Thesis
in British Appraisal
1933-1936

by
Ingrid C. Andersen

Thesis
for the
Degree of Bachelor of Arts
in Liberal Arts and Sciences

College of Liberal Arts and Sciences
University of Illinois
Urbana, Illinois
1979
UNIVERSITY OF ILLINOIS

April 26, 1979

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

Ingrid C. Antonessen

ENTITLED: Economic Factors in British Appeasement 1933-1938

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF Bachelor of Arts in Liberal Arts and Sciences

Paul W. Schroeder
Instructor in Charge

Approved:  

HEAD OF DEPARTMENT OF History
Acknowledgments

I wish to express my sincere gratitude to Professor Paul Schroeder, whose guidance and patience have been responsible for the writing of this thesis. Professor Schroeder suggested the topic of the thesis and has directed my work on the subject in such a way as to allow me a valuable experience in the area of historical investigation.
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>II. Britain After World War I</td>
<td>3</td>
</tr>
<tr>
<td>III. Appeasement as a Response to the Domestic Economy</td>
<td>13</td>
</tr>
<tr>
<td>IV. Rearmament Policy as a Response to the Domestic Economy</td>
<td>22</td>
</tr>
<tr>
<td>V. Maintaining Economic Advantage Abroad</td>
<td>31</td>
</tr>
<tr>
<td>VI. Conclusion</td>
<td>39</td>
</tr>
<tr>
<td>Notes</td>
<td>43</td>
</tr>
<tr>
<td>Bibliography</td>
<td>48</td>
</tr>
</tbody>
</table>
Economic Factors in British Appeasement 1933-1938

I. Introduction

We have to kill one another just
to satisfy that accursed madman;
I wish that he could burn in Hell
for as many years as he is costing
lives."

Prime Minister Neville Chamberlain spoke these words on October 15, 1939. Many historians have judged that such bitter regrets over World
War II would not have been necessary had Chamberlain not followed a policy
of appeasement. Moreover, most discussions of appeasement have concen-
trated upon its political and strategic aspects in order to prove its ir-
reasonality. The investigation of appeasement, however, should go beyond
these factors to include the very basic consideration of the role that
economic interests played in the encouragement of such a policy, which
until recently have received only cursory attention. This paper will at-
tempt to investigate and evaluate the role which economic factors played
in British appeasement of Germany, to see if perhaps the policy has been
judged too harshly in labelling it "irrational". The following is a brief
summary of the points to be discussed.

During the 1930's, before the Munich Agreement, the debate over ap-
peasement in England revolved around three main points. First, could
Britain combine a reasonable and honorable policy of appeasement of Ger-
many with an adequate program of rearmament to sustain her in case appease-
ment failed? Second, could Britain, in view of her unstable domestic econ-
omy, afford major rearmament at all? Third, appeasement represented the
fundamental dilemma of finding and maintaining a delicate balance of ade-
quate defense upon which to base arms-control and acquiring too many arms,
thus promoting an arms-race. Could a policy of rearmament avoid upsetting such a balance?

British public opinion clearly reflected the dilemma that appeasement presented. The ultimate goals of appeasement — peace and the reintegration of Germany into the European community — were shared by the vast majority in Britain. Some, however, felt that while wooing Germany, England should not take the foolhardy course of not even trying to keep up with the pace of the German armaments program. Others, mainly conservatives, felt that such a stance would be hypocritical. They felt that the money which would be spent on rearmament could be put to better use in domestic reform. Part of the reluctance to rearm on a large scale and possibly antagonize Germany also arose from the fear of the economic repercussions this policy could have, since Britain traded heavily with Germany. By the early 1930's, Britain had not yet decided whether she should or could unite appeasement and rearmament into a single policy.

At this point, it would seem appropriate to give a clearer definition of just what is meant by economic appeasement. Actually, three distinct, yet interrelated motives can be seen. First, Britain undertook appeasement specifically to placate Germany and avoid war. This involved, in part, the decision to offer Germany colonial concessions as a means of providing her with a sorely needed source of raw materials and a new set of markets. It was hoped that in this way, Germany could be drawn into the world market, thus limiting her militaristic policies.

A second reason for economic appeasement was Britain's desire to maintain her economic advantages abroad. This desire involved a goal of
maintaining trade with Germany as well as protecting British investments in south-central Europe — an area over which German influence was growing. In order to protect these interests, Britain attempted to maintain and improve economic relations with Germany.

A third motive for economic appeasement involved domestic economic considerations more directly. Britain's economic stability and vitality, though better than that of most European nations, still remained hampered by the lingering effects of World War I and the Great Depression. In light of these conditions, an extensive rearmament program was looked upon with disfavor by major sectors of industry and labor. Maintaining trade with Germany seemed much more desirable than arming against her. Even British military leaders, while in favor of more extensive rearmament, wanted no commitment beyond the Rhine — the defense of France and the Low Countries was considered enough. They, too, recognized the importance of economic stability and the value of appeasement in buying Britain time to rearm without excessively damaging the national economy.

Once the various economic arguments for appeasement are considered, it can be seen that the traditional dichotomy of appeasers versus anti-appeasers gives a distorted picture of the situation. The difference between these two groups was a matter of approach and degree, not an unbridgeable gulf. Most British leaders, with the exception of a few, such as Sir Robert Vansittart, who had advocated preventive war against Germany as early as 1933, did not want to get involved in a potential Anglo-German conflict in Europe. The question was not whether to appease Germany, but how to do so, and how far to pursue it. The dispute centered around the
issue of rearmament. Could it be conducted simultaneously with a policy of appeasement? Until after the obvious failure of the Munich settlement, this question remained the basic issue.

British appeasement, as conducted by Chamberlain, should therefore be considered in two different phases for the sake of accuracy and fairness. The first phase consisted of the appeasement policy before the Munich Agreement, which involved a rational examination of British economic interests and weaknesses which made appeasement not only desirable, but in many respects also necessary. The second phase encompassed the period between the Munich Agreement and the outbreak of war, during which time Chamberlain refused to admit that the time for appeasement had ended, thus losing public support. Only then did appeasement -- political or economic -- become irrational.
Prior to a discussion of economic appeasement, a brief look at how Britain viewed herself and her relations with the rest of Europe during the 1920’s and 1930’s seems appropriate. Not only would this help one to understand the atmosphere in which the policy of appeasement evolved, but it would also enhance one’s understanding of why Britain had economic difficulties in the 1930’s and why she thought that these difficulties could be solved through appeasement.

With the signing of the Versailles Treaty, the physical combat of World War I had ended, but the struggle over the treaty itself was just beginning. The old balance of power in Europe — at least as perceived by Britain — had been shattered by the war. Britain at this time still maintained the nineteenth century idea of a balance of power in which Germany served as a bulwark in the center of Europe separating the two flank powers, France and Russia. England, by virtue of her physical separation from the European continent, could, if necessary, avoid direct involvement in European conflicts and serve as a mediator to help maintain peace and the power balance. With the signing of the peace treaty in 1919, however, Britain had to decide whether to continue her previously conceived policies toward Europe or to change them. Could she still remain isolated from Continental Europe now that Germany’s weakness put France and Russia figuratively face to face? Would Russia encroach upon the West? Could Germany be revived? Should France be allowed to drain off, through reparations, what little power Germany had left? Obviously, the war had drastically altered European relations, but had it completely destroyed the old balance of power? Some British leaders, such as Prime
Minister Neville Chamberlain, still believed that it could be revived.\(^2\)

As a result, good relations between Germany and the other major European powers were encouraged by the British.

