PLANNING FOR THE SHORT HAUL:
EXPLAINING WARTIME TRADE BETWEEN ENEMIES

A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES
IN CANDIDACY FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

DEPARTMENT OF POLITICAL SCIENCE

BY
MARIYA GRINBERG

CHICAGO, ILLINOIS
AUGUST 2019
# Table of Contents

LIST OF FIGURES .................................................................................................................... VI
LIST OF TABLES .................................................................................................................... VII
ABSTRACT .............................................................................................................................. VIII
ACKNOWLEDGEMENTS ....................................................................................................... IX

CHAPTER 1: INTRODUCTION................................................................................................ 1
  EXISTING EXPLANATIONS ............................................................................................................ 3
  WARTIME COMMERCIAL POLICY ................................................................................................. 7
  THE ARGUMENT......................................................................................................................... 10
  SCOPE CONDITIONS ................................................................................................................... 12
  EMPIRICAL ANALYSIS ................................................................................................................ 13
  PLAN OF THE DISSERTATION ...................................................................................................... 15

CHAPTER 2: EVOLUTION OF THOUGHT ON TRADE WITH THE ENEMY ............. 19
  WHAT IS TRADE WITH THE ENEMY? .......................................................................................... 21
    What can Permission to Trade with the Enemy Look Like? ................................................... 22
    Where to Look for Trade with the Enemy? ........................................................................... 24
    How Can a Prohibition on Trade Be Enforced? ................................................................. 26
  THE EVOLUTION OF THOUGHT ON TRADE WITH THE ENEMY ..................................................... 29
    Development of Neutral Rights ............................................................................................. 30
    Commercial Policy in a World without Neutral Rights ....................................................... 35
    Commercial Policy in a World with Neutral Rights ............................................................. 37
  FUNDAMENTAL PROBLEM OF TRADE WITH THE ENEMY ............................................................ 41

CHAPTER 3: THEORY ............................................................................................................ 42
  FUNDAMENTAL PROBLEM OF TRADE WITH THE ENEMY ............................................................ 44
    Security Externalities of Trade ............................................................................................... 45
    First Theoretical Insight: Conversion Time ......................................................................... 48
    Second Theoretical Insight: Loss of Revenue ...................................................................... 52
    Solution to the Fundamental Problem of Trade with the Enemy ....................................... 55
    Doesn’t a State Care about an Enemy’s Revenue from Trade? .......................................... 58
    Doesn’t a State Care About Its Own Conversion Times? .................................................. 59
  SPECIFIC POLICY FOR THE SPECIFIC WAR .................................................................................. 60
    Expected Length of War ........................................................................................................ 60
    Expected Intensity of War ..................................................................................................... 63
    Type of Wartime Commercial Policy .................................................................................... 65
  WARTIME COMMERCIAL POLICY IN A SPECIFIC WAR ............................................................ 67
  BILATERAL LEVEL OF TRADE BETWEEN ENEMIES DURING THE WAR ............................. 70
    Does Overlap Between Belligerent Wartime Commercial Policies Exist? ...................... 72
  ALTERNATIVE EXPLANATIONS.................................................................................................. 73
  CONCLUSION.............................................................................................................................. 76

CHAPTER 4: CRIMEAN WAR (1854-6) ................................................................................ 78
CHAPTER 5: WORLD WAR I ................................................................. 124

FORMATION OF INITIAL POLICY ...................................................... 125
Assessment of Commercial Situation ............................................. 126
Expected Length of War ................................................................. 129
Policy for War with Germany ......................................................... 130

CHANGES TO THE COMMERCIAL POLICY DURING THE WAR ............... 140
Expected Length of War ................................................................. 141
Expected Intensity of War ............................................................... 147
Wartime Changes in Policy ............................................................ 150
Trends in Incremental Changes of the Wartime Commercial Policy 156

ALTERNATIVE EXPLANATIONS .......................................................... 159
The Role of Domestic Politics ......................................................... 159
Maximum Economic Pain .............................................................. 161

CONCLUSION .................................................................................... 162

CHAPTER 6: WORLD WAR II ............................................................. 164

FORMATION OF INITIAL POLICY ...................................................... 165
The General Policy of Economic Warfare ........................................ 166
Economic Warfare Handbook ......................................................... 173

PREPARING FOR WAR WITH GERMANY .............................................. 179
Expected Length of War ................................................................. 180
Assessment of Commercial Situation ............................................. 180
Planned Policy for War with Germany ............................................ 186

CHANGES TO THE COMMERCIAL POLICY DURING THE WAR ............... 195
Expected Length of War ................................................................. 195
Expected Intensity of War ............................................................... 198
Wartime Changes in Policy ............................................................ 200
Licensing Prohibited Trade ............................................................. 202
List of Figures

FIGURE 3.1: Distribution of Products based on Conversion Time and Loss of Revenue .............. 57
FIGURE 3.2: Expected Type of War Determining Wartime Commercial Policy .......................... 66
FIGURE 3.3: Summary of How a State Chooses a Wartime Commercial Policy ...................... 69
FIGURE 7.1: Density Plot of Days before a Type of Product is Prohibited ................................ 223
FIGURE 7.2: Ave. Number of Days before a Product in Each Category is Prohibited ................ 224
FIGURE 7.3: Survival Plot by Product Type ............................................................................... 225
FIGURE 7.4: Change in Prohibitions over Time by Product ..................................................... 226
List of Tables

TABLE 1.1: Reasons for Trading with the Enemy (TWE) During a War ........................................ 11
TABLE 3.1: Summary of Alternative Arguments .......................................................................... 76
TABLE 4.1: British Orders in Council Relating to Commerce during the War ............................ 107
TABLE 4.2: French Changes in Tariffs in 1854 ....................................................................... 113
TABLE 4.3: Russian European Trade divided by Country (in million rubles) ......................... 119
TABLE 7.1: Average Number of New Prohibitions Per Period of War ................................. 227
TABLE 7.2: Results of OLS Model: DV = Number of New Prohibitions ................................. 228
Abstract

In times of war, why do states trade with their enemies? In this dissertation, I argue that states make deliberate choices when setting their wartime commercial policies and that these policies are tailored to match the type of war the state is expecting to fight. Specifically, states seek to balance two goals – minimizing the ability of the opponent to benefit from the security externalities of trade and maximizing revenue from continued trade during the war. As a result, states trade with the enemy in two types of products. First, states trade in products that their opponents take a long time to convert into military capabilities, because the security externalities from this trade will not help the opponent win the war. Second, states trade in products that are essential to the domestic economy but can be gotten only from the opponent, because sacrificing this trade would also impair the state’s long term security.

Furthermore, I argue that states revise their wartime commercial policies based on how well they are doing on the battlefield. As the expected length of war increases, the number of prohibited products will increase since the opponent will have more time to benefit military from the gains of trade. Similarly, the closer the war gets to being existentially threatening, the more wartime trade with the enemy the state will be willing to give up to ensure its survival.

In order to determine whether the causal mechanisms outlined in this theory explain the decision of states to trade and fight at the same time, I use the comparative case study method. The specific cases being assessed are the Crimean War (1853-1856), World War I and World War II. In addition to the qualitative test of the theory, I put together a dataset of British prohibitions on trade during WWI to assess the product level predictions of the theory, both in the formation of the initial wartime policy and in the changes to that policy during the war.
Acknowledgements

Academia is a team sport. And I certainly would not have made it to the finish line without the backing of my team. My committee, my colleagues and my family have provided me with the encouragement, inspiration, and occasional kick in the behind to make this dissertation possible. The political science department at the University of Chicago has provided an excellent space for any scholar to develop. The International Security Studies program at Yale University and the Belfer Center at the Harvard Kennedy School offered a great counterpart in helping me recognized the aspects of group think I’ve grown accustomed to and in teaching me new approaches to the study of international relations.

First and foremost, I would like to thank my committee: John Mearsheimer, Robert Gulotty, and Paul Poast. Thank you, John, for being a supportive mentor, for bearing with my numerous attempt to settle on a dissertation topic, and for convincing me that I was, in fact, smart enough to do this. To Bobby, I deeply appreciate you spending hours of your time arguing with me about even the most inconsequential aspects of the theory to stress test the internal consistency of the argument. I am grateful to Paul for tirelessly pointing out to me that, in addition to developing the ideas, I also had to communicate them to the rest of the field, which might not be as enamored of higher level abstract thought as I am.

The ideas in this dissertation have benefited from the scrutiny of countless workshops. I received exceptional feedback from participants in the Program for International Security Policy (PISP), the Program on International Politics, Economics and Security (PIVES),and the Workshop on International Politics (WIP) at the University of Chicago; the International Security Studies Brady-Johnson Colloquium in International Security and Grand Strategy at Yale University; the brown-bag seminar series at the Belfer Center at the Harvard Kennedy School,
and the Conflict, Security and Public Policy Working Group at Harvard University. These include Anjali Anand, Mariel Barnes, Nick Campbell-Seremetis, Bonnie Chan, Alexandra Chinchilla, Mark Deming, Alex Haskins, Eliza Gheorghe, Rebecca Gibbons, Kelly Greenhill, Isaac Hock, Sana Jaffrey, Morgan Kaplan, Joe Karas, Stephanie Kelly, Paul Kennedy, Do Young Lee, Chad Levinson, Katy Lindquist, Charles Lipson, Daniel Magruder, Ramzy Mardini, Steven Miller, Asfandyar Mir, Nuno Monteiro, Robert Pape, Michael Reese, Yubing Sheng, Mattias Staisch, Paul Staniland, Steven Walt, and Kevin Weng. All remaining errors in this work are my own; and they are considerably fewer for the hard efforts of the people listed above.

I would also like to thank my colleagues in the political science PhD program as well as the Yale and Harvard pre-doctoral fellowships. Anjali Anand and Kevin Weng, without your sarcasm, witticisms, and constant quoting of classic films, graduate school really would have been the place where fun comes to die. Alex Haskins, thank you for your constant attempts to turn me into an optimist; your failure is entirely my loss. Thank you to the Bruch club for giving me the chance to try all sorts of restaurants in the Chicago area. Eliza Gheorghe, your Thai mussel curry and other culinary endeavors truly brightened the New Haven experience. To the Monday Lunch group – Nick Anderson, Daniel Jacobs, and Tyler Jost – thank you for keeping the intellectual conversations alive and providing advice when it comes to facing the real world. Especially, thank you to Kathy Anderson and Susan Lynch for making sure that all of the logistics work smoothly and on time. Without you, nothing works.

Finally, I would like to thank my family. I know you do not quite understand why I do what I do, but the fact that you are happy to help me regardless means the world to me. While I find the practice of dedicating long works to the people most affected by their torturous creation rather bizarre, this one is dedicated to you.
Chapter 1: Introduction

Conventional wisdom suggests that trade is the first casualty of war. Since the gains from trade can be converted into military capabilities, trading with the enemy is akin to selling the opponent a gun to kill you with. But the empirical record of wartime trade suggests that states frequently exchange goods during the war. For example, in World War I, which was a total war where the majority of the states involved fought for their very survival, Britain continued to trade with its enemies until October 1, 1918 – one month and eleven days before the armistice. For the first six months of the war, raw materials such as hemp, flax, and tallow were allowed to be exported to Germany and licenses were granted to merchants to import hosiery needles and aniline dies in return. During World War II, likewise an existential struggle between Britain and Germany, Britain allowed German dyestuffs to be imported to keep its textile industry alive. On the other side of the globe, while the Japanese Army was slowly conquering parts of China, the free parts of China continued to trade with Japan, much to the ire of their Western supporters. During the War in the Donbass (2014), Ukraine continued to import Russian coal.

These examples are hardly unique. In designing their wartime commercial policies, states chose whether to trade in the war, which products to trade during the war, and how long to continue trading during the war. Some enemies chose to continue their trade throughout the war, for example India and Pakistan in the First Kashmir War (1947-9) or Yugoslavia and Croatia in the War of Bosnian Independence (1992). Other states chose to cut off trade immediately at the start of the war, for example England and Argentina in the Falkland Islands War (1982) or India and Pakistan in the Kargil War (1999). Yet other states start off trading with the enemy only to change course during the war, as for example occurred in the Iran-Iraq War of 1980. There is
remarkable variation in wartime trading patterns between adversaries.

In times of war, why do states trade with their enemies? In this dissertation, I argue that states make deliberate choices when setting their wartime commercial policies and that these policies are tailored to match the type of war the state is expecting to fight. Specifically, states seek to balance two goals – maximizing revenue from continued trade during the war and minimizing the ability of the opponent to benefit from the security externalities of trade. As a result, states trade with the enemy in (1) products that their opponent takes a long time to convert into military capability and (2) products that are essential to the domestic economy. Furthermore, I argue that states revise their wartime commercial policies based on how well they are doing on the battlefield. As the expected length of war increases, the number of prohibited products will increase since the opponent will have more time to benefit military from the gains of trade. Similarly, the closer the war gets to being existentially threatening, the more wartime trade with the enemy the state will be willing to give up for victory.

This dissertation makes two major theoretical contributions. First, it shows that the temporal dimension is key to understanding security externalities of trade. Existing scholarship focuses on the implications of trading with the enemy for the adversary’s military capabilities, but it omits the temporal dimension in which economic gains may be converted into military power. While all gains from trade are ultimately convertible into military capabilities, the amount of time this process takes varies by product. A similar temporal distinction can be applied to all policy tools to right-size their security externalities.

Second, this dissertation has significant implications for questioning the assumptions of economic interdependence theory. The three main branches explaining the causal logic of this theory – opportunity costs, interest groups, and signaling – make the assumption that trade
between belligerents is prohibited during war. It is precisely the high costs associated with this loss of trade which is supposed to act as a brake on the potential escalation to war. However, as my research shows, states can and frequently do continue to trade during the war, which means that trade does not have to be the first casualty of war, and as such does not necessarily function as an opportunity cost to conflict. This theoretical contribution is particularly salient when considering the possibility of conflict between the United States and China. Optimistic projections predict that the greater the economic ties between China and the US, the less likely the two states are to fight each other. In fact, the more interdependent the two states are, the less likely they are to immediately sever trade ties during war, and the less likely it is that their economic interdependence can be used to prevent the escalation of a potential Sino-American conflict.

**Existing Explanations**

There are very few attempts in the literature to answer the question why belligerents continue to trade with their enemies during a war. The definitive article on the subject, by Levy and Barbieri, explicitly claims to offer no theory on the subject, instead providing a list of hypotheses that might explain the phenomenon.¹ Possible alternative arguments could be inferred from three bodies of literature that seek to connect security and economic concerns: literature on economic interdependence, relative gains, and economic gains from trade. However, the arguments made in these fields do not directly deal with wartime commercial policy. A second problem is that these arguments tend to provide an all-or-nothing prediction for all wars – either

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¹ Jack S. Levy and Katherine Barbieri, “Trading With the Enemy During Wartime,” *Security Studies* 13, no. 3 (2004): 1–47. The factors include: (1) shorter wars, (2) trade in non-strategic products; (3) fear of relative losses to third parties; (4) bipolarity; (5) desire to maintain trade as political leverage to be used later in the war; (6) concerns about potential domestic constraints stemming from cut trade; (7) a change in ideology towards more liberal free trade; (8) limited wars; (9) civil wars.
trade with the enemy would never occur or should always occur.

