such industries migrating here. We have got to speed up this migration of industries - so that within a couple of years, we can bridge the gap between income and outgo in our overseas balance of payments.

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eventualities of further depreciation of the Australian pound or the risk of default - neither of which you people want - nor us either.

By the way, when I speak of encouraging the migration of industries from overseas to Australia - I mean this: that we should tooth-comb our list of imports (from wherever arising - but in particular those coming from other than the United Kingdom) and list those items that are now imported in sufficient volume to warrant the establishment of factories to make them in Australia. Having done this, we should go out after British manufacturers of those goods and discuss with them the establishment of branch Works here, with adequate tariff protection. So far as such goods have previously been imported (or largely imported) from non-British countries, their manufacture here means no loss (or no appreciable loss) of employment in U.K. - and it is this type of goods that we would naturally go after first.

Well, so much for this. I wanted to tell you what is in my mind, not that we have yet got very far with the idea - but I am going to try and have it pressed on with - and I hope you may see some results before long. But I'd be glad if you'd be very cautious about having any knowledge of it, as it might well be misunderstood if anything premature is said.

I am just reading Esher's letters and am finding them most interesting.

Best of luck to you,

Yours ever -

RBC

...OBTAIN PERMISSION.

COMMONWEALTH OF AUSTRALIA.

AIR MAIL.

THE TREASURY,
CANBERRA, F.C.T.

9th June, 1936.

Personal.

Sir Maurice Hankey, G.C.B. etc.,
Offices of the Cabinet,
2 Whitehall Gardens,
LONDON - S.W.1. ENG.

My dear Maurice,

My last letter to you was dated 30th March, to which you very promptly and interestingly wrote me a handwritten letter in reply dated 20th April. In my letter I had told you something of one of my (or rather 'our') major preoccupations in the shape of the high level of imports into Australia and, if continued, its effect on the balance of payments - and my own idea of the gradual and eventual solution of the problem lying in the encouragement of the migration of sufficient industries to Australia to produce enough goods locally to take the place of, say, £5m. or so of imports, and so relieve the strain on our London funds.

You will have recognised, I expect, in the "trade bombshell" that we have recently exploded, the result of our efforts to help the balance of payments position. It is (on a famous precedent) divided into three parts:-

1. The imposition of severe specific duties on foreign (Japanese, in actual fact) artificial silk and cotton piecegoods. Japan has so eaten into the U.K. trade with Australia in these goods, by outrageous and continued price-cutting, that, at the present rate, within 18 months Britain wouldn't have been in the picture at all, under the ad valorem duties that existed until recently. We had to do something to salvage some reasonable proportion of our consumption of these textiles for U.K. Even under the new duties Japan will probably still have the major part of the trade - but U.K. will be able (with 7½d. per yard against Japan, in rayon) to regain a fair amount of her lost trade. Similarly in the case of cotton piecegoods.

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2. By the imposition of a license system in respect of a list of named goods, we aim to deflect a couple of million pounds worth of trade from U.S.A. to U.K. Every country except U.S.A. will be given a license to export these goods to Australia. In point of fact, the result will be that U.K. will get the vast bulk of this diversion, although some part of it will swell existing Australian manufacture, and a small proportion will go to "good customer" countries such as France and Germany and Belgium.

3. By the alteration of duties on motor car chassis from ad valorem to a weight basis and by giving increased preference to U.K., a diversion of imports of chassis from U.S.A. and Canada to U.K. will be brought about. At the same time, we provide for the "halting" of imports of chassis from U.S.A. and Canada to the numbers imported in the 12 months just ended. We are also preparing to do everything possible to promote the manufacture of chassis in Australia, by a system of bounties per chassis (£30 per chassis in the first year of their manufacture, declining annually thereafter

The things we are aiming at in all the above are two-fold:-

(i) To deflect trade from our two "bad customer" countries (i.e., countries with which we have a persistent and increasingly bad trade balance) -- U.S.A. and Canada -- to the U.K., for the obvious reason that we can reasonably well count on being able to export more to U.K. in exchange for the increased imports from U.K.

and

(ii) To promote and encourage industries to establish in Australia (e.g., primarily motor car chassis manufacture - but many smaller ones as well) - and so directly reduce the volume of imports necessary to satisfy the growing purchasing power of the Australian people.

You can't make omelettes without breaking eggs - and the piercing screams of those who are adversely affected by all the foregoing are rending the air at the moment. More subdued murmurs of assent and satisfaction come from those who have been handed a gift on a silver salver.

In another direction, but with the same general objective, we are making available £250,000 on a £ for £ basis to stimulate the search for flow oil in Australia. About £750,000 has been spent in the past on this activity but most of it has been wasted. We now know a good deal more than we did as to where to look for oil and, with the best technical advice (which we now have) we think that within 2 or 3 years we will solve the mystery (or not) as to whether there is flow oil in Australia. We now import many millions of pounds worth of oil products

...d the spending of £250,000 on an intelligently conducted search is, at worst, a good gamble.

There seem to be at present a number of balls in the air at the same time with which I am, in one way or another, trying to juggle. I have a local Australian loan of £9m., launched a few days ago - and Bruce has his £16½m. conversion in London. I hope and pray that this £16½m. London conversion will be all right - although the French strikes seem to have been called on just at the wrong moment by some malign influence. (Talking of courage -- Glendyne and his bold underwriters have a type and quality of courage that excites my very keen admiration).

I am also beginning to sort the cards out in preparation for the Budget - as well as to begin to get ready for a Conference with the State Governments on State and Commonwealth financial relations.

The Treasury (I suppose <u>any</u> Treasury) always presents innumerable problems which one would like to be able to tackle quicker than is possible. There is no lack of material to get one's teeth into. I am afraid I am a sore trial to my Treasury staff.

Yes, of course, I'd forgotten Cadogan. I can well imagine that he is the man for the F.O. Besides having definite brains, common-sense and resource, he has extreme tact and the useful adjunct that people naturally tend to like him.

Well - this is all for the moment. With all good wishes to Adeline and yourself from us both,

I am,

Yours sincerely,

M.L. Casey

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Correspondence on the trade diversion episode

This text is taken from *Bridging Australia and Japan: Volume 1. The writings of David Sissons, historian and political scientist*, edited by Arthur Stockwin and Keiko Tamura, published 2016 by ANU Press, The Australian National University, Canberra, Australia.