By 1936, in British opinion, France and Germany had faded as the villains of Europe. France, despite her previous alliance with Russia and what seemed to many Britons as her unfair, purely vengeful reparations demands on Germany, once again took her place as Britain's ally. France was trying to recover from an economic slump caused by a delayed reaction to the depression of 1929, and her economic health needed care.\(^3\)

At the same time, British perception of her one-time Teutonic foe had also grown more sympathetic. To the British, World War I had been a "freak occurrence" which had to be put into the past so that the present could be dealt with more equitably.\(^4\)

As a result, the Versailles Treaty was perceived as being overly harsh, dragging Europe toward a past best forgotten, rather than permitting Britain and Europe deal with their own immediate problems.

On the political front in Europe, Britain had no shortage of potential enemies. Fascist Italy, Nationalist Spain, and Imperial Japan in the Far East were eyed with suspicion by British leftists. Republican Spain and Communist Russia were considered untrustworthy by British conservatives.\(^5\) Despite her evident dangerous tendencies and extreme doctrines, Germany seemed to be the only burgeoning power which did not appear to threaten British interests with its own aspirations.\(^6\) Japan challenged British naval power in the South Pacific and Asia. Italy had already caused difficulties in the Mediterranean and in Africa, as in the
Abyssinian Affair of 1935. Russia had definitely become the **bête noire** of Europe, especially in the eyes of British conservatives, since she seemed determined eventually to undermine the stability of any and all European capitalist nations.  

Conversely, German grievances concerning the Versailles Treaty seemed not only justified, but also soluble. She seemed content to confine her revolutionary aims to within her own borders or among her own people. Those Britons repelled by the international ambitions of Russia could view German regional ambitions much more sympathetically. Leftists found little trouble in supporting a redress of German grievances under the treaty. Thus, good relations with Germany were encouraged to promote her economic well-being and to allow her to regain her position as a major power in the European community. Appeasement, aimed at achieving peace and German reintegration, was supported by a broad cross-section of the British public. It was not the policy of a single man, such as Prime Minister Chamberlain, nor was it the policy of a single political party.  

On the domestic scene, Britain's slow industrial growth after World War I, especially during the 1920's, also tended to encourage the appeasement policies which were followed during the 1930's. As Corelli Barnett argues in *The Collapse of British Power*, the revival of the free-trade principle in the 1920's quickly replaced the notion of collective imperial development and modernization that had existed during the war. This rebirth of liberal, *laissez-faire* capitalism resulted, he contends, not only in a reluctance to rearm, but also in the stagnation of British industrial production. Just as individualism and a disinclination to cooperate were beginning to characterize international relations in Europe,
they also clearly characterized the behavior of British industry.

Britain's fast pace of economic growth during the eighteenth and nineteenth centuries had created a myth about her industrial abilities and potentials. As a result, the late nineteenth century was characterized by a very definite complacency in Britain's attitude toward her need to maintain such a rapid pace of growth. The First World War had rudely jolted her out of this "voluntary stagnation", and her sagging industrial sectors had blossomed with renewed vitality under the guidance of governmental management. During the years 1914-1917, Britain's electrical output doubled and the foundations for her chemical and aero-engineering industries were laid. In spite of Britain's valiant effort and impressive success at revitalizing her industrial productivity for the war, it was obvious after the war that the nation had been drained of its economic strength. This situation, coupled with the general British attitude that there was no sense in preparing for war during peacetime, resulted in a reluctance during the 1920's and 1930's to undertake an extensive armaments program. Peaceful negotiations and arbitration (i.e. appeasement) seemed like a much more desirable and logical policy to follow than that of rearmament.

Generally speaking, then, the goals toward which the appeasement policy was directed received widespread support in England. Conflict of opinion arose over how to implement the policy. Could rearmament, the shoring-up of Britain's sagging economy, and the desire to appease be welded into a coherent policy? British Liberal and Labor newspapers in the mid-1930's criticized appeasement for its weakening of Britain's military
strength. Whereas in the twenties and early thirties they had opposed re-armament and only reluctantly accepted it as a collective security measure in the League of Nations, the growing belligerency of Germany, especially after the 1936 invasion of the Rhineland, began to convert them to favor a more extensive rearmament program.  

In January, 1936, the Morning Post declared the urgent need for a more vigorous armaments program, especially in terms of air power. A few months later, the Daily Mail wrote that "It is madness for Great Britain to remain unarmed when Germany and Italy are armed to the teeth." In April of 1936, the London Times cautiously stated that "Limitations on armaments, when it comes, must be a collective operation and the index of collective security." By June, the newspaper reiterated this perceived need for British re-armament by announcing that "It remains urgently true that British leadership must have material backing...an adequate level of British rearmament is paradoxically indispensable if the advance and agreement on disarmament is to be resumed."

While such pro-rearmament statements indicated a growing basic reluctance to rely solely on appeasement as a means to preserve peace with Germany and in Europe, they did not indicate an actual anti-appeasement stance. As Franklin Cannon wrote in British Press and Germany 1936-1939, "The newspapers sat back and complained. But they provided no spunk or rallying point for anti-appeasement." Opposition to appeasement took the form of "apathetic disagreement" and more often than not, the attitude was simply apathetic. As the Sunday Times wrote on March 22, 1938, "For both Britain and France to participate in a war...would be a preventive war but with this important difference, whereas France has convinced her-
self...that her interests are continental, ours are definitely not." Appeasement, non-involvement constituted the easiest policy to rely on.

One may ask, what exactly was public opinion concerning appeasement and rearmament? The newspapers presented a curious mixture of foresight and hesitancy. Those who encouraged rearmament as a back-up for appeasement, especially the more liberal newspapers, often waivered in their views. Whenever critical points in Anglo-German relations arose, they refused to advocate the use, or even the threat of use, of arms. For instance, the Liberal Manchester Guardian declared on November 5, 1937, that armament production was an unproductive venture. Good relations with Germany and her reintegration into the European community could better be achieved through trade (as economic relations could eventually lead to political ties), rather than through coercion. A week later, the paper praised the Halifax mission to Berchtesgaden and the offer of colonial mandates to Germany which Lord Halifax had made. The offer was described as providing a "safety valve" for both nations in that the mandates could be used as bait to lure Hitler's attention away from Czechoslovakia and provide Germany with a new source of markets and raw material. In addition, British investments, as in Czechoslovakia, would become more secure.

On March 12, 1938, the Manchester Guardian criticized Hitler's aggression against Austria, calling it an act of the "naked fist". After the Berchtesgaden meeting in mid-September, however, the impact of the events of March seemed to have dissipated, for the newspaper declared that the Sudetenland should be given to Hitler. In fact, the liberal reaction
in Britain toward the developing Munich agreements was not one of indignation and anger, but rather one from which an aura of fatalistic thinking and acceptance emanated. 19

When one thinks of the intolerable price of war in lives and misery it would be dirt cheap to pay the cost of transporting the Sudeten's into Germany if there were enough common sense in the world to do it.

The paper even complained, despite its previous condemnation of Hitler's aggression against Austria, that Munich could mean an increase in British armament expenditures to ensure further the security of Czechoslovakia. 20 Clearly, the paper reflected the anger which so many Britons felt toward Germany's belligerency, but also the equally strong feeling of not really wanting to do anything too costly to stop it.