All three of the causal mechanisms provided by the economic interdependence literature depend on the assumption that trade is cut off during wartime. By far the most prevalent explanation in this literature is opportunity cost. The trade lost during the war is the opportunity cost of fighting compared to peaceful conflict resolution; the higher the cost, the less likely the war to occur. Generally, this cost of war is operationalized with the full bilateral volume of trade between the two states, which implies that all bilateral trade is forfeit during a war. Some research has focused on determining which part of the bilateral trade actually constitutes a cost to the state; however, these studies also assume that all trade is cut off during a war even though only a portion of this lost trade constitutes a cost. The second causal mechanism of economic interdependence focuses on pro-trade interest groups, who seek to preserve their welfare gains by

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pressuring public officials to avoid military confrontations. The logic behind this lobbying is that future war will cut off the trade these interest groups rely on. The third causal mechanism deals with credible signaling, where ending trade with a state sends a costly signal of resolve.

Even under this causal mechanism, if two states have reached the point of war, it is assumed that there is no trade between them, as it would have been severed earlier as a signal. Regardless of causal mechanism, economic interdependence comes with the all-or-nothing prediction that there should not be trade between belligerents in war.

The relative gains literature links economic gains to military advantage by the assertion that the more important relative gains are to states, the more likely a state is to cut off commercial ties. Scholars generally agree that wartime increases substantially the state’s focus on relative gains, leading to the conclusion that if these theories are extrapolated to wartime, they would likely predict no trade with the enemy in all wars. Linking relative gains concerns to the issue of trading with the enemy, Liberman claims that states are more concerned with relative gains vis-à-vis states that are near, powerful, offensively armed, and hostile, and adds that this

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effect is more keenly felt under bipolarity as opposed to multipolarity. Morrow takes the argument a step further to argue that relative gains do not matter in peace time at all unless they are highly unequal or can be converted into military advantage in secret. Picking up on the bipolarity versus multipolarity strain of the argument, Gowa finds that states trade more with their allies than adversaries in bipolar systems because of relative gains. In multipolar system this effect disappears. Given that the bipolar period of time studied did not involve direct war between the great powers, it is not certain how this argument will transfer to periods of war. Overall, the relative gains literature, if extended to cover periods of wartime, would likely lead to the all-or-nothing prediction that states do not trade with the enemy, because war sharpens states’ concern about relative gains.

The last body of literature from which a hypothesis on trading with the enemy can be extracted is based in the economic gains from trade. At the very basic level, states receive absolute gains from engaging in free trade with each other. Given purely economic motives, trade with the enemy should continue – another all-or-nothing prediction. On the other hand, the decision to open the economy to free trade creates winners and losers in domestic politics, both advocating for their preferred policy outcome. The beginning of a war could function as a focal point, which these groups seek to use to change the state’s trading policies. If the protectionist forces prevail in a state, trade will be cut off during the war. If the free trade forces prevail in a state, trade will be allowed to continue. This argument, at least, allows for variation to exist in

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8 Morrow, “How Could Trade Affect Conflict?”
states’ wartime commercial policies. However, it has not, as of yet, been expressed in the
specific context of wartime trade with the enemy, making it hard to determine what specific
mechanisms should be driving outcomes. Should variation in wartime commercial policy be
expected at the industry level or the product level? Should the effect come from protectionist
groups lobbying to sever trade during war, or from free-trade groups lobbying to keep trade open
during war? At present this branch of the literature does not provide answers to these questions.

**Wartime Commercial Policy**

In order to isolate the reasons why a state would choose to trade with the enemy, the main
outcome of interest is a state’s wartime commercial policy towards an enemy belligerent.
Specifically, the collection of decisions a state makes about which products of enemy origin are
allowed to be imported into the state and which products are allowed to be exported to the
enemy. There are three important characteristics of wartime commercial policy towards an
enemy belligerent. First, it has to occur during a war. War acts as a focusing mechanism. Unlike
peacetime when a state can afford to divide its attention across different states and issue areas to
include a wide range of concerns and interests into its commercial decisions, during a war, every
action has to be filtered through the lens of the war effort. Every decision has to be judged based
on its potential contribution to or detracion from a battlefield victory. The security motivations
for severing trade with the enemy are highest during the war, thus presenting the hardest
conditions for trade with the enemy to exist. Second, a wartime commercial policy requires a
state to make decisions about trade with an enemy belligerent. Wartime trade with neutral states,
where no enemy products or enemy labor are involved, is not trade with the enemy.\(^{13}\) Third, a

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\(^{13}\) Indirect trade, where two belligerents trade with each other through a neutral intermediary, is trade with the
enemy. A neutral trading with one belligerent, with no involvement from the second belligerent, is not trade with the
wartime commercial policy includes only the legal trade with the enemy. It is not concerned with contraband trade. The goal is to isolate why rational states would engage in a seemingly counterproductive action, not assess the actions of actors trying to circumvent these policies.

The analysis in this dissertation focuses on the formation of wartime commercial policy, as opposed to the bilateral level of trade that existed between enemy belligerents in a specific war. While the question of where bilateral trade is expected to occur is explored in the theory chapter, the theory itself explains the monadic preferences for trade. The bilateral level of trade between two belligerents is affected by two processes during the war – the trade policy of the states involved and the process of war. Each belligerent’s trade policy preferences set the maximum possible level of trade that can exist with the enemy. If the belligerent has a restrictive policy, very little trade with the enemy is possible. If the belligerent has a lax policy, most of the peacetime trade with the enemy is possible. After the maximum level is set; however, what actually is imported and exported from the country is influenced by the war. Certain trade routes can become unavailable due to submarine warfare, air raids, or simply because the active warzone stretches across the road previously used to transfer cargo. These factors increase the cost of transportation making trade more expensive, which might prevent certain merchants from engaging in it. Inadequate transportation logistics might further reduce the amount of trade that can be processed: railroads can be reserved for military purposes preventing merchant access to them; ports might be too small to handle the trade redirected to them. During the war, ships can be captured for prize and held for long periods of time while the legality of their trade is verified, increasing the risk of trade. Combined with the lower availability of insurance, this can decrease merchant’s willingness to trade. At the same time, war tends to make certain goods scarce and

enemy. For example, US trade with Germany before Dec 7, 1941 is not trade with the enemy, as the United States was neutral at the time.
correspondingly increases their price, which can incentivize certain merchants to engage in more trade in wartime than they conducted in peacetime.

The bilateral level of trade between two belligerents represents the trade that occurred after all of these aspects of the process of war had a chance to increase or decrease trade accordingly. Additionally, direct trade between states in war is rather difficult, as most states do not let enemy ships or enemy trains approach their borders for security reasons. Given that commercial vessels can easily be outfitted with guns, it becomes hard to tell if an incoming ship flying an enemy flag plans to bring sustenance or a barrage of bullets. Moreover, historically, states had varying methods of recording indirect trade, where they would record anything from all to none of it as bilateral trade. Thus the bilateral level of trade between belligerents does not necessarily present an accurate illustration of the trade between them. Looking at a state’s wartime commercial policy, instead of the bilateral level of trade, focuses the analysis on the maximum amount of trade a state is willing to engage in with the enemy during the war. This variable is affected only by the preferences of states, isolating how states resolve the dilemma between security incentives to sever all trade and economic incentives to keep all trade, without confusing the analysis with other factors that affect the observed level of trade.

Similarly, the analysis focuses on state decision about wartime trade, not the decisions of individual firms to engage in trade with the enemy. While in many economies it is the firms that make decisions about what to trade, with whom, and how much, the state sets limits within which these firms are bound to operate. As far as firms operate within these boundaries or try to break them, they are mostly driven by profit maximization, making a firm level decision to trade with the enemy less surprising. The state does not have the same luxury, especially during a war. States have to balance their economic motivations with security concerns, which makes the
decision to allow trade with the enemy considerably more puzzling.

**The Argument**

Formulating a wartime commercial policy requires a state to balance two opposing imperatives. On the one hand, trading with the enemy during a war provides the enemy with military capabilities that the enemy can use to alter the course of the war. On the other hand, severing trade with the enemy during war reduces the revenue available to the state. A reduction in revenue decreases the size of the investment that a state can make into its long term security. This defines the fundamental problem of trade with the enemy. States have a security imperative to sever all trade with the enemy and, at the same time, an economic imperative to keep all trade with the enemy.

The resolution to this problem comes from disaggregating the content of the commercial relationship between the two belligerents. At the product level, it is possible to see that products vary in the amount of times the enemy needs to convert them into military capabilities. As such, the security imperative does not require that all products be prohibited from trade – only those products that the enemy will have time to benefit from militarily in the current war. It is also possible to see that products vary in the amount of revenue they generate for the state. In essence, the economic imperative does not require that all products continue to be traded with the enemy during a war – only those products whose prohibition would irreparably injure the stream of revenue into the state’s long term security. Examining the commercial relationship between two belligerents at the product level, thus, provides a solution to the fundamental problem of trade with the enemy. Products that take a long time to be converted into military capabilities and products that contribute greatly to the revenue of the state can be traded during the war, satisfying the economic imperative. Products that are quickly converted into military capabilities
by the enemy and do not provide significant revenue for the state can be prohibited from trade, satisfying the security imperative.

Table 1.1: Reasons for Trading with the Enemy (TWE) During a War

<table>
<thead>
<tr>
<th>State’s Loss of Revenue</th>
<th>Enemy’s Conversion Time</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Short TWE</td>
<td>Long TWE</td>
</tr>
<tr>
<td></td>
<td>to ensure long term security of state</td>
<td>both reasons</td>
</tr>
<tr>
<td>Low</td>
<td>No TWE</td>
<td>TWE enemy can’t use gains against state on the battlefield</td>
</tr>
</tbody>
</table>

While product characteristics can show some general patterns about which products are more or less likely to be traded during a war, the wartime commercial policy is not a one-size-fits-all tool. Just like military strategies are designed to fit a specific war, wartime commercial policies are likewise tailored to the specific war a state expects to fight. The two relevant characteristics of the war are the expected length and the expected intensity of war. Together they determine the extent to which a state’s wartime commercial policy will suppress trade with the enemy during a specific war. The expected length of war sets the amount of time the enemy has to convert gains from trade into military capabilities that could affect the outcome of the current war. The shorter the war, the less time the enemy has, the fewer products that need to be prohibited. The expected intensity of war corresponds to the level of revenue a state is willing to lose to ensure its survival. The less the intensity of the war, the less revenue the state will be willing to lose, the more products are permitted to be traded with the enemy. In a short, peripheral war, a state is likely to have a lax wartime commercial policy. In a long, intense war, a state is likely to have a restrictive wartime commercial policy.

Finally, to form a wartime commercial policy, a state assesses the characteristics of each product traded with the enemy in peacetime against their expectations about the war. If the
product’s conversion time is greater than the expected length of war, a state will continue to trade in this product during the war, because the enemy does not have time to use the gains from trade against the state of the battlefield. If a product’s contribution to the economy of a state is above the threshold a state is willing to lose in order to ensure its survival, the state will continue to trade in this product, because the state cannot afford to sever the trade. As a state’s expectations about the war shift, so does its wartime commercial policy.

Scope Conditions

There are three scope conditions for the theory presented in this chapter. First, the theory explains wartime cooperation between two enemy belligerents in commercial policy only. Financial, monetary and other broader forms of economic cooperation are not examined. It stands to reason that the mechanism for commercial engagement with the enemy differ from financial and monetary cooperation. Specifically, severing trade with the enemy is a long term policy – it does not produce an effect in the short term, but progressively builds in effect after some period of time has passed; financial restrictions are a short term policy – they produce a spectacular effect in the short term, that dissipates with time, and produces no effect in the long term. Thus, it makes sense to examine the different aspects of economic relations separately.

Second, some state-sanctioned trade, no matter how minimal, should exist between the two enemy belligerents before the war starts. Such trade signifies that the two trade partners have managed to overcome the relative gains problem associated with trade14 and view trade as either mutually beneficial or at the very least as satisfactorily beneficial compared to the next best option. It does not seem all that puzzling to explain why no trade with the enemy exists during a

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war, when no trade between the two belligerents existed before the war started. It is theoretically possible that states start trading during the war where no trade existed previously, but it is not particularly plausible. If they could not resolve the relative gains problem in the more permissive peace environment, it is considerably less likely that they will be able to do so during wartime. Also, the initial level of trade would reflect the political relationship between the two states before the war started. If they had been allies prior to the war, their level of trade is likely to be higher\textsuperscript{15} than if they had been longtime rivals.\textsuperscript{16} How the two states related to each other before the war would be reflected in their initial level of trade as they enter the war, and should not have much of an effect on the trade during the war.

Finally, each belligerent must have a government that has the authority to set the commercial policy for a specific territory. While I use the term ‘state’ to refer to the political actor making the decisions, the theory can be applied to certain types of civil wars as well as interstate wars. However, this scope condition excludes civil wars where the belligerents are intermixed in such a way as to making it difficult to distinguish who makes policy for a specific territory. This would make it impossible to determine what the commercial policy for the territory is and who exactly is allowed or prohibited from trading with whom.

**Empirical Analysis**

To test the theory presented in this dissertation, I process trace the debates surrounding the initial formation and subsequences changes of a state’s wartime commercial policy. Specifically, I look at British, French and Russian policies in the Crimean War (1854-6), as well


\textsuperscript{16}Copeland, *Economic Interdependence and War*. 
as British policy in World War I and World War II.

The Crimean War was selected because it was the first instance where the belligerents had to seriously grapple with the effect neutral rights had on their trade with the enemy policies. As will be made clear in the following chapter, designing a wartime commercial policy in a world without neutral rights was a very different process than in a world respectful of neutral rights. Before the adoption of neutral rights, there was little incentive for states to think carefully about the economic imperative to maintain trade during the war; they could formulate a wartime commercial policy based mostly on the security imperative to prohibit all trade with the enemy. After the adoption of neutral rights, a more nuanced approach was necessary that balanced the security and economic imperatives. Before the Crimean war, neutral rights were not universally respected; however, one of the opening decisions of the war was the adoption of the Declaration of the Rights of Neutrals. This was done for completely idiosyncratic reasons. The ice in the Baltic Sea was late to melt in 1854, leaving a large amount of produce, which was already paid for by France, stuck in Russian ports. France needed neutral ships to rescue this produce and deliver it to France, as French ships and Russian ships would not be able to do this due to the outbreak of war. Thus France pushed, and ultimately got all three belligerents, to respect neutral rights to safely carry products of enemy origin. I leverage the fact that neutral rights were introduced for reasons unrelated to the strategic calculations surrounding trade with the enemy, to test if the belligerents responded to this shock in the manner predicted by the theory.

World War I and World War II were selected as crucial cases to explain based on least likely case design. Both were global conflicts; both were total wars where the full might of each nation was used in the war effort; both were long wars; both were fought for the survival of the belligerents involved. Given the conventional wisdom on trade with the enemy – that states
shouldn’t do it due to security considerations, and given that in both wars the short run security considerations of all belligerents were as high as they could get, trade with the enemy should be least likely to occur.

Additionally, the contrast between World War I and World War II allows me to test how variation in the expected type of war affects the decisions states make in the formation of their initial wartime commercial policies. While it was the same belligerent making the assessment – Britain – about an upcoming war with the same enemy – Germany, the expected length and intensity of war were different in the two World Wars. World War I started with the expectation of a short, small war. World War II started with the expectation of a long, intense war. This variation provides a good test of the theory’s prediction that the wartime commercial policy is designed to match the specific war a state is planning on fighting.

World War I also presents a chance to exploit within case variation as the expected length and intensity of war changed throughout the conflict. This provides an opportunity to see if the wartime commercial policy tracks changes on the battlefield, as the theory expects. World War II, on the other hand, allows me to test the flip side of the same prediction, whether the wartime commercial policy experiences any changes without the expected type of war changing, which would be contrary to the predictions of the theory.

Finally, I conduct a large-n analysis of Britain’s prohibitions on trade in World War I. As the theory has a product level component, this chapter is used to test the product level predictions. World War I was isolated for this analysis, again, because it is a crucial case to explain which is least likely to experience trade with the enemy.

**Plan of the Dissertation**

The second chapter lays out what trade with the enemy is and what kind of commercial
transactions it encompasses. It explains how trade with the enemy fits into a state’s wartime commercial policy and the tools states have to enforce their preferred outcomes. Additionally, the chapter traces the historical trends that created the fundamental problem of trade with the enemy. It shows that the development of neutral rights had the inadvertent consequences of decreasing the economic pressure that stems from economic blockade and increasing the costs states have to bear in order to use such a policy instrument. These inadvertent changes provided the incentive for states to adopt more nuanced wartime commercial strategies than just a prohibition on all trade.

The third chapter lays out the theory explaining how states create their wartime commercial policies. It shows that while states make wartime commercial decisions at the product level, they tailor their policies to the specific war they are expecting to fight. The expectations about the type of war set thresholds against which products are compared to determine if trade should be allowed or prohibited. If a product’s conversion time into military capabilities is longer than the expected length of war, trade in the product will be permitted, because the enemy will not have time to use the gains from trade to affect battlefield outcomes in the current war. If a product’s contribution to the revenue of the states is greater than what the state is willing to lose in the current war, trade in the product will be permitted, because the state cannot afford to interrupt the stream of revenue into the long term security of the state. The theory chapter also shows how states amend their wartime commercial policies during the war to match the changing expectations of the war.

The following three chapters test the theory against the empirical record. Chapter 4 focuses on the Crimean War. This chapter shows how the adoption of neutral rights changes state’s though process about their wartime commercial policies. Before neutral rights were
adopted by the belligerents, they were content to rely on their age old strategy of prohibiting all trade with the enemy. After the Declaration of the Rights of Neutrals, each one was forced to reconsider this initial decision tackling the question of wartime relative losses vis-à-vis neutral states.

Chapter 5 looks at Britain’s wartime commercial policy in World War I. It shows the logic of the theory as states formulate their initial wartime commercial policies and update them to match the changing expectations about the type of war they are fighting. Given the expectations of a short war that would not be existentially threatening to Britain, a lax wartime commercial policy was designed. Products with incredibly short conversion times were prohibited from trade; products that generated considerable revenue through their circulation in the British economy were allowed. As the expectations of war changed, so did the wartime commercial policy. The longer the war grew, the fewer products were allowed to be traded with the enemy. The more intense the war grew, the more revenue from trade Britain was willing to give up.

Chapter 6 contrasts this experience to Britain’s wartime commercial policy in World War II. In the interwar years, Britain created the most comprehensive economic machinery they could think of; one capable of severing not just British trade with the enemy but also most neutral trade with the enemy. However, the instruction manual for this policy came with the disclaimer that the policy had to match the war. In some wars none of the stringent enforcement measures should be used and trade with the enemy allowed, in others all of them should be used and all trade completely prohibited. Unfortunately, the coming war with Germany was expected to be a long and intense one. The wartime commercial policy that Britain designed was incredibly restrictive to match.
The seventh chapter provides a statistical analysis of the product level decisions made about trade with the enemy, using data gathered from British wartime commercial policy in World War I. The chapter provides suggestive evidence in support of the theory. Product characteristics are found to affect when a product is prohibited from trade. Specifically, the longer a product’s conversion time the longer Britain allowed the product to be traded with the enemy in World War I. Additionally, the expected type of war affects how suppressive the wartime commercial policy is. Britain prohibited more products from trade in periods when it expected a long war than in periods when it expected a short war. Likewise, when Britain expected to be fighting an intense war, more products were prohibited from trade with the enemy.

The last chapter concludes with a brief summary of the main theoretical and empirical findings of the dissertation. It also provides an extension of the argument to trade between rivals considering the implications for the trade between the Soviet Union and the Western bloc of allies as well as the trade between the United States and China going into the future.
Chapter 2: Evolution of Thought on Trade with the Enemy

Trade with the enemy during wartime has been overlooked as a subject of study. In part, this stems from the fact that the conventional wisdom on the matter is rather compelling. Why would states wish to sell their opponents anything that would help the enemy fight against them? It seems obvious that rational states ought to prohibit all trade with the enemy in order to increase their chances of victory. Additionally, trade with the enemy is overlooked because the data isn’t there; and when it is, bilateral trade ties between warring states often shows all zeroes. With war being expected to break all or most commercial relations between states, it comes as no surprise that wartime trade is systematically missing from bilateral trade datasets. The conventional wisdom is so persuasive that when scholars deal with this missing data, it is acceptable to replace missing war years with zero trade. In the rare cases when bilateral wartime trade between belligerents is recorded, it is not surprising to see it plummet to particularly small figures. So much so that scholars feel comfortable assessing it as irrelevant. If it is assumed that wartime trade is practically reducible to zero, what is these to study? Finally, a fair number of states have as part of their common law an automatic prohibition on trade with the enemy which is triggered by the tart of hostilities. A fair number of states, also, start their wars with a proclamation to their citizens that trade with the enemy is prohibited. Again, if states are prohibiting from trading with the enemy by their own legal systems – what is there to study?

However, all of these assessments are muddled by a lack of clear understanding of what trade with the enemy encompasses. While many states do, in fact, have common law prohibitions on trade with the enemy, they are all qualified by a variation of the phrase, ‘with the exception of

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1 With the notable exception of Levy and Barbieri, “Trading With the Enemy During Wartime.”
such trade as the government wishes to permit.' Prohibitions on trade issued at the outbreak of war typically contain two such caveats. The first leaves large portions of trade unregulated by the prohibitions, through clauses such as, ‘everything not expressly prohibited is allowed’. The second allows states to promote trade with the enemy with one hand, while prohibiting it with the other, through clauses like, ‘except such trade as the government wishes to license’. A legal prohibition on trade with the enemy is never as simple as a blanket prohibition on all trade.

Bilateral trade between some enemy belligerents during war does decrease to almost insignificant levels during the war. This does not mean that no legal trade with the enemy occurred in that conflict. Trade could have been permitted to continue through neutral states or in neutral ships. As such it would not be recorded as bilateral trade, but a considerable level of trade between belligerents can still be hiding behind that zero of bilateral trade. In fact, I suspect that a considerable amount of trade that scholars assume is trade substitution might actually be indirect trade with the enemy.

Finally, the conventional wisdom itself, while very compelling, only applies to very specific situations. It requires a state to forego all economic incentives for trade and focus entirely on military incentives to sever trade. There are situations when such a decision making thought process works best – when the enemy can be surrounded completely or when there are no neutral states to worry about. However, at all other times, following the conventional wisdom on trade with the enemy would be detrimental to the security of the state.

The focus of this chapter is to explain what trade with the enemy is and the incentives states have to grapple with it in the formation of their wartime commercial policies. The first

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4 Though the fact that some trade is permitted and officially recorded is fascinating, regardless of the value of that trade.
section explains: what trade with the enemy encompasses, where to look for it, what state
decisions about it look like, and what tools states have for controlling their trade with the enemy
during wartime. The second section traces the historical trends that gave states the incentives to
think about trade with the enemy in a nuanced manner. In a world where neutral rights did not
exist, severing all trade with the enemy was a fairly easy decision to make. However, after the
introduction of neutral rights, state’s calculus had to shift. The military benefits of severing trade
fell, while the economic costs rose. States had to be considerable more careful in their decision
making, giving rise to the fundamental problem of trade with the enemy.

What is Trade with the Enemy?

Trade with the enemy is any commercial, financial, or other dealings with, or for the
benefit of, an enemy belligerent. There are three important aspects of this definition. First, as
implied by the legal meaning of the term ‘belligerent’, trade with the enemy is a commercial
practice that takes place during a war. In common parlance, trade with the enemy is sometimes
used to refer to trade between rival states or economic competitors in general, as for example,
some aspects of trade between the United States and China today is referred to as trade with the
enemy.6 However, until an actual war breaks out and both sides decide on whether they want to
continue trading with each other during that war, no trade with the enemy has occurred as yet.

Second, trade with the enemy can only take place between enemy belligerents. In a war,
states can generally take one of three classifications: friendly, for allies, enemy, for opponents,
and neutrals, for those states who wish to sit out the conflict. Wartime trade between allies, while
a complicated and sometimes competitive process, does not fall under the purview of trade with
the enemy. Neither does trade between a neutral state and an enemy belligerent. Only trade

6 Hugo Meijer, Trading with the Enemy: The Making of US Export Control Policy toward the People’s Republic of
China (Oxford University Press, 2016).
between enemy belligerents is trade with the enemy. To be very precise on this distinction, trade between two enemy belligerents through a neutral state or neutral intermediary is trade with the enemy. However, trade between a neutral state and an enemy belligerent in goods of neutral origin is not. The important distinction is the origin of the goods involved in the trade. For trade with the enemy to occur, products made by one enemy belligerent have to be transferred to a different enemy belligerent. Thus the popularized trade between the United States and Nazi Germany before December 1941, frequently referred to as trade with the enemy, was, in fact, a neutral state exercising the rights of neutrality. It was not trade with the enemy.

Third, a decision to trade with the enemy divides all commercial interactions into those that are legal and those that are illegal. Contraband trade, that is illegal trade with an enemy belligerent, is not considered to be trade with the enemy. The two types of interactions – legal and illegal – clearly follow separate logics and focus on different actors. In legal trade, a state makes the conscious decision to help the enemy during the war, with all the subsequences consequences of that decision. In illegal trade, the state wants to avoid helping the enemy, but individual firms or people seek to circumvent that decision by the state.

Trade with the enemy is legal commercial interactions between enemy belligerents during war. A state’s wartime commercial policy is a set of decisions that describe which trade with the enemy acts are allowed and which are prohibited. It is the larger category of which permission for all trade with the enemy is one extreme and a complete prohibition on trade is the other extreme.

What can Permission to Trade with the Enemy Look Like?

As was previously mentioned, some European states have a common law prohibition on

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trade with the enemy which is triggered by the outbreak of war. This is the case for the United States, United Kingdom, France, Spain, and Holland. On the other hand, Russia, Germany, Austria, and Italy have no such automatic prohibitions. Practically, this does not distinguish the two groups of states that much. Where common law for an automatic prohibition against trade with the enemy exists, it contains a clause that allows the government to permit such trade as its sees fit. To let domestic merchants continue trading with the enemy during the war, all the government needs to do is make a proclamation laying out the degree to which trade is allowed. In states where there is no automatic prohibition on trade, the government need do nothing at all to permit trade with the enemy. If there is a reason to limit such trade, the government issues a proclamation removing any aspect of trade it deems inappropriate for the specific war.

Many such proclamations have a lot of text designed to prohibit trade, but end with a phrase like ‘everything not expressly prohibited is allowed’. This is typically a method of prohibiting direct trade with the enemy, while leaving avenues open for indirect trade. Direct transportation is, by definition, faster than indirect transportation. Forcing all trade to reach the enemy by an indirect route increases the amount of time it takes for the enemy to benefit from the gains from trade.

Additionally, trade with the enemy can be permitted by license from the government. The state prohibits trade with the enemy, and then grants licenses for merchants to engage in the trade anyways. A general license gives all merchants permission to engage in a specific activity. A specific license grants an individual merchant permission to trade in a specific quantity of a specific product for a specific period of time. Licensed trade allows the state to have considerably more oversight and control over which products cross the borders of the state.

7 “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” Standing Sub-Committee of the Committee of Imperial Defense, British National Archives, WO 106.45, December 1911.
When trade is allowed without restriction, it is the market that determines how much produce leaves the country and how much is imported back in. Through the use of licenses, the state can decide how much domestic demand is filled by enemy goods and how much enemy demand is supplied by domestic merchants. In situation when trade with the enemy might be dangerous to the state but still absolutely necessary to continue, licenses are the preferred method of permitting trade because of this greater control over trade. The flip side of licensed trade, however, is that it creates room for corruption and prompts the creation of monopoly trade, if the state does not allocate licenses in an equitable manner.

*Where to Look for Trade with the Enemy?*

Commercial interactions between enemy belligerents can be direct or indirect. Direct trade refers to an exchange of merchandise where the ownership of the products is transferred from a merchant in state A directly to a merchant in state B. Direct trade with the enemy during a war is, generally, hard to observe. States prohibit enemy ships from docking in their ports because it is difficult to tell if an approaching enemy ship seeks to unload merchandise or to shell the port. Likewise, it is difficult to tell if an incoming railroad car is full of products or soldiers. Trade is still considered to be direct even if neutral middlemen are used to help facilitate it; for example, if a merchant in state A hires a neutral ship to transport some products to a merchant in state B. Because of this, it is possible to see official trade statistics reflecting some direct bilateral trade with the enemy. Unfortunately, states are inconsistent in recording such interactions as direct trade.

When the ownership of a product switches to a middleman before being delivered to its final destination, the trade is considered to be indirect. The simplest form of this is the sale of goods from a merchant in state A to a merchant in a neutral state, who then sells the same goods
to a merchant in state B. Indirect trade increases the cost of the merchandise, due to the additional transportation that must occur as well as to account for the middleman’s profits. But at the same time, it reduces the risk to states of conflating trade with military action. Most of the trade with the enemy that occurs is likely to be indirect trade.

Indirect trade also includes cases of domestic substitution in a neutral country. For example, a merchant in a neutral state imports a product from state A, then sells an identical product but one that was manufactured in the neutral state to a merchant in state B. While technically this is two different transactions, using two different products, it is still considered to be trade with the enemy because the neutral can only export domestically manufactured goods to state B because domestic demand is being satisfied by imports from state A. Without the trade between the neutral and state A, the trade between the neutral and state B would not have been possible. Domestic substitution allows neutrals to legally claim that no goods of enemy origin are being exported to state B.

Another form of indirect trade is minimal manufacturing in a neutral country. This requires a merchant in a neutral country to import a product from state A, process this product in some minimal manner, then export the result to state B. For example, a neutral state can import tulips from one enemy belligerent, warp each dozen into a plastic wrapper, then sell the resulting bouquet to a different enemy belligerent. Again, this allows the neutral to legally claim that only goods of neutral origin are entering state B.