This same impression of hesitancy — of not wanting either to appease completely or to rearm completely — is gained from the London Times. From early 1936 until well into 1938, the paper encouraged rearmament. "If ever there were any doubts about the colossal and most deplorable size of these estimates [for military expenditures], there will assuredly be no reluctance to pass them after last week's events [the Anschluss of Austria]." 21

This apparently tough stance and will to rearm weakened only two weeks later when the paper wrote apathetically, "No one in this country has ever seriously maintained that the status quo in Austria could be necessarily maintained for all time." 22 The Anschluss was now considered to have been inevitable and was accepted.

This same attitude that German aggression was inevitable appeared in the London Times of June 3, 1938, when the paper advocated giving the Sudetenland to Germany: "It would be a drastic remedy for the immediate un-
rest, but something drastic may be needed." In the middle of September, when Prime Minister Chamberlain announced his intention to meet personally with Hitler, the Times expressed its relief and satisfaction. Even after the Munich Agreement, the newspaper did not immediately criticize the concessions nor appeasement in general. On September 27, 1938, the Times published an article in which it looked the possibility of war squarely in the face, but not as the fault of appeasement. It charged that the ball was now in Germany's court. Britain had done all she could to avoid war — appeasement had not been wrong. Just as Austria's demise had long been foreseen, many Britons felt that Czechoslovakia's collapse could also be foretold. Multi-racial Czechoslovakia and Austria had been destined for the same fate. supra Even Winston Churchill, long an avowed opponent of appeasement, declared that "Without the championship of armed Germany, the Sudeten wrongs might never have been redressed." supra Appeasement could not forestall the inevitable. Only after the Agreement had clearly turned into a débacle and Poland was threatened did the British realize that it represented much more than the fall of Czechoslovakia and not a process of natural change. It symbolized acquiescence to Hitler's demands.

The British press reflected the hesitancy on the part of so many Britons to take both an anti-German and a pro-war stance. To this extent, the public supported appeasement. They wanted to avoid war. Some, however, also complained about the slow pace of rearmament. They and their government had to face the dilemma of how to harmonize a policy of rearmament with one of appeasement. The economic factors which British leaders of the 1930's had to take into consideration while trying to solve this dilemma will be discussed in more detail in the following chapters.
III. Appeasement as a Response to the Domestic Economy

One of the basic problems which the British government had to face was how to implement a rearmament policy which, despite some support, was still opposed by many sectors of industry and labor. Britain had a market economy, not a command economy. If Britain meant to rearm, it would have to occur in the face of a struggling economy which was just beginning to recover from the ravages of World War I and of the Great Depression. In other words, it meant convincing industry and labor that the undertaking of an armament program would not be harmful to their growth and well-being. It meant gaining their confidence, good will, and cooperation.

An important question is just how bad was the British economy by the mid-1930's? Did it warrant such a debate over the sagacity of an extensive rearmament program? Derek Aldcroft, in *The British Economy 1870-1939*, contended that the British economic difficulties were imaginary and that the nation had actually recovered faster than any other in Europe. In fact, by 1923, Britain had re-reached her 1913 production levels. Yet, even if one were to grant that the British economy was healthier than those of other European nations, this would not directly prove that her economic difficulties were negligible.

By 1937, Britain's total national deficit had climbed to £57 million, whereas only two years earlier, the budget had been in the black with a balance of £32 million. By 1936, unemployment figures had reached 1,828,000 and were still rising. That same year, the Chamberlain government attempted to institute a tea tax to help meet the costs of only a "bare-bones" military budget. The tax, however, received so much criticism
(to the astonishment of Chamberlain) from labor interests, who claimed it taxed the lower income brackets unfairly, that it had to be dropped.27 Obviously, tensions within the nation over the state of the economy were high.

In view of economic conditions, an extensive rearmament program would have been too costly.28 As far as business opinion was concerned, iron and steel industries generally supported a larger armaments program for obvious reasons. Other sectors of industry, however, such as textiles and mining, objected strenuously and were very skeptical about the economic repercussions that such a program might bring with it. They feared that a shift to arms production would result in an increased demand for labor, which in turn would result in a demand for higher wages.29 This would have meant not only a reduction in profits, but also a reduction in the competitive position of British goods on the world market, since a rise in wages would have to be passed on as an increase in commodity prices.30 In view of the fact that British competition on the world market was already being hurt through the increasingly stiff competition from the exports of newly industrialized nations, no British industrialist or exporter wanted to see their competitive position damaged further by domestic economic policies. As the Times wrote, "The increasing manufacture of substitutes by Germany, Italy, and Japan is regarded as the most dangerous factor in the situation."31

In addition, not only did industry fear a loss of profits from an armaments program, they also feared that such a program would bring about an increase in governmental control over production.32 In fact, in 1935,
when Chancellor of the Exchequer Chamberlain introduced the National Defense Contribution program (NDC), industry leaders protested so vehemently that the plan eventually had to be dropped. The original motive behind the scheme had been to supplement the government's badly needed tax revenues in order to make the National Defense Loans appear more reasonable and as a safe investment to the lenders.\textsuperscript{33} The rationale behind the NDC had been to cut down on the profits which sectors of industry had been earning so that they, too, could contribute their fair share to the costs of the armament program. In this way, it would have at least appeared as though labor and industry were sharing the burden, so that labor strikes might be avoided.

The government claimed that the NDC was not designed to overtax industry. As Chamberlain acknowledged, the actual share of the burden that industry was being asked to carry amounted to only a "ripple upon its [i.e. the defense budget's] surface."\textsuperscript{34} The government also denied that it was a move toward socialism. Industry, however, claimed that the NDC was a tax on recovery. Since the 1900's, with declining trade, industry and finance had become much more closely intertwined and dependent on the home market. They claimed that the tax would reduce their profits and set back those industries which were just beginning to operate in the black, making loans more difficult to repay and to receive.\textsuperscript{35} Because of the wide-spread protest among industrialists, one of Chamberlain's first acts as Prime Minister was the withdrawal of the NDC measure on June 1, 1937.

The Shadow Scheme of 1934 provides a good example of how much the government had to cajole industry in order to make it willing to shift to
armament production. The Shadow Scheme, as presented by Lord Weir of the Committee on Imperial Defense, declared an urgent need for a "shadow armaments industry." The plan proposed that large industries doing technically related work should build plants at government expense to produce highly technical goods needed for aircraft production in case of war. According to Weir, such a project had to be undertaken immediately and in consultation with industry.

The scheme called for long-term contracts to be made between the government and industry to ensure the continuity of orders. It also involved the government's giving interest-free loans and subsidies to industries to make the shift to armaments production and its costs as painless as possible. When this plan was put into effect, however, it was soon found that the conflicting interests of the military, the Treasury, and the business community would not be easily or quickly resolved. For example, by May, 1934, the Air Ministry had started negotiations with seven firms for the production of airplane engines. Among these firms was Austin Motors, the largest automobile manufacturer in England. The first offer made to the company involved £17,500 for the management fee and £150 per engine, to result in a profit of £152,500 for every 900 engines produced. Austin, however, wanted £400 per engine, which would have resulted in a profit of £360,000 for every 900 manufactured. Under the influence of Lord Weir, Chamberlain, as Chancellor of the Exchequer, agreed to a final compromise profit of £250,000 for every 900 engines. Industry was obviously determined to reap profits from any armaments program in return for its cooperation. On the other hand, the Treasury wanted to save money
while the military continued to demand rearmament. Such a clash of interests made rearmament a very slow and arduous undertaking at best.

In hindsight, Prime Ministers Baldwin, MacDonald, and especially Chamberlain have reaped much criticism for the cuts in the military budgets which they supported. They were supposedly unnecessary. Robert P. Shay, in *British RPeargement in the Thirtyse*, has agreed that economic considerations played a central role in the formulation of British policy on rearmament of the 1930's. Yet, he has also contended that Britain's economic woes were not insurmountable. Shay has claimed that had Britain's leaders prohibited the widespread profiteering in industry through heavier taxation of their profits, enough money could have been obtained to make rearmament less of a financial burdern on the nation's economy. By 1938, overall industrial production resulted in a profit margin of 21% for industry. Through taxation, the government could have cut this margin and have obtained an additional £70 million in revenues. Furthermore, had Chamberlain initiated compulsory labor, he could have decreased unemployment, increased industrial (i.e. armament) production, and automatically reduced industrial profiteering.

Such an argument, when considered in light of the times and of the people at whom it is directed, proves to be actually very unrealistic. As previously discussed, public opinion on rearmament and the role that it should play in Britain's appeasement policy aroused widespread, conflicting opinions. Industry and labor opposed any program which would hurt them financially. Just as the Federation of Business Industry had opposed a heavier taxation through the NAC, so labor leaders also opposed the 1935
the tax as an unfair burden on the poorer citizens. Even those who called for heavier rearmament often refused to support the use of them during periods of crisis.

Ideally, reduced profiteering could have provided Britain with potentially large sums of badly needed capital. Moreover, morally, it would have improved the government's image for cutting down on the profits made from the production of war material. Realistically, however, in view of the conflicting opinions and attitudes toward rearmament, the government would have been criticized in following any policy. If we take into consideration the fact that British leaders were politicians — men who had succeeded in government and who wanted to maintain their positions and powers — we see that their actions were quite natural. The Chamberlain government was a Tory government, one which depended heavily on the support of the business community. It could not risk losing this support by reducing industrial profits. As the Manchester Guardian noted, "The Tory industrialists are the most powerful sector of the party."41

The good will and cooperation of the business community was going to be essential if rearmament and industrial mobilization were to succeed. This meant treading lightly on the part of the government. In fact, as the Federation of British Industries wrote on January 1, 1936, 42

these objectives [rearmament] can be achieved most efficiently if the industries of this country are taken into the confidence of the government...ensuring that the work is carried out on a reasonable basis of cost both to industry and to government.

Furthermore, Prime Minister Stanley Baldwin proclaimed on March 9, that 43

We are proceeding in confidence that we shall receive the goodwill and cooperation of industry...I do
see why the program should not be carried through without any great dislocation of our industries' economy, and certainly without any menace to organized labor or to trade unions.

Cooperation was to be the factor determining whether the armaments program would succeed.

Just as government was determined to cooperate with industry, labor also made it clear that its interests in an armaments program could not be overlooked. Labor and the trade unions were reluctant to take the risk of implementing an excessive production of armaments for fear that it would result in a too sudden demand for labor. Such a sudden surge in the need for manpower could end as quickly as it came and result in even higher unemployment. In addition, the fear also arose that those laborers already in the job market who would be transferred from working in civilian to military plants could also lose their positions in both areas once the rearmament pace slowed down. The Trade Union Congress (TUC), under the leadership of Walter Citrine, agreed to cooperate with the government in the transferring of workers, but it came under severe attack from its constituent unions. The Amalgamated Engineering Union claimed the TUC had not represented their members' interests. Thus, even with the support of the Congress, cooperation, not compulsion, would be the necessary relationship between government and labor if the armaments program were to proceed smoothly and successfully.

Such were the anxieties that various sectors of labor and industry had over the prospects of an armaments program. But what, in specific terms, did they stand to lose from such a program with respect to trade and profits? One of the key reasons which industry had given for opposing
rearmament had been its fear that it would result in increased commodity prices and hurt British competitiveness on the world market. To carry this argument one step further, they also feared antagonizing Germany, which could cause a loss of trade with her. To a nation whose export industry was just beginning to revive after over a decade of decline and stagnation, the loss of any market could be severely damaging. The German market represented one in which British exporters had much at stake.46

By 1933, Germany provided Britain with a large market for export goods. Thirty-five percent of British knife exports, twenty-seven percent of her clothing exports, thirty percent of her chemical exports, and fourteen percent of her iron and steel exports went to German markets.47 The wool industry had greatly suffered since the 1920's, due to sagging trade with Germany. By 1929, the wool industry's profits for that decade amounted to about £69 million, whereas by 1935, profits had dropped to £22 million — down by two-thirds.48 The coal industry had also suffered heavily. Due to German price-undertcutting, profits were down by twenty percent in 1935.49 The problems of an ever-increasing national debt, and the need for support of industry and labor to make rearmament a cooperative and successful undertaking, all made it vital to maintain the profitable trade with Germany. Yet, such a policy was, in a sense, self-defeating, for the mere fact that Britain was rearming would tend to antagonize Germany and threaten the trade. The British government hoped that a policy of appeasement, though not solving the dilemma, would at least alleviate it and buy some time to strengthen their economy; time to make rearmament a more gradual and economically feasible undertaking; time, perhaps, to strengthen political ties with Germany.
so that an extensive, rapid rearmament program unnecessary. Rerarmament thus presented one facet of the appeasement policy — a policy which was designed not to prescribe a particular course of action toward Germany, but to leave different options open for Britain — peace and prosperity if possible, self-sacrifice and war if absolutely necessary. As Chancellor of the Exchequer Chamberlain said when withdrawing his NDC proposal,

I do not think, looking back upon my own record, that I have ever been inclined to show a pig-headed obstinacy. Provided I could get what seemed to me to be the important thing, I have never boggled over particular ways of achieving it nor allowed anything in the way of amour propre to prevent my taking what I should call a common sense attitude.

This common sense attitude, the desire and determination to be pragmatic, led the Chamberlain Government to keep the nation’s rearmament as limited and inexpensive as possible in view of its economic weakness. The following chapter will look into the manner in which the rearmament program was undertaken under conditions of relative economic weakness.
IV. Rearmament Policy as a Response to the Domestic Economy

The rearmament issue had already arisen in the 1920's, especially after the signing of the Locarno Treaty of 1925 and the Kellogg-Briand Peace Pact of 1928. Though the latter came to be purely symbolic, both were considered pacts for a lasting world peace. The existence of the League of Nations furthered the assumption that a lasting peace through the renunciation of the use of force was possible. These "instruments of peace" combined with the British conception of themselves as the peaceful mediators of Europe, made an extensive rearmament program seem unnecessary and undesirable, especially in view of the nation's poor economic health. As Corelli Barnett has explained, British foreign policies of the 1920's and early 1930's were formed in part by politicians who clung to the remnants of Victorian ideas -- men such as Baldwin, MacDonald, and Chamberlain. Just as in the nineteenth century, when the Vienna system had to some extent stabilized international relations and a cooperative attitude had often existed between the European Great Powers, these men continued to attempt to place Britain outside of the entanglements and agreements of the other European nations. England was the mediator of Europe, the peace-maker, the one "in the right". Instead of employing a tough-minded realism in their diplomatic dealings, British leaders were prepared to appease the strident demands and to tolerate the illegal acts of other nations. As Sir Robert Vansittart exclaimed, "Right or Left, everybody was for a quiet life.".