When states are formulating their wartime commercial policies, they are well aware of all the different types of commercial transactions that can occur between the merchants of their state and those of the enemy. States are not content with setting limits only on their direct trade with the enemy, but seek to control as much of the indirect trade as seems prudent under the
conditions of the day. Thus the variation of different wartime commercial policies can range from all direct and indirect trade being allowed with the enemy, to various restrictions on direct trade and various restrictions on indirect trade, to no direct and no indirect trade with the enemy.

*How Can a Prohibition on Trade Be Enforced?*

The question arises, how can all of these potential channels of trade with the enemy be controlled? Especially given that most of them pass through neutral states, over which the country making the commercial policy has little to no control. Is it even possible to enforce a prohibition on trade with the enemy? In fact, states prove quite adept at creating the tools for controlling even the least accessible of indirect trade. These tools, however, vary in how costly they are for the state, which in turn affects when a state chooses to resort to their use. In addition to the economic costs of losing the gains from trade from the products on which a prohibition is being enforced, there are also political costs to angering powerful neutral states by resorting to stringent enforcement measures.

The simplest way to limit all trade with the enemy is to establish a blockade of enemy territory. The more complete the blockade – sea, land, air – the more trade can be prevented from reaching the enemy. In addition to severing all trade between the state carrying out the blockade and the enemy, a well-established blockade has the additional benefit of severing all neutral trade with the enemy as well. At the same time, since blockading an enemy is an established belligerent right, it is a politically acceptable tool of warfare. Neutral states might grumble, but ultimately they have no recourse for action against the state instituting the blockade. However, a full blockade of all sea and land borders as well as territorial airspace is incredibly difficult to make effective and, most of the time, it is hardly practical. However, a full

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8 This is not meant to imply that establishing an effective blockade is simple. Just that if a state manages to establish an effective blockade that would be a simple method of limiting trade with the enemy.
blockade of all sea and land borders as well as territorial airspace is incredibly difficult to make effective, and most of the time it is hardly practical.

Enforcing a prohibition on direct trade with the enemy can start with a legal prohibition. Self-regulation among the law abiding citizens limits that portion of trade with the enemy. For the rest, the Customs and Excise department of the state can monitor the products leaving and entering the country, stopping trade that violates the government’s mandate on trade with the enemy.

Enforcing a prohibition on indirect trade with the enemy requires more effort. To prevent the import of enemy goods into the country, a state can create prohibitive tariffs on products of enemy origin, but only if such actions are allowed by the reigning international economic order. Alternatively, a state can require certificates of origin to accompany all or specific products of interest being imported into the country. The owners of such products would be required to furnish a letter, certified by a consul stationed in the country where the products come from, stating that the product originated in that country and not in enemy territory. While these measures provide some enforcement in limiting indirect trade, they can be circumvented by domestic substitution or minimal domestic manufacture in the neutral state. The enforcement mechanism created to overcome this challenge is setting limits on the percentage of enemy goods and/or labor allowed in intermediate or finished goods imported into a country. Such a policy instrument places a high burden of proof on the potential importers, and most importantly, it does not only affect trade with the enemy. All products from neutral states, which could be used as routes for indirect trade, would require certificates of origin for the scheme to work. This increases the cost and time of doing business, potentially stifling legitimate trade to a considerable degree.
To prevent indirect exports of domestic goods to the enemy, a state can issue proclamations prohibiting trade in all or specific products with neighbors of the enemy state. Any citizen wishing to export such prohibited products to the enemy (skirting legality) would be required to send them along a lengthier route through several neutral states in order to reach the enemy. The additional cost and time of transport might prove prohibitive for trade to continue. At the same time, this measure requires a state to lose legitimate trade with states neighboring the enemy. If a state wishes to control indirect exports to an even greater degree, it can resort to a rationing scheme for neutral states. The state using this policy instrument would assess the level of its pre-war exports to a neutral state, then stop all exports to that would be in excess of pre-war levels. The logic behind rationing is that any additional exports to the neutral country are likely not made for the domestic consumption in that country and are likely to be passed on to the enemy. Such stringent enforcement mechanisms come with the double cost of less trade with neutrals then the potential market would allow for as well as making neutral particularly unhappy.

Finally, given that the war has lasted a long enough time for the necessary information to be collected, a state could resort to maintaining blacklists of merchants and companies known for or suspected of trading with the enemy. Domestic merchants can be prohibited from interacting with people and companies on the black list, with the threat of being placed on the blacklist themselves as the enforcement mechanism.

The more stringent the enforcement method, the more trade can be prevented from reaching the enemy. Though typically, this comes with the unwanted side effect of severing legitimate trade with neutral states. If a state lacks the ability to enforce a prohibition on trade to the extent it wants, this does not stop the state from declaring the policy anyways. For example,
the inability to enforce an effective blockade does not stop states from declaring enemy ports to
be blockaded. The inability to control trade through border regions where state capacity is low
does not stop states from prohibiting those parts of the state from trading with the enemy.⁹
Declaring the state’s preferred wartime commercial policy stops law-abiding citizens from
trading, has the potential to scare away merchants of low risk tolerance, and allows the state to
dole out punishments when and where enforcement does work. In general, questions of
enforcement are considered when wartime commercial policy is being formulated, but they do
not guide the state’s preferences. States are well aware of how to stop trade with the enemy, the
question is do they want to do it.

The Evolution of Thought on Trade with the Enemy

The decision to prohibit or allow trade with the enemy can be seen as a balancing act
between military and economic considerations. On the one hand, the state setting the policy
wants to impose maximum pressure on the enemy by severing as much of the enemy’s trade as
possible. An enemy that cannot resupply, is an enemy that cannot fight. On the other hand, the
state has to suffer the loss of its own trade in order to use this tool of economic warfare. The
relative importance of these two factors in making wartime commercial decisions is historically
contingent. Before the development of neutral rights, military considerations alone could carry
the day. After neutral rights were widely accepted, situations where states could set their wartime
commercial policies based solely on military considerations decreased to a minimum. States had
to adopt a more nuanced approach to their policies.

Historically, when neutral rights are not respected by the belligerents during war, neutrals
carrying goods of enemy origin are liable to seizure. In such a situation, prohibiting trade with

the enemy means not only severing bilateral trade between the two belligerents, but also a large portion of world trade with the enemy. By restricting all avenues of trade available to the enemy state – in enemy ships and in neutral ships – significant economic pressure can be brought to bear on the enemy. In making wartime commercial decisions, the military benefit of such great economic pressure takes precedence over the economic costs of blockade, which are in some parts spread across the world economy and are not localized to the state severing trade. Trade with the enemy, when considered in situations without neutral rights, is only considered along the lines of absolute necessity: trading with the enemy in products that cannot be gotten anywhere else.

On the other hand, as European states started to develop neutral rights, their ability to impose maximum economic pressure waned. In a war where neutral rights are respected, severing trade with the enemy means only severing bilateral trade, while at the same time giving neutrals free reign to pick up as much of this trade as they are able. The enemy is free to resupply from neutral sources and the state severing trade is left paying the costs of blockade alone. With the military benefit of prohibiting trade dissipating and the additional costs rising, states are forced to reconsider the wisdom of automatically following the logic of military considerations. However, given that the decision is being made during a war, the wartime commercial policy cannot swing to the other extreme and follow the logic of economic considerations alone. By creating a world where neutral rights are respected, states created the fundamental problem of trade with the enemy – the need to balance the military and economic imperatives of wartime trade.

**Development of Neutral Rights**

Neutrality began to be developed as an aspect on international law during the 17th century
and did not consolidate on the idea of a neutral as an impartial party in a conflict until the 18th century. At the time, however, there was still no agreement between nations on how to treat neutral vessels who were trading with belligerents. France and Spain rejected all neutral rights at sea – neutral goods on enemy ships as well as neutral ships carrying enemy goods were liable to capture.\textsuperscript{10} England likewise supported the capture of enemy goods on neutral ships, but restored neutral goods on enemy ship to their neutral owners. At the same time, England enforced the capture of neutral ships attempting during war to engage in trade that was new for that neutral, a policy known as ‘the rule of 1756.’\textsuperscript{11} Since most European states reserved exclusive rights to their own ships for costal trade and trade with the colonies, the rule of 1756 prevented neutral ship from helping enemy belligerents transfer supplies where the belligerent’s own vessels were unable to do so. Additionally, the practice of granting letters of marque was widespread. These letters, essentially, commissioned private individuals, or privateers, to capture enemy shipping during war. The practice allowed states to supplement their naval strength used to damage the enemy’s commerce.

The first attempt to get European agreement on the treatment of neutral shipping during war came from Russia during the American Revolutionary War. Known as the First League of Armed Neutrality, it called for enemy goods on neutral ships to be safe from seizure and for neutral ships to be allowed to sail between belligerent ports.\textsuperscript{12} By 1783, Russia, Denmark, Sweden, Netherlands, Prussia, Austria, Portugal, and the Two Sicilies joined the league, with France, Spain and the United States agreeing to the principles without formally joining. This


\textsuperscript{11}That was the year the rule was first confirmed by the British prize court. John Hosack, \textit{The Rights of British and Neutral Commerce: As Affected by Recent Royal Declarations and Orders in Council} (S. Sweet, 1854).

\textsuperscript{12}Isabel de Madariaga, \textit{Britain, Russia, and the Armed Neutrality of 1780; Sir James Harris’s Mission to St. Petersburg During the American Revolution}, 1st edition (Yale University Press, 1962).
agreement did not last long, with many states frequently disregarding the principles when their roles changed from neutrals to belligerents. All regard for neutral rights was swept away during the Napoleonic wars, when Britain acted to discontinue all neutral trade between ports that excluded British ships.

The next breakthrough on neutral rights did not come until the Crimean War when France and Britain issued a Declaration on the Rights of Neutrals, agreeing to follow the principle that the flag covers the merchandise, making enemy goods, with the exception of contraband, on neutral ships free from seizure.\(^\text{13}\) Additionally, the practice of granting letters of marque was abolished. These changes were codified in the Declaration of Paris of 1856, to which all great powers of the time signed on.\(^\text{14}\) The Declaration also required a blockade of enemy ports to be effective for belligerents to claim the right to capture ships entering blockaded ports. That is, states could not simply declare a port blockaded when they did not have the naval strength to enforce the blockade, which was a frequent practice in the Napoleonic Wars. Only those ports where a belligerent could maintain a constant presence strong enough to capture ships could be declared as blockaded. If a port was not declared as blockaded, the belligerent had no legal right of seizure. The United States, while represented at the conference and a strong champion of neutral rights, did not sign the convention because it had too small of a navy to be able to enforce belligerent rights as they were defined by the Declaration of Paris.

With the rights of neutrals to carry enemy property mostly settled, the next question to tackle for neutral rights was the question of contraband.\(^\text{15}\) Since contraband was the only class of


\(^{15}\)Absolute contraband refers to such goods which are unquestionably meant for the use of enemy forces and are allowed to be captured if found destined to the territory of the enemy. Conditional contraband refers to such goods as can be used both by the armed forces and by civilian populations; they are allowed to be captured only when destined to be delivered to the enemy government or armed forces. Robert W. Tucker, *The Law of War and Neutrality at Sea* (The Lawbook Exchange, Ltd., 2006), 263.
goods that could still be captured in neutral ships, the broader the definition, the less trade neutrals would be able to carry on during a war. The Declaration of Paris remained silent on this issue, leading to diverging opinions and confusion on the rights of neutrals. In the role of neutral, states wanted as little products on the contraband list as possible. In the role of belligerent, states wanted as many products on the list of contraband as possible. At the same time, placing a product on a contraband list meant that, legally speaking, neutrals would be prohibited from trading in this product with both belligerents. While states would be cutting of their enemy’s ability to resupply, they would effectively be doing the same thing to themselves. The question was not settled until the Declaration of London of 1909, which set out a list of goods considered to be absolute and conditional contraband, as well as a list of free goods – goods that neutrals could always trade with the belligerent.

While none of the signatories of this declaration ever ratified it, states did grapple with the implications it had on their economic warfare strategies. World War I started with the belligerents adhering to most of the declaration, with a few alterations to the contraband lists. Of course by the middle of World War I, the belligerents threw the rights of neutrals out the window. But as soon as the war was over, the League of Nations set the next legal decision on the matter. The Covenant of the League of Nations required all member states to become belligerents in any war between two member states, effectively outlawing neutrality. The calculations about wartime commercial policy in the interwar years figured around this decision. The biggest problem, however, was that not all states in the world were members of the League, and as such a war could still have neutrals. Given that the League failed to outlaw neutrality, the rights of neutrals to free commerce remained dominant. When Britain was formulating its

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wartime commercial policy for World War II, it chose to start the war respecting neutral rights, even though it was widely acknowledged that this would severely limit their desired wartime strategy. After World War Two, the United Nations Charter mirrored the League of Nations as regards to collective security, preventing any state from remaining neutral when the Security Council decided to take an enforcement action against a state. However, outside of such situations, neutrals maintain their right to free commerce with enemy belligerents.

Evidently, the middle of the nineteenth century saw a shift towards the development and respect of neutral rights. As the different states found themselves spending more time in the role of neutral power as opposed to belligerent power, more were willing to increase the rights of neutrals to preserve their own commerce. Once these rules were created, there were two main motivations to maintain them. First, reciprocity pushed states to maintain neutral rights. If a state did not respect the rights of neutrals while it was a belligerent, there was a higher probability that its own ships would be liable to seizure when it acted as a neutral. Second, neutral rights were respected to keep states neutral. When neutrals came to expect a certain level of treatment during a war and a state did not conform to this, the state gave neutrals additional reason to join the war effort of the enemy.

As it pertains to the discussion on the evolution of thought on trade with the enemy, the most relevant neutral rights are (1) the principle that the flag covers the merchandise, (2) the abolition of privateers, (3) the fact that a blockade has to be effective to stop trade, and (4) a specifically defined contraband list and free goods list. The first assures the safety of neutral ships carrying enemy products, with the exception of contraband, making it easier for neutrals to

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20 Osborne, Britain’s Economic Blockade of Germany, 1914-1919, 9.
insert themselves as middlemen into belligerent trade, plugging the hole created by severing
direct trade between belligerents. The second two limit extent to which belligerents can restrict
enemy trade to the level of enforcement they can provide using their own navy. The last one
clarifies the extent to which belligerents could interfere with neutral trade.

Commercial Policy in a World without Neutral Rights

In a world where neutral rights were not respected by the belligerents, a state had the
potential to subject its enemy to considerable economic pressure. A prohibition on trade carried
out through a blockade and the use of privateers to seize all neutral ships carrying enemy goods
not only eliminated bilateral trade between belligerents, but also a large portion of all seaborne
trade of the enemy. The benefits of such a policy were substantial. It was possible to starve the
opponent of all products necessary for their war effort and for their domestic economy –
regardless of where those products were coming from. By capturing and condemning enemy
exports, it was possible to starve the enemy of foreign reserves necessary to purchase goods on
the world market, on the off chance the enemy still had a way to reach world markets.
Additionally, a state carrying out such a wartime commercial policy did not have to worry much
about the enemy diversifying trade towards alternative sources. Given the difficulties imposed by
the blockade of conducting seaborne trade, the only alternative method of resupply would have
been land transport, which for most products became prohibitively expensive. Bulky products
were considerably harder to transport by land before the invention of railroads. Perishable items
could not survive the increased length of a land journey. And a lack of good infrastructure often
meant an increase in the damage done to the merchandise being transported. The potential for a
wartime commercial policy to inflict substantial damage on the enemy was very high. The
corresponding benefit of severing trade with the enemy in a world without neutral rights was,
therefore, high.