For philosophical, moral, and fundamental economic reasons, the military budgets under Prime Ministers Baldwin and MacDonald were cut succes-
sively for several years from the 1920's until the early 1930's. Just enough was spared to allow Britain to appear mighty without actually having to spend the money to be so. As Prime Minister Baldwin said, "There can be no doubt of one thing, if once rearmament began in Europe, not only would the danger of war become a far more serious menace, but the competition of rearmament would put an intolerable burden of taxation on the people of this and every other country." Furthermore, since World War I, the military services had become "alienated from state and society." The experience of the war had hurt their image. There seemed to be no more glory to be found in war — only the names of those who died. By 1919, Britain had lost nearly 700,000 men in the fighting. The public wanted neither to fight again nor to rearm. As Sir John Simon, then Foreign Secretary and Prime Minister MacDonald, said, "Our own policy is clear. We must keep out of Central Europe at all costs. July twenty years ago stands out as an awful reminder." Extensive rearmament did not have the support it needed for success.

British military branches naturally looked upon these trends with despair. In 1933, therefore, the Committee on Imperial Defense (CID) began to campaign for a revitalized armsments program. That year it created the Defense Requirements Committee to investigate how financial limitations and military needs could be adequately balanced for a sensible defense policy. It is in the initial report of the DRC, February, 1934, that the origins of Britain's defense strategy of the 1930's can be found.

The report, although initially proposed in February, was not approved until July 31. It concluded that to provide adequate defense for all parts
of the Empire presented a virtually impossible task, and if the British were ever faced with a two-front war, they should surely meet with defeat. 57 The report discussed the fact that the most immediate threat to the Empire came from Japan in view of her rapidly expanding naval and land forces. 58 Germany, with her growing military preparedness, was not yet seen as being quite so much an immediate threat. However, the report also concluded that the Japanese would be most likely to attack in the south-east Asian part of the Empire if Britain were preoccupied with a European crisis, and such a crisis would most likely arise from Anglo-German relations. Chancellor of the Exchequer Chamberlain wrote in a memorandum from the autumn of 1934 that "if we had to contemplate a division of our forces so as to protect our Far Eastern interests while prosecuting a war in Europe...we would stand in far greater danger of destruction by a fully armed and organized Germany." 59 As a result, in order to maintain European peace and forestall Japanese encroachment on British possessions, better relations with Germany should be cultivated, and re-armament should concentrate on the defense of the homefront.

The report thus proposed that over the following five years, £76.8 million should be spent on defense at an annual rate of £15.5 million. 60 It also concluded that emphasis should be placed on strengthening the Royal Air Force and Royal Navy -- a proposal which was to engender much controversy. It was reasoned that a build-up of the RAF would not only provide the least expensive means of defense, so as not to overburden the economy, but also help avert the dreaded "knock-out blow" from Germany. During the past twelve months, the Germans had built forty-five new air-
fields. They had also made 502 munitions factories ready for extensive production. Since 1930, German airframe and engine production had doubled, and that country would soon have a potential of first-line strength of 1,000–2,000 planes with 5,000 fully trained pilots. Such figures were frightening and made an RAF build-up seem the only reasonable means of defense. As Chamberlain had already declared the previous year as Chancellor of the Exchequer, "My position...is that during the ensuing five years, our effort must chiefly be concentrated upon measures designed for the defense of these Islands." In other words, the DRC report and the Treasury counseled that Britain should follow a policy, in terms of defense and defense, of isolation from the Continent and to some extent from the Empire. Britain's economy could not stand the drain of rearming the air, land, and sea defenses at once. British leaders hoped to husband resources in other areas in order to strengthen the most vital area — air defense.

These proposals, although presented in a reasonable fashion, still received harsh criticism, most of it coming from the Royal Army, whose funds would be cut the most through the proposed RAF build-up. By April of 1935, the Chiefs of Staff began to agitate for an enlarged Field Force for the defense of the Lowlands and France. The Treasury, however, felt that the primary role of the Regular Army should be the defense of the Empire and the home islands. As far as the Treasury was concerned, finance was the fourth branch of defense and it was not to be endangered by an overly large, unnecessary land force designed for continental warfare. This stance became even stronger after the Germans guaranteed Belgian neu-
trality and French demands for British defense contributions lessened. 65

In its report of January, 1937, the Treasury wrote, 66

The maintenance of credit facilities and our general balance of trade are of vital importance not merely from the point of view of our strength in peacetime, but equally for purposes of war...If we are to emerge victoriously from such a war, it is essential that we should enter it with sufficient economic strength... Economic stability can properly be regarded as a fourth arm in defense, alongside the three services, without which purely military effort would be of no avail.

Nonetheless, the Army, at the instigation of Secretary of State for War Duff Cooper, continued to argue for and demand more funds. In January, 1936, he reiterated his request of the previous year to equip five Regular Army divisions and to supplement these with Territorial divisions to amount to seventeen divisions in all. 67 In December, he pointed to Britain's weakness in the Rhineland crisis as a clear indication of the need for a stronger continental force. At that time, however, the nation could only have adequately equipped two divisions for fighting abroad, using equipment of World War I standards. 68 The cavalry literally still ran on horse-power, while the tank force was nonexistent. As Cooper declared, "rationing our defenses is impossible, we must defend the nation." 69 In his opinion, this meant full rearmament of all military branches. Economic considerations were of secondary importance.

The Treasury, of course, felt that such rearmament was far too costly and too much of a drain on Britain's store of raw materials. In addition, the labor shortage was growing as a result of inadequate numbers of workers being trained to convert to armament production. The Treasury and Army were at loggerheads, so in February, 1937, Thomas Inskip, Minister for the
Coordination of Defense, was given the task of finding a compromise. According to Inskip's investigation and proposal, Britain's primary defense problem rested on her economic weakness. Her slow industrial and military expansion of the previous decade could not be accelerated overnight. From 1920 to 1939, British armament expenditures increased by seventeen percent, American by 168 percent, and French by ninety-three percent. Obviously, Britain had fallen far behind in military preparedness. As Arthur Robinson, Chairman of the Supply Board, said, "unless statutory interference in industry is adopted little more can be done to affect supply problems drastically...we are arming as fast as we possibly can without producing irretrievable economic difficulties." Inskip did support the Army's opinion that a Territorial Army, as a back-up for the Regular Army, would be necessary. He did not, however, feel that it needed to be as extensive as the Army had proposed. Inskip offered a compromise which turned out to be acceptable to both sides. Since the Territorial Army was only a reserve force, it would not need to be fully equipped. He suggested fully equipping only two divisions, which could be raised to four by 1941. In peacetime, this equipment could be passed out among ten divisions.

It should also be noted, however, that although the RAF was favored by the Treasury and later by Prime Minister Chamberlain, it did not always have its wishes fulfilled. The build-up of the RAF became popular because it was considered less expensive, and as long as its demands remained so, they were granted. The first confrontation between the Treasury and the Air Force came in 1937. The RAF called for an increase in the number of bombers and fighters. However, the plan leaned heavily toward producing
more bombers than fighters: 600 bombers and only 50 fighters. The Treasury objected immediately, for not only were bombers more expensive than fighters, but such a production strategy conflicted with Britain's entire attitude toward the Continent. As already indicated, Britain had decided upon a kind of "isolationist policy" which would concentrate on home defense, not on offensive, continental action. For such a strategy, fighters were more important than bombers. On this position, Sir Warren Fisher, Sir Maurice Hankey, Thomas Inskip and P.M. Chamberlain agreed. The RAF, however, did not agree. Their motto was "Give them what they give us." They wanted to fly missions on the Continent as well as defend the home isles. Fisher replied to this attitude with consternation: "We all want to be safe and this includes economic stability and staying power as well as bayonets. My military colleagues do not realize this and think of limitless money, and not in terms of value for money."74 Therefore, in December, 1937, Scheme J was revised to emphasize the fighters, but to negate the suggested increase in bombers. The Air Ministry predicted doom because they calculated the Germans would have 800 fighters and 1,700 bombers by April, 1939, while Britain would not be able to muster more than 730 fighters and 1,022 bombers.75 The Treasury and Government, however, reportedly rejoiced in having saved £50 million by halting the production of what they believed were unnecessary bombers.

A frugal Treasury and spendthrift military were in conflict. What exactly were the figures that caused the Government to hesitate to spend vast amounts on rearmament? First of all, by 1935, Britain's deficit of £400 million was barely exceeded by her gold reserves of £450 million.76
Each year defense expenditure estimates understated what was actually spent. In 1935, defense expenditures had reached £140 million, and by the following year they passed the £180 million mark. The 1937 budget had been estimated to be £211 million — the actual figure turned out to be a breath-taking £236 million. A healthy economy and a balanced budget still remained the ultimate goal of any British government which wished to remain in power. In view of this goal and the spiralling defense costs, the Treasury, by 1937, decided that armaments expenditures were hurting the economy, in spite of attempts to curb them.

In order to help meet these ever-rising costs, the Government decided in January, 1937, to ask Parliament for a defense loan of £400 million over a five-year period. This National Defense Loan was to be lent primarily by the Bank of England (the Bank had the right to refuse the loan, though it did not do so). The Governor of the Bank, Montague Norman, did acknowledge, however, that the magnitude of the loan could "shock the financial community" and undermine the government's credit. It was for this reason that Chamberlain had asked for the aforesaid National Defense Contribution from industry — a proposal that was resolutely refused. The business community preferred to see rearmament financed through borrowing rather than taxation.

What could the government do to meet the costs of rearmament? Industry refused to pay higher taxes to supply the revenue, as did labor. If social services were cut back, social unrest would result. The solution decided upon was to ration. According to Chamberlain, the budget had to be balanced; the country could not spend more revenues than it had.
As a result, all military branches were limited in their expansion even more than they had been before. The Treasury put a financial limit of £1,500 million on the military expenditures for the next five years, of which £400 million were to be borrowed and the rest raised by taxation. The result was that the Army's entire continental obligations were to be eliminated. This was the time when the RAF's bomber program had come under the most severe attack and Scheme J had been rejected. Yet, despite even these stringent controls, the national deficit for 1938 turned out to be £112 million.

Just as the British government had attempted to cooperate and compromise with industry and labor to make rearmament possible, so too did it try similar tactics with the military branches. However, just as industry and labor had refused to comply with programs that would not somehow benefit them (or at least not hurt them), so too did the military services behave. The Royal Air Force, the Royal Navy, and the Royal Army each struggled to get the most possible for it. If. They did not cooperate with one another, and finally the government was forced to intervene and cut back the finances of all three. Britain needed time to coordinate the expenditures of her military services, to ensure stable loans and industrial productivity. She needed appeasement either to convince Germany to modify her behavior or to give Britain herself time to regain the economic and military strength she had given up nearly two decades before.
V. Maintaining Economic Advantage Abroad

As mentioned in the Introduction, one of the reasons for the appeasement of Germany by Britain was to maintain good relations in order to protect her trade with Germany and with the surrounding area of south-central Europe. A discussion of this policy, however, is so closely intertwined with the British attempt to appease Germany for the sake of maintaining peace, that the whole process will be discussed here together. It has also already been mentioned that exports to Germany accounted for a significant portion of British trade. Britain had, in addition, extensive investments and influence in south-central Europe, particularly in Romania, Czechoslovakia, and Yugoslavia. British economic ties to Czechoslovakia will be specifically discussed to determine what effect they had on the appeasement policy and ultimately on the Munich Agreement.

Czechoslovakia seemed to be the one successful product of the Versailles Treaty, at least in terms of its political stability and rapid economic growth. As a result, this small country became a favorite area for heavy European investment. After 1918, Germany had joined the ranks of the debtor states. Britain had taken first place as a creditor nation in Europe, with the United States holding second place, while France ranked third. By 1930, however, British overall investments outside the Commonwealth were shrinking as French investments in Europe were growing. By the beginning of the 1930's, the total foreign investment in Europe was 60% French, 30% American, and only 8% British. 82

Despite the growing reluctance of Britain to invest outside the Commonwealth, she continued to maintain her investments in Czechoslovakia and
South-central Europe in general. By 1935, 90% of Rumania's total foreign debt came from British and French long-term loans. The same situation existed in Yugoslavia, where 85% of her total foreign debt belonged to British and French long-term investors. As early as 1928, British and French long-term investments already totalled half of Czechoslovakia's foreign debt.

Why did British interest in Czechoslovakian investments continue through the 1930's? Even in 1937, the Czech nation remained an ideal investment opportunity due to her stable government and cheap labor. The country had become one of the ten leading industrial nations and the sixth largest industrial employer. Not only did British investments here seem secure, but Czechoslovakia could also provide some of the trade and profits which the British needed to help set their own economy on the right track again.

British investment in the Czech economy concentrated primarily on the mining and metallurgy industries, although investments were also made in the chemical and textile industries. The largest of the British investors was the Rothschild Alliance Assurance Co., one of the world's largest insurance firms. It invested primarily in the Vitkovice Co., a vertical steel monopoly and the largest industrial combine in pre-Munich Czechoslovakia. In 1922, this British concern lent the Czechs a total of 1,000,000, and in 1930, it lent an additional 2,500,000. The Unilever and Martin's Bank made a loan of 500,000 in 1935, and the Anglo-Czech and Prague Credit Bank also made a large loan to Czech industry.

In view of Germany's geographical proximity and her need for raw materials, she also wanted a share of the wealth and influence to be found in Czechoslovakia. Germany sorely needed Czech resources and products
such as steel and hydrogen peroxide. However, because of Berlin's autar-
chical policies, the country found itself with a low cash supply and
was thus limited to short-term, unprofitable investments. The Nazi
regime attempted indirectly to increase its influence in Czechoslovakia
through a cartel movement. From 1929 until December 1935, Czechoslo-
vakia took part in an international steel cartel with Germany, Poland,
and Hungary. Once this partnership failed, the Czech business com-
munity came more and more under the influence of the Belgian cartel system
-- much to the consternation of officials in Berlin. The Nazi regime
wanted a foothold in this country, not only because of the resources
and products that it could provide, but also because it seemed to be the
linchpin in a French attempt to encircle Germany. Thus, growing British
investments in that country, in conjunction with those of the French, made
it appear as if His Majesty's Government were antagonistic toward Ger-
many and in alliance with France.

Britain, therefore, found herself in a difficult position. Czecho-
slovakia provided a good source of profits and influence in the Danubian
region, which helped to check German, as well as Russian, ambitions in
the area. Yet close Anglo-Czech commercial ties tended also to strain
Anglo-German relations. By 1937, Britain was rapidly approaching the
moment when a decision between maintaining relations with Czechoslovakia
or Germany would have to be made -- or so it seemed. Did Britain ever
actually make this choice? Did the Munich Agreement represent Britain's
sudden decision to fully appease the Germans and favor their interests
over those of south-central Europe, only then to switch course again to
ally herself with France against Germany a year later? Did the Munich
Agreement represent as drastic a change in British policy as it seemed? Evidence can be found to show that the answer to all of these questions is an emphatic "no"!