At the same time, the costs could, in part, be dispersed among all states, not just the belligerents. On the one hand, prohibiting trade with the enemy required a state to forgo its own gains from the bilateral trade with the enemy. And the lack of neutral rights meant that a state’s own shipping was likewise subject to capture by the privateers licensed by the enemy. However, the economic warfare on the seas stopped not only a state’s trade with the enemy but also a sizable portion of third party trade with the enemy. This spread the economic cost of the blockade, measured in loss of trade with the enemy, among all states. Also, at least while the rule of 1756 was enforced, states did not have to worry about neutrals gaining additional trade they did not have access to in peace time. States did not have to worry over relative losses vis-à-vis third parties during the war. And, as soon as the war was over, the belligerents could recapture their share of the enemy’s market.

Overall, before neutral rights were developed, the potential to inflict substantial damage to an enemy economy was high, or to put it differently the benefits of severing trade with the enemy were high. The economic cost of such a policy, in some degree, could be dispersed among all states. As such, the discussion about the formation of wartime commercial policy prioritized the military considerations of imposing economic pressure on the enemy over the economic dislocation the policy might cause domestically.21 Severing all trade with the enemy was, in general, the most beneficial course of action. If trading with the enemy was discussed, it was done in the context of acquiring products absolutely necessary for the war effort.22 Concerns

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about third party trade were still brought up, but not within the context of their influence on which wartime commercial policy should be chosen. Questions of third party trade were discussed as an issue of enforcement, that is how best to prevent third parties from trading with the enemy.

*Commercial Policy in a World with Neutral Rights*

These considerations started to change as states began to develop and respect the rights of neutrals in wartime. In a world where a neutral flag allows the transport of enemy goods, where ports have to be blocked by belligerent ships to be considered blockaded, where no one other than the belligerent navy can capture and search ships at sea, the ability to impose great economic harm on the enemy is considerably weakened. In these new circumstances, when a state severs trade with the enemy, it is only direct bilateral trade that is lost. Neutrals can still openly engage in commercial intercourse with the enemy. Prohibiting trade gives a state the ability to prevent the enemy from importing war material from their state, but the ability to likewise limit the enemy’s trade with the rest of the world is forfeit. They cannot keep the enemy from acquiring foreign reserves. All the enemy has to do to acquire foreign reserves is diversify its trade to neutral countries. The military benefit of severing trade is considerably lower in a world where the belligerents respect neutral rights.

In addition to being less beneficial in terms of applying economic pressure on the enemy, prohibiting trade with the enemy in a world where neutral rights are respected carries with it higher costs. The state prohibiting trade still has to forfeit the gains from trade with the enemy – that’s constant between the two worlds. But with neutral rights, severing trade during a war can

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also cost a state its share of the enemy’s market. Since the enemy can diversify its trade to neutral sources and there is no mechanism to force a neutral state to give up their wartime gains in market share, such losses can become permanent. To make matters worse, the costs of blockade are localized to the state prohibiting trade. This means states have to worry about the additional cost of a relative loss vis-à-vis neutral states, since neutral states are benefiting from commercial intercourse with the enemy during the war while the state that severed trade is not.\textsuperscript{24}

Allowing neutrals to safely carry on commercial interactions with the enemy gives the neutral state leeway to act as a middleman between the belligerents. The trade that is severed between the two belligerents is inadvertently restored through neutral states, only at a premium. When this consequence of agreeing to the Declaration of the Rights of Neutrals was understood in England at the start of the Crimean War, the Privy Council summarized the situations by stating that preventing trade with the enemy was tantamount to “preventing British subjects from supplying what is allowed to be supplied without restriction by neutrals.”\textsuperscript{25} The changing nature of the costs and benefits of severing trade with the enemy during war forced states to reconsider their wartime commercial policies.

However, unlike neutrals, belligerents still had security consideration to take into account when determining their wartime commercial policy. They could not simply switch their policies to completely allow all trade with the enemy. To adjust to the new environment, states had to find a way to minimize the potential to lose trade to neutrals but at the same time to prevent the enemy, to the extent possible, from increasing its military capabilities. By adopting neutral rights, states created the fundamental problem of trade with the enemy. On the one hand, neutral rights created an economic imperative to keep all trade with the enemy during a war. On the

\textsuperscript{24} Eugene Gholz and Daryl G. Press, “The Effects of Wars on Neutral Countries: Why It Doesn’t Pay to Preserve the Peace,” \textit{Security Studies} 10, no. 4 (June 1, 2001): 1–57.
\textsuperscript{25} British Library, Add. Ms. 43355, ff 141-3, 7 April, 1854.
other hand, the war itself provided the security imperative to sever all trade with the enemy. In order to solve this problem states started to search for “innocent goods” – products that would not benefit the opponent during the war and thus could be traded with the enemy.\textsuperscript{26} The free goods list that accompanied contraband lists received considerable attention. Unfortunately, states could not agree on a set of products that would always be innocent for trade with the enemy for all states in all wars. The reasons for this will be made clear in the following chapter.

In purely ration calculation, it is entirely plausible for a state to decide to trade with the enemy in “innocent products” even before neutral rights were respected. If a state can perfectly predict the conditions of the war and perfectly ascertain which trade ought to be considered innocent, there is, of course, no ration reason to given the gains from trade. However, in the real world, making these predictions accurately is difficult, which introduced an aspect of risk into the decision to trade with the enemy – the risk that the state miscalculates and provides the enemy with materials needed to increase their military capabilities. In a world where a high level of economic pressure can be exerted on the enemy and the costs of this policy dispersed among all states, the risk is not worth taking. However, in a world where the benefits of applying economic pressure are doubtful and the costs are localized and high, the risk seems considerably more reasonable.

This discussion is not meant to imply that at some point during the nineteenth century the world chose to develop neutral rights and has stuck with that decision afterwards. Neutral rights evolved over time, and states remain selective in when, where, and which rights of neutrals they chose to respect. However, the decision to respect neutral rights inadvertently changed how states design their wartime commercial policies, in such a way as to lead states to consider the

\textsuperscript{26} Considerations before the Crimean war: British National Archives, War Office, W.O. 106/45, “Enquiry regarding Trading with the Enemy, Historical Summary” p 31; considerations before World War I: “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9.”
need to trade with the enemy. In a world where states did not have neutral rights, prohibiting all trade with the enemy was a very beneficial policy. Trade with the enemy was reserved for situations of exceptional need. In a world where neutral rights are respected, states have to make much more nuanced decisions when formulating their wartime commercial polices, keeping as much wartime trade with the enemy as is militarily sensible.

Sometimes, it is possible to exert considerable economic pressure even in a world where neutral rights are respected. However, this occurs in situations when an almost total blockade of the enemy is possible, so that neutral rights never become a consideration. For example, during the Second Boer War (1899-1902), Britain was able to completely cut off the enemy from trading with the rest of the world – because it controlled most of the territory surrounding the South African Republic and the Orange Free State. In a similar manner, the League of Nations attempted to make economic pressure a relevant tool of warfare again by removing neutrals from war. Article 16 of the Covenant stipulates that if a member of the League starts a war with any other member of the League it is to be considered an attack against all members of the League. This automatically made all members of the League belligerents in the war, preventing any state from claiming the rights of neutrals. In situations where a state can isolate the enemy from neutrals – either by itself, or by an alliance with all the relevant neutral states – considerable economic pressure can be exerted on the enemy. In these situation the fundamental problem of trade with the enemy has a simple solution, the same solution used by states before neutral rights were developed – sever all trade with the enemy. However, these situations are exceedingly rare.

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27 British National Archives, War Office, W.O. 106/45, “Enquiry regarding Trading with the Enemy, Historical Summary”
28 “The Covenant of the League of Nations.”
29 This was the British and French interpretation of the Covenant, and it factored greatly in their plans for economic warfare in the interwar period. British National Archives, CAB 47.8
30 “Blockade Machinery: Memorandum by the Chairman”, ATB 31, 29 April, 1926, CAB 47/2.
**Fundamental Problem of Trade with the Enemy**

During the nineteenth century states settled on a set of rights promoting neutral commerce in war. An inadvertent consequence of this development was the creation of the fundamental problem of trade with the enemy. By allowing neutrals the right to safely carry enemy produce, states increase their own cost of imposing economic pressure on the enemy. Severing trade not only includes the cost of forfeiting the gains from trade, but also a relative loss vis-à-vis neutral states and a potentially permanent loss of market share in the enemy economy. This creates the economic imperative to trade with the enemy during the war. At the same time, since all wartime commercial decisions are made during a war, states have to make sure that none of their actions help the enemy’s war effort. This gives state the security imperative to sever all trade with the enemy. The next chapter provides a theory explaining how states solve the fundamental problem of trade with the enemy.
Chapter 3: Theory

Why do states trade with their enemies during war? There are two reasons for this. First, states trade in certain products because the enemy does not have time to convert the gains from trade into military capabilities to use in their war effort. It is safe to trade these products with the enemy. Second, states trade in certain products because they cannot afford to sever the trade. It is essential to the long term security of the state for the trade with the enemy to continue.

To derive the above answer, it is necessary to start with the fundamental problem of trade with the enemy, introduced in the previous chapter. In war, security imperatives drive states to sever all trade with the enemy; however, economic imperatives drive states to keep all trade with the enemy. A wartime commercial policy has to reconcile these two imperatives. This is impossible while looking at bilateral trade in aggregate form. However, at the product level, two theoretical insights provide a solution to the fundamental problem of trade with the enemy. First, products vary in the amount of time it takes the enemy to convert them into military capabilities. Not all products are equally dangerous to trade with the enemy. This lowers the security imperative to sever trade in some product. Second, product vary in how much revenue they contribute to the economy of a state. Losing trade in some products does not come with a high price tag. This lowers the economic imperative to keep trade in some products. With both theoretical insights, it is possible to see that some products are more likely to be traded in war, while other products are less likely to be traded in war.

Like military strategy, commercial policy is designed to match the specific war. Disaggregating bilateral trade to the product level shows that wartime commercial policies can range from being lax, prohibiting only a small number of products, to being restrictive, prohibiting nearly all products from trade with the enemy. The type of war a state expects to
fight determines how suppressive the wartime commercial policy will be. The expected length of
the war sets the amount of time the enemy has to convert gains from trade into military
capabilities and get these capabilities to the battlefield to affect the outcome of the war. In a short
war, only a small number of products can be converted into military capabilities in time; only a
small number of products need to be prohibited from trade. In a long war, most products need to
be. The expected intensity of the war sets the level of revenue a state is willing to lose to ensure
its survival. In an existentially threatening war, a state will be willing to give up a considerable
amount of revenue in order to ensure its survival. Only the most essential products to the survival
of a state’s economy will be traded with the enemy. In a less intense war, a state will not be
willing to lose revenue from many products contributing to the economy of the state. Trade in
considerably more products will continue. Overall, a state expecting a short, less intense war is
likely to set a lax wartime commercial policy. A state expecting a long, existentially threatening
war is likely to set a restrictive policy.

Putting these two levels of analysis together, it is possible to make predictions about
which specific products will be traded in which specific wars. The product characteristics
provide a ranking of products from less dangerous to most dangerous and from less important to
the economy to most important. The war characteristics provide cutoff points for what is too
dangerous and what is too important. If the product’s conversion time is greater than the
expected length of war, a state will continue trade in this product, because the enemy does not
have time to use the gains from trade against them on the battlefield. If a product’s contribution
to the economy of a state is above the threshold a state is willing to lose in order to ensure its
survival, the state will continue trade in this product, because the state cannot afford to sever the
trade.
This chapter will proceed as follows. The first section starts with the fundamental problem of trade with the enemy and explains how a solution can be found if the bilateral trade is disaggregated to the product level. The second section explains how states design wartime commercial policies for the specific wars they intend to fight. These two ideas are combined in the third section to explain why states trade with their enemies in wartime. In the fourth sections, I show where the overlap between two belligerent’s wartime commercial policies comes from to account for the actual level of trade during the war. The last section presents alternative explanations for the phenomenon of trade with the enemy.

**Fundamental Problem of Trade with the Enemy**

Making the decision to continue trade with the enemy during war can be dangerous. All trade carries security externalities; that is, the gains from trade can be converted by the opponent into military capabilities.\(^1\) During war, a state’s immediate concern is what the opponent can bring to the battlefield. The last thing it wants to do is help the enemy increase their war fighting capacity. Thus, in order to increase the chances of winning the current war, a state has the security imperative to sever all trade with the enemy.

At the same time, making the decision to sever trade carries economic costs.\(^2\) These costs matter in as much as they affect the ability of the state to fund its long term security. An interruption in the stream of revenue into state coffers stemming from severing trade – especially a permanent interruption – affects the amount of money the state can invest in its own military capabilities.\(^3\) This disrupts not only the ability of the state to prosecute the current war, but its preparedness for the future war. In order to ensure its ability to invest in the long-term security,

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state has the economic imperative to keep all trade with the enemy.

This is the fundamental problem of trade with the enemy: a state has to sever all trade for security reasons, and at the same time, keep all trade with the enemy for economic reasons. A wartime commercial policy has to reconcile these two opposing imperatives. While considering bilateral trade in the aggregate form, this is impossible. All trade cannot be kept and severed at the same time. However, if trade is disaggregated to the product level, a solution to the fundamental problem of trade with the enemy can be discerned. Both the security and the economic imperatives stem from the security externalities of states. With the help of two theoretical insights, it becomes clear that the extent of these externalities varies by product, creating space for a state to reconcile the two opposing imperatives.

First, I will provide a brief overview of what security externalities are and the manner in which they complicate trade with the enemy. Then, I will discuss each theoretical insight in turn, showing how it is possible to solve the fundamental problem of trade with the enemy.