Since the early 1930’s, when German military expenditures were on the rise once again, Britain had been trying to improve political relations with her both directly and indirectly. Lord Curzon’s statement at the Imperial Conference of 1921 still held in the 1930’s:

...ours is frankly the reestablishment of Germany as a stable state in Europe. She is necessary with her great population, her natural resources, with her prodigious strengths of character..., and any idea of obliterating her from the comity of nations or treating her as an outcast are not only ridiculous, but insane.

British leaders hoped that the political reintegration of Germany could be achieved by taking the initial step of improving economic ties with her. Such economic relations could then form a firm basis on which to build more stable, friendly political ties.

Thus, since 1932, Britain had attempted to achieve closer economic ties with Germany through the promotion of international cartels in the hope that this would limit Germany’s autarchical policies by making her more involved in the world market. In 1932, Britain, France, Germany, and Sweden formed a dye cartel, and in 1933, France, Germany, Poland, Belgium, and Luxemburg formed a steel cartel. Even as late as February, 1939, Britain attempted to draw Germany into a coal cartel. None of these cartels succeeded and most dissolved soon after formation.

Aside from cartels, Britain undertook informal talks with the Germans in hope of improving trade relations. Several of such unofficial,
secret discussions took place between 1936 and 1937. They eventually culminated in the visit of Lord Halifax, Foreign Secretary, to Berchtesgaden on November 9, 1937. Halifax arrived hoping to take advantage of Hitler's offer, made after the Rhineland invasion of 1936, to negotiate a twenty-five year non-aggression pact. He had also received instructions to speak with Hjalmar Schacht, Reichsfinanzminister, and to investigate the possibility of colonial mandates being given to Germany and to discuss German interests in Czechoslovakia and Poland. 94

Britain hoped that the giving of colonial mandates, which could have provided Germany with some of her needed raw materials and prestige as a colonial power, could be used to curb German political extremism and Jewish persecution in return. 95 Britain, however, found herself alone in promoting such a scheme. By 1936, the United States, France, Italy, and Japan were unwilling to give up any export markets for the purpose of German trade expansion: "no colonial power is the least likely to forego its preference to the exclusive advantage of Germany." 96 Only in 1937 did France appear willing to make at least some limited colonial concessions. These, however, would have been of a nonpolitical nature to help colonial production and increase German barter. 97

As early as February of 1937, the British government had offered to give Germany a foreign exchange loan so that she could buy British goods. Since Germany had begun to isolate herself, the exchange rate for the mark had shrunk drastically. If she was to be brought back into the world market, the rate had to be increased. Therefore, in 1934, while Chamberlain was Chancellor of the Exchequer, the Anglo-German Payment Agree-
ment was concluded. This agreement stipulated that 55% of the profits that Germany made from exports sent to England would be used to continue to buy British goods. By 1938, this figure was raised to 60%, despite German protestations.98

These British offers to Germany in the 1930's prove two important points. First, the variety of means whereby Britain was attempting to lure Germany back into the world market proved and underscored her flexibility in carrying out appeasement. Appeasement was above all an attitude, not a blueprint for action. It did not call for Britain's commitment to Germany or to Germany's opponents, such as France and Russia, until absolutely necessary. It allowed the British to improve relations with Germany informally, while at the same time rearming against her in order not to alienate France. Second, economic appeasement of Germany had been part of British policy for nearly a decade before Chamberlain's ascension to the Prime Minister's office and the Munich Agreement. Far from being a fluke in British policy, the Munich Agreement was a continuation of a long-standing British policy of appeasement toward Germany.

As Michael Newman has written in "The Origins of Munich: British Policy in Danubian Europe 1933-37", British policy in that region and toward Germany was one of a passive pragmatism, leaving all options open.99 The English were naturally aware that Germany represented a potentially great threat to them -- a realization made clear in the DRC White Paper of 1934. As a result, the English considered it essential to try to strengthen their economy and military while at the same time encouraging good economic and political relations with the Germans, both for the sake
of European, and more specifically, of British prosperity. They made financial offers to the Germans not only to appease and avoid war, but also to buy time through good will in order to rearm.

Britain had traditionally believed that her own prosperity depended on European tranquility, which in turn depended on Great Power cooperation, a throw-back to the nineteenth-century Vienna system. In British strategic, diplomatic opinion, Germany was the bulwark of Europe, separating East from West, France from Russia. She held the key position in Europe. Either her demise or her expansion could upset the balance of power in Europe, more specifically the tranquility of Europe and with it British prosperity. Britain therefore appeased Germany both to integrate that nation into the ranks of European great powers and to restrain her expansionary ambitions. Britain always sought her own self-interest.

Thus, the more active interest taken by Britain in the Czech crisis, as opposed to the Rhineland invasion of 1936, or the Anschluss of 1938, did not necessarily indicate a sudden, full realization of Hitler's insatiable desire to expand Germany. In fact, British desire to mediate at the Munich conference represented once again their policy of "passive pragmatism". The Anschluss had not been terribly disturbing, since the fall of Austria had been foretold long before. It did not hurt the balance of power. The Rhineland invasion had not actually concerned British leaders as a whole, since they tended to sympathize with German grievances concerning the occupation of her own nation. On the other hand, German ambitions with regard to Czechoslovakia could have presented more of a danger if Germany meant this to precede a general expansion into south-central Europe. If this
were not the case, then British intervention in the area could provoke German hostility and cause such a general expansion, as well as endanger British investments and influence there. As a result, until the British were absolutely sure that the German-Czech hostilities were a preface to more expansionary German ambitions, they did not want to risk intervention and war. The British decision to mediate also arose from a fear that German aggression could activate the Franco-Russo-Czech Treaty of 1935 to defend Czechoslovakia, thus drawing Britain into conflict over an area in which she had no real stake, aside from economic investments. The Manchester Guardian gave voice to this fear by stating, 102

We cannot allow France, Belgium—Holland—to be conquered. These things are European politics. The rest are humbug or semi-humbug.

Although somewhat blunt, it indicated the general British belief that any other areas were not, in and of themselves, worth going to war for. In fact, fear of losing economic advantages and investments in Czechoslovakia through German expansion did not come into play. British leaders reasoned that appeasement of Hitler in Czechoslovakia could improve Anglo-German relations, whereas siding against Hitler would certainly lead to war and not only endanger investments in the area, but would seriously hurt the British economy by a too sudden war. Appeasement would allow Britain to restrain Hitler’s expansionary ambitions beyond Czechoslovakia and still maintain British trade and investments in Czechoslovakia. 103 Stopping German advances into south-central Europe was not of highest priority to the British unless more general expansionist ambitions could be proven. Great Britain still hoped that through appeasement an agreement acceptable to Hitler and ultimately to France and Russia could be found— a classic Great Power peace to maintain European stability and British prosperity.
VI. Conclusion

After having investigated various aspects of economic appeasement, one can see a very rational side to the policy. The British government, under Neville Chamberlain, had based its foreign policy and rearmament program, in part, on very real, rational anxieties over the state of Britain's economic condition. British industry had, during World War I, proved itself to be capable of tremendous output, but this effort had drained her economy. As a result, post-war Britain had neither the desire nor the strength to maintain an extensive armaments program. By the 1930's, after a decade of slow industrial advance, the business sectors of Great Britain, despite potential threats from Germany, still needed and wanted time to regain momentum in order to undertake rearmament without serious economic repercussions. Appeasement presented a means of obtaining this time.