Security Externalities of Trade

The gains from trade are the products being traded between two states or the funds received from such trade. Security externalities of trade are the additional benefits which arise from the ability of the state to use the gains from trade to increase their military capabilities.4 There are two established ways in which international trade produces security externalities. First, trade makes products and currency available which can be used to augment a state’s war fighting potential. For example, the import of arms or ammunition is an immediate increase to the military capabilities of a state. The import of food, coffee, cloth for uniforms, medicine supplies,

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4 Security externalities are benefits if they accrue to the state itself. They would be costs to the state, if they accrue to the enemy – sometimes referred to as negative security externalities. Gowa and Mansfield, “Power Politics and International Trade”; Gowa, Allies, Adversaries, and International Trade.
or rubber, while not directly increasing military capabilities, can still affect the war effort. The export of goods makes additional currency available which can be used to purchase products necessary for the war effort. Second, international trade increases the specialization of the domestic economy and with it both the income derived from and the productive efficiency of the economy.\(^5\) The additional income can be used to invest in military capabilities. The freed up resources, that are no longer used to manufacture items imported from abroad, can be channeled towards military production.\(^6\)

Since it is the government of a state that makes the decisions to allocate funds towards the security of a state, the gains from trade have to reach the government in order for the state to benefit from security externalities. If the government owns state enterprises that engage in trade or if the government purchases specific items abroad, the products and currency that cross national boundaries are going to the government directly. In this case, it is straightforward how the gains from trade can be used to increase the military capability of a state. However, most of the time, it is the domestic merchants who import and export products. In such cases, the government needs to repurchase goods from the merchants, or expropriate them, in order to increase military capabilities. Likewise, the government needs to tax trade and domestic production in order to benefit from the gains from trade and to invest them into military capabilities. In a state where the government does not tax its domestic economy or its trade, security externalities of trade hardly matter.\(^7\)

By considering how the gains from trade reach the government, it is possible to note a third, previously unrecognized, security externality of trade. When a state’s military forces face a

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\(^7\) This is possible if a state derives most of its income from foreign assistance as opposed to domestic taxation.
shortage in necessary goods, the state can prevent these goods from leaving the country. That is, the state can force the domestic merchants to forgo the economic profits of selling at higher world prices and to sell their products domestically to resupply the military. This not only allows the state to pay less for the products it needs, but also makes sure that domestic military needs are prioritized over the economic benefit of merchants.

Traditionally, security externalities of trade are measured in terms of the income gains made by a state from trade compared to autarkic production.\(^8\) This measure accounts for security externalities as they affect the entire bilateral trade between two states; however, it is insufficient in determining the severity of security externalities create by trade in any specific product. As such, it misses the variation between products in terms of how much security externalities are generated.

Only looking at income gains from trade ignores the speed at which security externalities accrue to a state. Importing a finished product that is of immediate benefit on the battlefield creates an immediate security externality risk. On the other hand, importing a raw material, which takes seven months to manufacture into a finished product that will be of use on the battlefield, only leads to a security externality is seven months. This is the first theoretical insight that helps solve the fundamental problem of trade with the enemy: security externalities are not instantaneous. Products vary temporally in terms of when security externalities become a problem.

Additionally, only looking at income gains from trade to determine the security externalities of trade ignores the variation between products in the amount of income they generate for the state. The more steps of the production supply chain that take place domestically, the more the state can tax the process, the more revenue it can get from the

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\(^8\)Gowa and Mansfield, “Power Politics and International Trade.”
circulation of the product in the domestic economy. Thus the import of a raw materials that is processed domestically generates more revenue than the import of a finished good. This is the second theoretical insight that helps solve the fundamental problem of trade with the enemy: security externalities are not equally high for all products. Products vary in the amount of revenue they generate for the state, which means they vary in the amount of military capabilities that can be derived from their trade.

First Theoretical Insight: Conversion Time

Security externalities are not instantaneous. It takes time for a state to covert the gains from trade into military capabilities. And more importantly, this conversion time varies considerably by product. The shortest possible conversion time is selling a gun to the enemy across the battlefield. Though incredibly rare, such situations have occurred throughout history. At the beginning of the siege of Grave in the Wars of Louis XIV, the French commander of the town, at the instruction of the Secretary of State for War, sold gunpowder to the Dutch who were besieging them.9

A particularly long conversion time would stem from the import of a raw material that is processed domestically for export. For example, a state imports raw gems, converts them into fine jewelry which is sold abroad. The conversion time would include the time it takes to make the deal for purchasing and delivering the gems, the time to transport the gems to the factory, the time to refine and set them into the jewelry piece, the time to transport the jewelry to the buyer, and the time to receive payment for the sale. And at the end of this process, the state would still have to convert the revenue from taxing this domestic manufacturing process into military

9 The reason for this, no matter how counterintuitive sounding, was to increase their chances of survival. The quantity of gunpowder within their walls was too high and even one accident would have leveled the entire town. Dutch bombardment of the fortification – even using the French gunpowder – caused considerably less damage. Camille Rousset, *Histoire de Louvois Et de Son Administration Politique Et Militaire* (Didier et cie, 1862), 65.
capabilities, which necessitates additional time to purchase guns or food rations and deliver them to the battlefield. While even trade in raw gems can be used to help with the war effort, converting them to military capabilities takes a long period of time.

The conversion time is determined by four processes – transaction, transportation, production, and taxation. The length of time each of these processes takes is historically contingent, as all of these processes have gotten faster over time. They are also contingent on the efficiency of the state engaged in them. However, regardless of time period or specific state, different products take varying amounts of time to circulate through the economy of the state, leading to varying conversion times.

Transaction time refers to the amount of time it takes to place an order with an existing supplier in the foreign state or the time it takes to negotiate a new contract with a different supplier. Where the government does not purchase these products itself from foreign sources, the amount of time it takes the government to repurchase (or even to confiscate) products from domestic merchants would also increase the transaction time. The time it takes to redirect resources from civilian production into military production would also fall into this category.

Transportation deals with the length of time it takes the supplier to deliver the order to the state as well as the time it takes for the state to transport the product to the battlefield where it can be used to influence the course of the war. Transportation time is shortest when a state imports finished military products, like arms or ammunition. In such a case, transportation time is only the length of time it takes to move the product to the battlefield. Although, geography plays a large role in extending or shortening the length of this process. In a hypothetical war between Russia and Japan, selling Russia a gun at Vladivostok has a much lower transportation time than selling Russia that gun in St. Petersburg. But transportation time can also be extended
because the product in question goes through a lot of manufacturing in the domestic economy. For example, a raw material can be imported into a state (#1), transported to a factory for manufacturing (#2), and shipped back to a port for export (#3). The transportation time for the raw material would be made up of these three segments as the product travels the state while being manufactured. The conversion time of this raw material is extended each time it has to be transported to a new point for further processing.

Production time covers the length of time it takes to manufacture a specific product. Within the same supply chain, the more a product is processed domestically, the longer its production time. The production time for a uniform is necessarily longer than for a bolt of cloth, which in turn is longer than for spun yarn, because the production time for a uniform has to include the time it takes to get from cotton to yarn, from yarn to cloth, and from cloth to uniform. The production time for exports includes the length of time it takes to convert raw materials into the good being exported. The production time for imports includes the length of time it takes to convert the imported good into something that is consumed domestically or exported.

Finally, taxation time refers to the time it takes to extract taxes from the circulation of traded products through the domestic economy. This depends on how efficient a state is at generating revenue through taxation. States can tax trade through import and export taxes. They can also tax the circulation of products in the domestic economy through income taxes, corporate taxes, sales taxes, etc. The amount of time it takes the state to extract the additional revenue from taxing trade affects the length of time it takes to convert the gains from trade into military capabilities.

One more aspect contributes to the estimation of how long it takes before security externalities start accumulating – strategic stockpiles. Stockpiles push back the start clock of

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10 Before the WTO ended the practice of export taxation.
when the gains from trade start to carry security externalities. If a state has a month’s supply of
gunpowder for a company of troops, any additional gunpowder imported for a month won’t have
direct security externalities as the troops are already well outfitted. A state can still get security
externalities from trade in gunpowder, but with strategic stockpiles, the conversion time is
longer. Since the gunpowder is not useful for its intended purpose – given that there is already a
sufficient amount of it – the state can resell the gunpowder, extract taxes from the process and
use it to pay for the purchase of food rations for the troops. Only after the strategic stockpiles
have been utilized does the conversion time of gunpowder to military capability revert back to
the time it takes to import and transport it to the battlefield.

When making commercial decision during a war, a state does not actually attempt to
measure, down to the second, the amount of time it takes the opponent to purchase a gun or to
convert sulphur into gunpowder, or to transport cannons to the battlefield. It would take a
herculean effort and more time than it is worth to determine the conversion time with that degree
of precision. States do, however, have general intelligence about the length of manufacturing
processes and the presence or lack of transportation infrastructure in places where goods are
being bought and sold. They make educated guesses, from information collected by their
embassies, about the level of stockpiles in enemy states. While not able to assign products
explicit conversion times, states can create a ranking of products based on how long their
conversation to military capabilities is likely to take. Beyond that, their decisions are colored by
the accuracy of their information. During the Crimean War, Britain assumed that the Russian
government received almost no revenue from trade with the outside world; they assumed the
Russian aristocracy amassed all the profits.\footnote{11J. L. Ricardo, \textit{The War Policy of Commerce} (London: Effingham Wilson, 11, Royal Exchange, 1855).} Because of this misunderstanding, Britain decided
that trade with Russia during the war was not all that dangerous. The commercial decisions can
be, and usually are, amended when states realize that their initial information was faulty.

The different products that make up the trade between two states can be ranked based on the approximate time it takes for a state to convert the gains from trade into military capabilities. If a product is closer to the end of a supply chain it should have a faster conversion time than a product at the beginning of the same supply chain. If a finished good is in itself military capability increasing (guns, ammunition, tanks, fighter jets, etc.), it should have a faster conversion time than finished goods that are not immediately useful on the battlefield. However, it is not necessarily the case that products at the beginning of the supply chain in military production will have a faster conversion time than products at the beginning of the supply chain in non-military production. This depends on how long it takes to get through the entire supply chain. It would take less than a day to go from wheat to bread and it takes about 22 months to go from a bolt to an F-35.\textsuperscript{12} Even if the process of sowing grain and reaping the wheat is considered, it still takes longer to manufacture an F-35 than to make a loaf of bread.

Second Theoretical Insight: Loss of Revenue

Just as products vary in the amount of time it takes for security externalities to kick in, products also vary in the severity of security externalities created. A product’s relative importance to the economy of the state is associated with the level of revenue that the state receives from trade in this product and from the product’s circulation in the domestic economy. This ultimately impacts the amount of investment the state can make into its military capabilities. Losing trade in a product that generate considerable revenue for the state would be a greater security externality that losing trade in a product that generate next to no revenue. Traded products can be ranked based on the amount of revenue that would be lost if a state chooses to lose trade in that product.

sever trade.

Severing trade in products with close substitutes or sources of supply other than the enemy, regardless of how important these products are to the economy, would not have a large impact on the continuity of funds available to the state. If the product offered at the alternative source is identical to the one being traded with the enemy, then changing trading partners only requires a onetime switching cost. There might be additional costs if the product is of a different quality or comes at a different price, which would affect the total revenue that the state can extract from trade. Compared to severing trade in the product outright; however, the revenue of the state is only slightly affected. Choosing to cut off trade with the enemy in products that have close substitutes, likewise, would not cause a large change in the revenue of a state. If the new product allows the industry to continue working, the amount of revenue extracted by the state should be minimally affected.

If a product is neither substitutable nor has alternative sources of trade, a prohibition on trade will translate into a loss of all tax revenue generated through the circulation of this product in the economy. The amount of revenue lost can be ranked based on the number of points at which a specific product can be taxed – import tax, corporation tax if the item is involved in a domestic production chain, export tax, personal tax if it is imported and sold by individual merchants, sales tax if sold domestically after import, etc. The relative rates of taxation at each of these points influence which products contribute more to the revenue extracted by the state; however, in general, the more points at which a product can be taxed, the more revenue it can bring to a state. The import of a motorcycle (finished good) should bring in less revenue than the import of steel (raw material) involved in the domestic car manufacturing industry. While the

motorcycle can only be taxed at the moment of importation, the steel can also be taxed through each step of the manufacturing process and when it is ultimately sold as a finished car. Similarly, the export of raw materials should bring in less revenue to a state than the export of finished goods. If the export of a product, which is manufactured domestically, is prohibited and there is no demand for it domestically, this would, in the long term, cause the production of this product to stop. This in turn will deprive the state of the tax revenue that stemmed from the manufacturing industry. Overall, products that require domestic production contribute more to state revenue than products that do not.

One more aspect contributes to the estimation of the severity of the security externalities of a product – whether the product is involved in the arms industry. Even when weapons manufacturing is a small portion of the economy, states treat this industry as more important than the level of revenue gained from it would suggest. This stems from the double effect of losing trade in products related to the arms industry. The loss of such trade will not only decrease the revenue of the state, but it will also prevent the state from manufacturing its own military capability. As a result, the import of products related to the arms industry is weighed as more important than just the amount of revenue that will be lost if trade is severed.

Fortunately, states tend to be keenly aware of where their revenue comes from. A state knows what its most important industries are and know which products need to be imported or exported to make sure these industries continue to function. Based on their trade records with the enemy and with the rest of the world, states can determine which products are substitutable and which are not. Thus a state can rank products based on the expected revenue loss from severing trade, from those products that the state cannot afford to lose to those that can be sacrificed to the cause of winning the war.
The likely arrangement of products, presented above, on the scale measuring the loss of state revenue due to a prohibition on trade is based on an efficient economy. However, if the economy is not operating efficiently, a similar scale can still be created by a state, though certain products would be located differently. If cutting off trade increases domestic production for a state to a level that increases government revenue – that is, the war permits a state to escape unfavorable economic policies that were imposed upon it – cutting off such trade would have a positive impact on state security and this trade would be on the lowest end of the scale. If a state chooses not to tax trade at all, then it is only the product’s circulation in the domestic production chain that would impact its effect on revenue. If a government doesn’t tax the domestic production, then only the import/export taxes would be relevant for determining where a product would rank. Regardless of how specifically the economy of a state functions, the state can sort products based on their impact on security.

*Solution to the Fundamental Problem of Trade with the Enemy*

These two theoretical insights help provide a solution to the fundamental problem of trade with the enemy. Trade in all products does not have to be severed for a state to follow its security imperative. Likewise, trade in all products does not need to continue during the war for a state to follow its economic imperative. The goal of the security imperative is to prevent the state from engaging in the counterproductive activity of increasing the enemy’s military capabilities during the war. A state has to sever trade in products that can benefit the enemy during the current war and allow trade in products that the enemy won’t have time to convert into military capabilities. Trade in products with short conversion times is more likely to be severed. Trade in products with long conversion times is more likely to be allowed. The goal of the economic imperative is to ensure that the state continues the stream of revenue into military capabilities. A
state can afford to sever trade in products that do not contribute greatly to the economy, but has to keep trading in products that would lead to a great loss of revenue is severed. If the amount of revenue lost by severing trade in a product is low, the state can afford to sever trade. If the amount of revenue lost by severing trade in a product is high, the state is more likely to continue trading in the product.

There are two potential areas of overlap. The first is products that the military imperative does not necessitate severing trade in, but that states can nevertheless afford to sever trade in. This is easy to reconcile. If there is no reason to sever trade, why give up even a small amount of revenue? Trade in such products can continue so long as the enemy does not have time to convert them into military capabilities. The second area of overlap is trade in products that the military imperative dictates ought to be severed, but at the same time, the state cannot afford to lose the revenue that would result from such an action. If there exist some products that can only be derived from the enemy, which are key inputs into an industry on which the economy of the state rests, a state will continue to trade in these products, even if the enemy can quickly convert them into military capabilities. The state will not be able to afford to lose the revenue from trade if it is to maintain its long term security.

Figure 3.1 is a visual representation of this. Each dot denotes a product traded between a state and its enemy in peacetime. The y-axis represents the loss of revenue that will occur from severing trade in each product. Products near the bottom of the axis are those the state can easily afford to lose trade in. Products at the top of the axis are too important to the domestic economy to sever trade in. The x-axis represents the amount of time it takes the enemy to covert the gains from trade in each products into military capabilities. Products at the left side are those with the shortest conversion times; these are most dangerous to trade during the war. Products at the right
side are those with the longest conversion times; the enemy will not likely be able to convert them into military capabilities for the current war.

Figure 3.1: Distribution of Traded Products based on Enemy’s Conversion Time and a State’s Loss of Revenue

For example, for Britain considering trade with Germany before World War I, guns would be located in the lower left corner on the chart. Germany could convert guns to military capabilities very quickly and the export of guns was not a very important industry for the British economy. Steel would be located further to the right and higher than guns. It would take longer to process steel into military capabilities, and Britain was a steel exporting country.14

The curves show some general patterns for a state’s wartime commercial policy. Products near the inner curve are those most likely to be prohibited. The enemy can use them to affect the outcomes on the battlefield very quickly and the state making the commercial policy can easily afford to sever trade in them. Products near the outer curve are less likely to be prohibited from

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trade with the enemy. Either the enemy will not have time to benefit militarily from the trade, in which case there is no reason to sever trade, or the state simply cannot afford to lose the trade.

*Doesn’t a State Care about an Enemy’s Revenue from Trade?*

When assessing the security externalities of trade, a state prioritizes the enemy’s conversion time. The focus is on winning the current war, which requires preventing the enemy from increasing their military capabilities in the short term. Because of this, the state does not worry about the amount of revenue the enemy is receiving as much as the speed with which the enemy is receiving it. Providing the enemy with a million dollars, which they will have access to only after the war is over, is not that problematic. After all, it hardly matters that the enemy could have added infinite resources to its war effort, if it never actually got the chance to do so.

Granted, these resources will be available to the enemy after the war has ended, but calculations about gains from trade are different in peace time than they are in war time. First, the winner of a war can impose terms and conditions on the defeated party that include reparation payments or otherwise prevent the enemy from using the gains from trade to increase their military capabilities. Second, the enemy’s next conflict does not necessarily have to be with the same state. The enemy could engage in war with a third party, so that any gains it made from trade with the state in this war are spent on fighting someone else. Third, in peacetime a state has to place considerably more emphasis on relative gains vis-à-vis third parties. Any trade between a state and its enemy benefits both actors. If, however, the enemy receives the same products from a third party, it is the enemy and the third party that benefit. The state that severed

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15 While the amount of revenue is discounted, the conversion time of money is not. Giving money to the enemy can still be fairly dangerous, as money can be rather quickly fungible into military capabilities.

16 This could actually be beneficial to the state sitting out the fight, especially if the two opponents fighting have about equal military capabilities. John J. Mearsheimer, *The Tragedy of Great Power Politics* (W. W. Norton & Company, 2001).
trade would be left with no gains and relative losses compared to the enemy and the third party. Thus, as soon as the war is over, the fact that the state maintained commercial ties with the enemy during the war is highly beneficial.

Doesn’t a State Care About Its Own Conversion Times?

When a state calculates its own security externalities from trade, it prioritizes the loss of revenue from severed trade over conversion time. The focus is on guaranteeing the continuity of funds that can be invested into military capabilities over the long term. Because of this, the state can discount the speed with which revenue is generated in return for ensuring that the revenue never stops being generated. Losing out on a million dollars today does not matter as much, if the state can still receive that million tomorrow. The immediate effect of lost revenue from severing trade can be ameliorated by drawing funds from alternative sources. If that revenue is made up at a later date, the flow of funds into the security of the state need not be affected. However, if the lost revenue is permanent, the long term security of the state is compromised.

If a state needs to increase its military capabilities in the current war, it has several potential sources of revenue to use in order to pursue this goal, like income taxes, loans from foreign governments, etc. The absence of one – gains from trade – would not be heavily felt in the short term. Since during the war the state is concerned with winning the conflict, a state can divert which ever funds it requires from whichever sources it can tap into in order to cover the needs of the day. Although it would be advantageous to receive gains from trade with the enemy that can be converted into military capabilities for the war, it is not necessary. Alternative sources of funding can be used to pay for short term increases in military capabilities in order to gain a battlefield victory.
Specific Policy for the Specific War

While product characteristics can be used to rank products based on which are more or less likely to be traded with an enemy, they are not sufficient to explain a state’s wartime commercial policy. Just as states chose different military strategies for different kinds of wars, states chose different wartime commercial policies to match the specific conflict they are expecting to fight. The two dimensions of war that are relevant to the decision to trade with the enemy are the expected length and the expected intensity of war. Together these determine how suppressive the wartime commercial policy of a state will be. The expected length of war sets the amount of time the enemy has to convert gains from trade into military capabilities that could still affect the outcome of the current conflict. The expected intensity of the war corresponds to a level of revenue a state is willing to lose to ensure its survival. A state expecting a short, less intense war is likely to set a lax wartime commercial policy. A state expecting a long, existentially threatening war is likely to set a restrictive policy.

Expected Length of War

The expected length of war is the estimate decision makers have about how long the current war will last – is the state expecting to win a quick victory or facing a prolonged struggle? There are a number of considerations that a state can rely on to determine the expected length of war. One such factor is the balance of capabilities between the major belligerents. A state in possession of, what it believes is, an overwhelming military advantage, will likely expect its victory to be quick. A state believing itself to be on the weaker side, capabilities-wise, will

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17 This is similar to the typology of war used by Weisiger. However, his work classifies wars after the fact, while this project focuses on decision maker’s assumptions about the war before it happens. Alex Weisiger, *Logics of War: Explanations for Limited and Unlimited Conflicts* (Cornell University Press, 2013).
likely expect to fight a lengthy war. Another factor is the development of new technology or new strategies that are believed to give a state an edge in fighting the war. For example, the Germans in WWII developed a rapid blitzkrieg strategy which increased their confidence of a quick victory. A third possibility is the use of analogy or learning from previous conflicts. If a state is facing a war that seems similar in conditions to a war in recent memory, it is likely that the past war will influence the expectation of the length of the coming one.

Empirically, states have proven to be incredibly bad at assessing the length of war. There is a tendency to overestimate the probability of a quick decisive knockout blow to the enemy, and a tendency to underestimate the need to think through the consequences of what to do if that knockout blow does not work. Falling prey to the ‘allure of battle’, states assume that they can win a quick victory, even though most of the wars fought in human history have been won by attrition. States preparing for war tend to start with the expectation of a short struggle ended by a decisive battlefield victory. No one wants to self-select into a long war. The one notable exception is perhaps colonial wars, where the colonial forces expect a long drawn out fight given their acknowledged lack of capabilities. While usually states tend to underestimate the length of the war, it is possible for a state to overestimate the length of the war as well. France prepared for a prolonged battle of attrition against Germany at the start of World War II and was unpleasantly surprised by a quick defeat. The United States and its coalition allies expected a quick victory in the first Gulf War of 1991, and ended up winning an even quicker victory after only 100 hours of fighting.

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A state’s assessment of the length of war can, and frequently does, change as the war progresses. States that have overconfidently assumed that the war would be short have to update their expectations if their initial assessment proves to be mistaken. Likewise, since states have incentives to misrepresent their relative strength, a state might overestimate the enemy’s strength and plan for a longer war than is necessary. As more information is revealed by the process of fighting, states update their expectations about the length of war. The optimism for the success of a fresh offensive can decrease the expected amount of time left until the end of the conflict; the failure of the offensive or a fresh counteroffensive by the enemy can increase the assessment.

The different belligerents involved in the war need not agree on the expected length of war. It is possible that one side plans for a prolonged conflict while the other expects a quick victory, as was the case between France and Germany in World War II. It is, likewise, possible that both sides expect a quick victory, as was the case for the same actors in World War I. Each state makes its own calculations about how long it expects the war to last.

What is considered a short or long war is going to be historically contingent. Before the invention of railroads, when an army would have to march on foot to the field of battle, a ‘short’ war would have been much longer than a ‘short’ war in the age of cargo trucks and airplanes. During World War I, which was expected to be short by most belligerents, short meant that the “boys would be home by Christmas” or in other words, around five months. Several modern wars, on the other hand, are measured in days not months. For these wars an expectation of a five-month war would be quite long. In the cases examined in the further chapters, a short war

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generally refers to a conflict lasting no more than one campaign season, which does not require troops to winter near the battlefield. A long war lasts more than the one campaign season and does requires troops to winter near the battlefield.

There are two sources of information that can help establish a state’s expectation of the length of war. The first stems from the public statements of leaders and their private correspondences with their advisers and military commanders. What sort of war were these leaders preparing to fight; how long of a campaign were they expecting; how optimistic were they about achieving their goals in the set time frame; did they think about the necessity of calling up reservists. The second source of information is the actual arrangements made for the war effort – were costly investments made into the war that might suggest preparations for a long conflict. For example, the construction of extensive fortifications, the preparation of trenches before the war begins, the construction of field railroads to solidify supply lines would be indicative of a state preparing for a long war. All of these actions would be a waste of resources and effort if the war was expected to be short. On the other hand, sending troops to a location with a cold climate without winter clothes would be indicative of a state preparing for a short struggle.

*Expected Intensity of War*

The expected intensity of war refers to how existentially threatening the decision makers expect the war to become. The intensity of war determines how much revenue a state is willing to lose in the current war to achieve victory. As the economic imperative to trade with the enemy during war states, any interruption in the stream of revenue affects the investment states can make into their own military capabilities. Thus continuing to trade with the enemy helps assure the long term security of the state. At the same time, if this trade also provides the enemy with
access to increased military capabilities for the current war (trade in products with short conversion times), this trade makes the current war more difficult to fight. If the current war happens to be existentially threatening, trading with the enemy in such products affects the short term survival of the state. The intensity of war, therefore, determines the point which states pick on this tradeoff between future security and current survival. If the war is expected to be existentially threatening, the state will prioritize current survival, and it will be willing to bear greater losses in revenue. Of course, this decision comes at the cost of long term security, as the state will be severing a source of revenue that can be invested into military capabilities. On the other hand, if the war is peripheral, the state will prioritize long term security, and it will not be willing to lose considerable revenue during the war. Translated the intensity of war into an economic measure: the more intense the war gets, the more states would be willing to lose revenue from key industries (investment into future security) in order to prevent the opponent from benefiting militarily from the gains of trade (increased chance of current survival).

As with the expected length of war, the expected intensity of war can change during the conflict. For example, factors such as an increased fear of state death, ideological fanaticism promoting maximalist war aims, and a normative commitment to total victory all lead to a greater willingness to sacrifice in order to win. On the other hand, when additional allies join the fighting, each individual ally might be less willing to sacrifice certain aspects of their trade and expect to free ride to some extent.

Two sources of information can be used to help establish a state’s expectation of the intensity of war. The first source of information is the leaders’ assessment of the reasons for which the war is being fought and the intensity with which these goals will be pursued. Is state death a possible outcome; does the war involve the invasion of a state’s homeland or a fight on
the periphery of the sphere of influence; is the war being fought over a national security issue or over a disagreement in foreign policy. The closer a struggle comes to impacting the survival of a state, the greater the expected intensity of war. The second source of information on the expected intensity of war comes from the state’s preparations for war on the home front. If the state is preparing large scale evacuations of citizens or devising a rationing scheme to implement at the start of the war, the expected intensity of war is likely closer to an existential struggle. Likewise, if the state is prepared to mobilize the entire economy for the war effort, it is likely expecting an intense war. On the other hand, if the state is choosing to commit only a small portion of its full military capabilities to the war effort, it is likely expecting a less intense war.

Type of Wartime Commercial Policy

The type of war a state expects to fight determines how much trade the wartime commercial policy suppresses. In a short, less intense war, a state is likely to have a lax wartime commercial policy. Since the war is expected to be short, the number of products the enemy will have time to convert into military capabilities is going to be fairly small. Thus, only a small number of products need to be prohibited from trade. The expectation of a less intense war means the state will prioritize long term security and will want to avoid large losses of revenue. More products will be traded with the enemy for economic reasons, even when this trade helps the enemy increase their war fighting capacity in the current war.

In a long, intense war, a state is likely to have a restrictive wartime commercial policy. A lengthy war means the enemy will have a considerable amount of time to convert gains from trade into military capabilities. Many products would have to be prohibited from trade to prevent

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the enemy from gaining such an advantage. An intense war means a war for the survival of the state. The state will be willing to sacrifice considerable revenue to deprive the enemy of military gain. Trade in many products essential to the economy will be prohibited to help ensure the survival of the state.

Figure 3.2: Two Examples of Expected Type of War Determining Wartime Commercial Policy

The type of war a state expects to fight can change during the war. If a state starts out with the expectation of a short victory, they can soon discover that they are actually in for the long haul. If a state starts the war with the expectation of an existential struggles, but then realizes that there is actually no danger of an invasion of the homeland, the state can update its expected intensity of war. These updated expectations would affect the wartime commercial policy. How suppressive the policy is of wartime trade varies directly with the type of war the state expects to be fighting.

The two characteristics of war do not necessarily move in tandem. It is possible for a state to maintain the expectation of a short war while increasing the expectation of the intensity of war. This was the French experience in the Franco-Prussian war of 1870-1. The government
of the newly minted Third French Republic refused to accept that France could lose the war up until Paris fell. However, the expected intensity of the war increased considerably when the German armies laid siege to the capital city. On the flip side, it is possible for a state to change its expectations about the length of war without affecting the expectations of the intensity of war. This was the experience of the French in the Algerian War of Independence of 1954-62. Even as the expected length of war increased, the expectation of the intensity of the war remained stable.

**Wartime Commercial Policy in a Specific War**

The characteristics of traded products – conversion time and contribution to revenue – provide a ranking of products from less dangerous to most dangerous and from less important to the economy to most important, as can be seen on Figure 3.1. The war characteristics – expected length and intensity of war – provide thresholds for what is too dangerous and what is too important, as can be seen on Figure 3.2. Putting these two levels of analysis together, it is possible to see how a state forms its wartime commercial policy in a specific war. And how the state amends this policy during the war.

To decide if a specific product should be traded with the enemy during the war, a state compares the expected length of war to how quickly the enemy can convert this product into military capabilities. If the product’s conversion time is less than the expected length of war, trade is prohibited because the enemy can use the gains from trade to affect the outcomes on the battlefield. If the product’s conversion time is greater than the expected length of war, trade is allowed as the enemy cannot use the gains from trade against the state. Simply put, if the state plans to win before the enemy can benefit militarily from trade, then there is no reason to sever trade. As the war progresses, a state updates its expectations about the length of war, which leads

to a recalibration of the commercial policy towards the enemy. Each time a state is forced to admit that the war will last longer than they previously expected, more products should be added to the list of prohibited trade. The added products would be those whose conversion time is exceeded by the new expectation of the length of war. On the other hand, when a state once again expects a quick conclusion to the war, some products could be removed from the prohibited trade lists.