Most historians who have investigated the British appeasement of Germany have given its economic aspects only a cursory glance. Most of the theories suggested to explain appeasement and its climax (though not its end) with the Munich Agreement, have involved political or psychological factors. Both Martin Gilbert's The appeasers and F. S. Northedge's The Trouble Giant have described the fault of appeasement as lying in the fact that it was a "too Christian, overly optimistic policy." In Root of Appeasement, Gilbert attributed the policy more to a British feeling of guilt for the Versailles Treaty.

Other theories have laid the blame much more clearly on Prime Minister Chamberlain. Keith Eubanks described Munich as the result of a British
government which conducted itself according to the case of the moment as opposed to the immediate realities or probabilities of the future. Ian Colvin, in *None So Blind*, and John Wheeler-Bennet, in *Munich: Prologue to Tragedy*, depicted Chamberlain as having been an arrogant man deaf to the reasonable suggestions of his cabinet and blind to Hitler's real intentions. Such evaluations have mistakenly allowed the Munich débâcle to symbolize the entirety of appeasement, rather than the watershed dividing the rational from the irrational periods of the policy. The historians, in evaluating appeasement, have insisted on seeing only the image of Britain's military might shrinking in the face of rapidly growing German forces. They have neglected to analyze the possibility that the cutting and limiting of the British military budgets resulted from unfortunate, but nevertheless real necessity.

The image of appeasement can thus be refocused by placing its economic motivations under closer scrutiny. Rather than considering it as having been a policy of bribery and weakness, as totally defensive and unrealistic, it would be more accurately depicted if it were discussed as a policy of quid pro quo. Britain attempted to obtain stronger economic ties with the Germans not simply for the sake of maintaining general European peace, but also specifically to protect Britain's vested interests in German trade for the sake of her own prosperity. In this sense, then, appeasement reflected a persistent, though subtle, determination on the part of the British to come out ahead somehow, despite the basically defensive nature of the policy.

A paradox existed in British appeasement. On the one hand, the
policy was defensive in its attempts to rearm only to defend the home-front, not to attack, and in its attempts to offer Germany lucrative economic opportunities in return for peace. On the other hand, appeasement also had a somewhat dynamic, offensive quality. While trying to trade with Germany to forward good relations and European peace, the British also wanted to improve their own economy. While offering Germany loans to increase her barter and to draw her into the world market, Britain also ensured herself a certain percentage of Germany's new exports. Even in her Danubian policy, Britain acted in her own interests in attempting to maintain the status quo and avoiding war. Appeasement represented a give and take, defensive/offensive strategy.

The fault of appeasement lay not in its immediate conceptions of Britain's economic handicaps of the pre-Munich era, but in her basic conceptions of her overall role in European politics and diplomacy. What Prime Minister Chamberlain, MacDonald, and Baldwin had not realized was that World War I and the Versailles Treaty had not only seriously damaged the "balance of power" in Europe, but that they had destroyed it. The Vienna system of 1915 had institutionalized Europe, designating each great power, its spheres of interest, and how any disputes were to be settled through conferences, cooperation, and compromise. By the 1930's, however, many European nations, large and small, no longer wanted to be a part of this institution, of this status quo. The time for change was at hand, and Britain's attempt to place Germany back into her nineteenth-century role as the bulwark of Europe clashed directly with the trend of the times. Britain's ability to play the role of the aloof mediator had passed. Ap-
penetrate could have bought her time to adapt to this change by restoring her economic health, her military strength, and fortitude in order to prepare to switch from an observer to a direct participant in the military clashes that were to change Europe in the following years.

Munich represented not only the culmination of a long-standing British policy of appeasement, but also the watershed which marked the realization of many Britons that their nation could no longer observe German advances in Europe passively and pragmatically. They realized that Prime Minister Chamberlain and his predecessors had been attempting to re-integrate Germany into a nineteenth-century Europe that had been put finally to rest at the end of World War I. Appeasement lost its support after Munich because Great Britain finally realized that Chamberlain was attempting to reach a nineteenth-century pactum de contra-hendo with a Germany that had twentieth-century desires for territorial changes and power.
Notes

1 Failing 1946, p. 386.
2 Gilbert 1966, p. 45.
3 Colvin 1965, p. 30.
4 Gilbert and Gott 1963, p. 3.
6 Cannon 1971, p. 15.
7 Wendt 1971, p. 480.
8 Gilbert and Gott 1963, p. 10.
9 Cannon 1971, p. 32.
14 Gordon 1969, p. 75. The Parliamentary Labour Party felt that
   as long as the international situation remained tense, it would have
   to reconcile itself with the rearmament program. It felt that it "would
   be unable to reverse the present programme of rearmament."
16 Times, April 23, 1936.
17 Times, June 4, 1936.
18 Cannon 1971, p. 158.
20 Cannon 1971, p. 205.
21 Times, March 14, 1938.
Barnett 1972, p. 153. The Committee on Imperial Defense was chaired by the Prime Minister and included cabinet ministers from the Treasury, Foreign Office, and the three armed services. The Permanent Undersecretaries and Chiefs of Staff also belonged to the Committee. The CID appointed Lord Weir, Sir James Littgow, and Sir Arthur Balfour to investigate the feasibility of armaments production by British industry. This triumvirate subsequently formulated the Shadow Scheme.

Shay 1977, p. 91.


Manchester Guardian, April 21, 1937.

Shay 1977, p. 97.
Shay 1977, p. 98.
Shay 1977, p. 207.
Wendt 1971, p. 301.
Carr 1972, p. 40.
Shay 1977, p. 292. [Quotation of June 1, 1937]
Shay 1977, p. 47.
Barnett 1972, p. 419.
Gilbert 1966, p. 83.
Newman 1978, p. 381.
Shay 1977, p. 70.
Barnett 1972, p. 349.
Barnett 1972, p. 413.
Shay 1977, p. 91.
69 Yeiling 1946, p. 201.
70 Mayers 1976, p. 264.
72 Shay 1977, p. 139.
73 Shay 1977, p. 123.
74 Shay 1977, p. 186.
75 Shay 1977, p. 140.
76 Mayers 1976, p. 281.
77 Shay 1977, p. 143.
78 Wendt 1971, p. 486.
80 Shay 1977, p. 162.
81 MacDonald 1972, p. 114.
82 Teichova 1974, p. 2.
83 Teichova 1974, p. 23.
84 Teichova 1974, p. 41.
85 Teichova 1974, p. 11.
86 Teichova 1974, p. 68.
87 Teichova 1974, p. 200.
89 Gannon 1971, p. 23.
91 Wendt 1971, p. 482.
92 Wendt 1971, p. 557.
93 Wendt 1971, p. 546.
94 Wendt 1971, p. 545.
96 Document 1949; June 9, 1936.
97 Times, November 23, 1937.
102 Manchester Guardian, March 26, 1936.
104 Gilbert and Cott 1963, p. 3.
105 Gilbert 1966, p. 45.
106 Eubanks 1963, p. 283.
Bibliography


Manchester Guardian. 1933-1938.


Times. 1933-1938.