To decide if a specific product should be traded with the enemy during the war, a state also compares the expected intensity of war – that is their willingness to lose revenue from key industries, to how much revenue would be lost if trade in the product is prohibited. If a product’s contribution to the revenue of a state is greater than what the state is willing to sacrifice in the given war, trade is allowed. Furthermore, in order to ensure its long term security, the state will continue trade in such products even if the enemy can convert them quickly into military capabilities. However, as the expected intensity of the war increases and the very survival of the state becomes threatened, the state will be willing to bear greater losses of revenue in order to win. In such cases, the state will be willing to sever trade in products that are essential to key industries, prioritizing survival over long term security.27

For example, in a state with an economy dependent on the textile industry, the import of raw cotton would contribute greatly to the economy. In a limited war with the supplier of this cotton, this state would prefer to continue importing the cotton. The revenue generated from the textile industry is necessary to maintain the economy of the state, and thus for the investment into military capabilities in the long term. However, if the war escalates to an existentially threatening level, the state would be willing to sever trade in cotton – thus damaging its long term security – in order to deprive the enemy of the funds it receives from trade in cotton – thus

27 Survival is the primary goal of the state in as much as without it no other goal is achievable.
damaging the enemy’s ability to wage the current war, increasing chances of state survival.

Figure 3.3: Summary of How a State Chooses a Wartime Commercial Policy

Figure 3.3 is a visual representation of the theory. As before, the y-axis represents the loss of revenue; the x-axis represents time. Each dot denotes a product traded between the two belligerents in peacetime. The greyed out area represents those products that would be prohibited from trade under a state’s wartime commercial policy for this specific war.

The thresholds on the chart are characteristics of the war that state leaders are expecting to fight. Based on these expectations about the war, all products that fall within the bottom left quadrant should be prohibited from trade during the war. These are the products that the state can afford to lose trade in and would contribute to the enemy’s military capabilities in the current conflict. Products in the bottom right quadrant are those the state can afford to lose trade in if necessary, but has no military imperative to prohibit trade. As the enemy will not have time to covert these products into military capabilities for the current war, they can be safely traded.

Products in the top left quadrant are too important for the state to lose trade in. Even though the
enemy benefits military from the trade, the state has to maintain trade in these products in order to ensure its long term security. Products in the top right quadrant should be allowed for trade for both reasons.

Additionally, it is possible to see from this graph how a state’s wartime commercial policy could change during the war. If the expected length of war increases, the vertical threshold moves to the right. Based on this, the state would increase the number of products that are prohibited from trade. Some of those products that were previously in the bottom right quadrant (trade allowed) would become part of the bottom left quadrant (trade prohibited).

Similarly, if the intensity of war increases, the state’s willingness to lose revenue increases and the horizontal threshold moves up. This would also lead the state to increase the number of products that are prohibited from trade. Some products which were previously in the top left quadrant (trade allowed) would become part of the bottom left quadrant (trade prohibited).

**Bilateral Level of Trade between Enemies During the War**

The theory presented above explains how a state forms a wartime commercial policy towards an enemy belligerent and how this commercial policy is amended during the war. A state weighs the possibility of severing trade in products that can be converted by the enemy into military capabilities in time to affect the war effort against its own ability to survive without such trade. Ultimately, it comes up with a list of products in which it prohibits trade and allows the rest of the products to be traded with the enemy. At the same time, the enemy is making a similar calculation to determine what its preferred wartime commercial policy is. Since trade requires at least two willing participants, what trade will actually exist between two belligerents during a war depends on where their preferences overlap.

If both belligerents choose to prohibit trade in a specific product, then there can be no
observable legal trade between the two in that product. If one state prefers to sever trade in a specific product, regardless of the preferences of the other state, again, there can be no observable trade, since products will either never leave the state prohibiting trade or they will not be allowed to enter the state prohibiting trade. Only if both belligerents chose to allow trade in a specific product can trade in that product continue. During the course of the war, one or both might change their preferences, which will affect the level of trade between them.

The overlap between wartime commercial policy preferences of the two belligerents is the maximum possible observable trade between the two states. Unfortunately, the actual observed level of trade can range from this maximum all the way to zero as there are numerous other factors with can reduce observable trade during the war.

The process of war can be destructive to trade reducing the amount of trade between the belligerents. Trade route can become unavailable if they intersect with the theater of war and ports can be blockaded for the duration of the war. Both factors increase the cost of transportation making trade more expensive which might prevent certain merchants from engaging in it. During the war, merchant ships can be captured for prize or detained for lengthy periods of time while the legality of the trade is ascertained, increasing the risks of trade. Additionally, the availability of insurance or lack thereof can decrease merchant’s willingness to engage in trade. The potential for trade can be further reduced by inadequate logistics of transportation infrastructure. Railroads can be reserved for military use preventing their use for trade. The open ports to which trade has to be redirected to avoid the theater of war might not be able to cope with the incoming high volume of trade. On the other hand, war does tend to increase the price of certain goods and make them scarcer, which can increase individual merchants’ willingness to participate in wartime trade.
Additionally, there is a problem of recording wartime trade. Historically, states used varying benchmarks for what can be considered direct and indirect trade recording anywhere from all to none of it as bilateral trade. And in fact, to avoid some of the risks that stem from the process of war, merchants may choose to trade with the enemy indirectly – through a neutral middleman, using neutral means of transportation, or through a neutral country. While this is still part of the wartime trade between two states, it becomes much harder to observe.

Does Overlap Between Belligerent Wartime Commercial Policies Exist?

At first glance, it might seem that the commercial policies of two belligerents should be polar opposites of each other – every product that one state would want to continue to trade in, the enemy would have reason to sever. However, the theory presented above provides ample opportunity for two states to prefer to retain the same portion of their mutual trade.

First, there are two different reasons why a state would prefer to continue to trade with the enemy in a specific good. States can overlap in their preferences to allow trade in a certain product because their reasons for maintaining this trade are different. State A might want to import product X because it is a raw material necessary for a key domestic industry; it is too important to the state economy to prohibit trade. State B might want to continue exporting product X because it doesn’t think that State A will be able to benefit militarily from this trade in time to affect the war; the trade doesn’t affect battlefield outcomes.

Second, it is possible that both states continue trading with each other in a certain product for the same reason. If both states consider their enemy to be particularly inefficient in converting the gains from trade into military capabilities, then both can be willing to continue trade during the war. It is likely that one or both of the states are mistaken in this assessment, but

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28 Bilateral war time trade is systematically missing from many existing trade datasets. Schultz, “Borders, Conflict, and Trade.”
trade between the two can continue nevertheless. Similarly, both states can be convinced that the war will be short. This leaves them free to deem large portions of the traded goods to be safe for trade since the security externalities would not affect the battlefield effort.

Finally, both of the belligerents could be in a situation where they cannot afford to lose trade in the same product. For example, during the Crimean War, Britain’s economy depended, amongst other things, on importing flax, hemp, linseed and tallow; for which it could not find an alternative supply other than Russia.\textsuperscript{29} Russian could not find an alternative market to sell these goods, since Britain absorbed nearly half of Russia’s European exports.\textsuperscript{30} Both states were unwilling to sever trade in these products, even as the war grew longer and longer.\textsuperscript{31}

\textbf{Alternative Explanations}

There are three potential alternative explanations for why states trade with their enemies during war. The first stems from domestic politics. The decision to open the economy to free trade creates winners and losers in domestic politics.\textsuperscript{32} The beginning of a war could function as a focal point, which these groups seek to use to change the state’s trading policies. If the protectionist forces prevail in a state, trade will be cut off during the war. If the free trade forces prevail in a state, trade will be allowed to continue. The greatest problem with this argument is that it mostly ignores the fact that this conversation is occurring with the war as a backdrop. All security concerns are conspicuously absent from this argument about how a wartime commercial policy would be formed.

\textsuperscript{30}Olive Anderson, \textit{A Liberal State at War: English Politics and Economics During the Crimean War} (MacMillan, 1967); J. L. Ricardo, \textit{The War Policy of Commerce}.
\textsuperscript{31} According to economic interdependence theory, this ‘mutual dependence’ is the most likely case to restrain the start of hostilities in the first place. The theory outlined here suggested that cases of true mutual dependence should have no effect on the likelihood of war between the two states – because mutually dependent trade is the most likely to continue throughout the war.
\textsuperscript{32} Stolper and Samuelson, “Protection and Real Wages.”
To make the argument more plausible, it would start with the assumption that the state prohibits all trade with the enemy, then industries interfere in the process to get exceptions for their products. Those industries lobbying for ‘business as normal’ would receive permission to import what their industry needs and export their produce to the enemy. If an industry is concerned that the state might overturn the prohibition for any reason, it would lobby to make sure their foreign competitor’s products remain prohibited from being imported into the country. Of course, the biggest problem with this argument is that starting assumption that the state wants to prohibit all trade with the enemy. As was argued amply above, states have an economic imperative to trade with the enemy to ensure the continued investment into the long term security of the state. However, without the assumption that states start with a blanket prohibition on all trade, the domestic politics argument fails to explain why industries would want to prevent themselves from exporting products to foreign markets.

The other two potential alternative arguments are based on the goal of inflicting maximum economic pain on the enemy; however, each argument proposes a different manner to accomplish the task. The first variant of the maximum economic pain argument starts with the assumption that each state’s economy has a number of products that are essential for the economy to function. Likely these are the raw materials necessary for value added manufacturing. However, in the absence of a large manufacturing sector, this basket of goods can be made up of foodstuffs. Prohibiting trade with the enemy in this basket of goods would inflict the maximum economic pain on the enemy’s economy. This pain should either encourage the enemy to change their foreign policy and end the war, or ultimately lead to the collapse of the enemy’s economy preventing them from prosecuting the war. Trade in the rest of the products can be allowed as they do not inflict enough damage on the enemy economy, either because they
do not generate enough income for the enemy or because they can be easily supplied by other states.

This argument is problematic because of the assumption that pressure in the few key products would be able to produce severe economic pressure in all wars. War, out of necessity, can be a great boon for scientific discovery. Synthetic alternatives can be created for products in the basket of goods, rendering economic pressure moot. At the same time, preventing trade with the enemy does not stop the enemy from trading with neutrals. Even if the supply of certain products is severely reduced, the enemy might be able to get by on what it can get from neutral sources. Finally, even if maximum economic pressure can be achieved, it might not be in the political interest of the state to create such injury to the enemy’s economy in every war. If the war is being waged over a dispute in foreign policy, then neither belligerent likely seeks the destruction of the enemy, as such, ruining the enemy’s economy might be counterproductive to achieving the political ends of the state. After the war, the state might still want to have a trading partner capable of engaging in a dynamic commercial relationship.

The second variant of the maximum economic pain argument starts with a focus on enforcement. If a state is capable of enforcing a strict blockade of the enemy, then all products should be prohibited from trade. The more products prohibited, the less the enemy gains from trade, the less resources it has to dedicate to the war effort. However, if there are a lot of neutral countries and it is impossible to prevent the neutrals from resupplying the enemy, the enemy will have access to whichever products they need. In such a situation, the state should allow all trade with the enemy. If the possibility for enforcement changes during the war, the policy should reflect that.

33 In war, a state has to subordinate military actions to political goals. Carl von Clausewitz, On War (Princeton University Press, 1989).
While this variant has the advantage of being able to explain change in wartime commercial policy during the war, it does not have an explanation for variation in products being prohibited. In that respect, it is an all-or-nothing prediction. When this argument predicts that all trade with the enemy should be allowed, it ignores the security imperative of trade with the enemy. Just because the enemy might be able to get supplies from neutral states, does not mean the state wants to add to the world supply of those products. Enemy trade with neutrals is not guaranteed: the negotiations could break down, the price might be too high, the quality to low. Allowing trade with the enemy, especially in products that can add to the enemy’s war effort, under such conditions ignores the fact that the state is fighting a war while creating its commercial policy.

Table 3.1: Summary of Alternative Arguments

<table>
<thead>
<tr>
<th>Prediction</th>
<th>Change During the War</th>
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<td></td>
<td>Prohibit</td>
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<tr>
<td>Domestic Politics</td>
<td>All other products</td>
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<tr>
<td>Maximum Economic Pain Variant 1</td>
<td>Products essential to the enemy’s economy</td>
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<tr>
<td>Maximum Economic Pain Variant 2</td>
<td>All products when enforcement is possible</td>
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Conclusion

This chapter presented a theory to explain the formation of a state’s wartime commercial policy. States assess the content of their bilateral trade with the enemy in peacetime, ranking products based on two characteristics: how quickly the enemy can convert them into military capabilities and how much revenue the state will lose if trade in the product is severed. They, then, make decisions about whether each product should be prohibited from trade during the war by comparing these two product characteristics to their expectations about the kind of war they will be fighting. If a product’s conversion time is greater than the expected length of war, trade
in that product will be allowed, because the enemy won’t benefit from trade during the war. If a product’s contribution to the revenue of the state is greater than the state can afford to give up, trade in that product will be allowed, to ensure the long term security of the state. This chapter emphasized the importance of looking at a state’s trade relationship at the product level in order to make sense of the wartime commercial policy. It also shows that states tailor their wartime commercial policies to the specific war being fought. In the next three chapters, I will show how this logic played out in the formation of wartime commercial policies in the Crimean War, World War I, and World War II.
Chapter 4: Crimean War (1854-6)

The initial wartime commercial policies, created by the belligerents at the start of the Crimean War, were designed for a world without neutral rights. Their policy was to prohibit all trade with the enemy, with the expectation that all other states would likewise not be able to trade with the enemy as it would make their ships liable to seizure. However, due to the fact that the ice on the Baltic Sea melted later than usual in 1854, leaving a large portion of French purchases of Russian goods stranded in Russian ports, a series of negotiations led Britain and France to forge a Declaration of the Rights of Neutrals. This Declaration, later accepted by Russia as well, gave neutral ships the freedom to carry enemy products without fear of capture.

All three belligerents realized that this created a completely new situation as far as wartime trade was concerned. One where neutral trade would be allowed to do what domestic merchants were prohibited from, if states were to retain their initial wartime commercial policies. Britain, France and Russia chose very different solutions to this new problem.

Starting the war with the expectation of a short, peripheral campaign, Britain and France had the freedom to explore numerous commercial options. Britain decided to legalize trade with the enemy in order to avoid the relative losses that would stem from prohibiting trade. However, they made sure to prohibit the export of military and naval stores to the enemy. No matter how much they wanted to avoid relative losses, preventing Russia from increasing its military capabilities in the current war was still a priority. France, on the other hand, took advantage of their protectionist economic system to diversify trade away from Russia and towards other states. By removing prohibitive tariffs from alternative suppliers of the products France needed and relying on the war to increase the cost of Russian produce, France made it unprofitable for their merchants to trade with Russia while keeping their state revenue unaffected. In essence, the
structure of the French economy allowed it to ignore the problem of neutral trade. Both Britain and France made their policies towards Russia more restrictive when they realized that the war was not actually going to be over by Christmas.

Russia, on the other hand, had the expectation of a long, intense war. As such, it needed to adopt a restrictive wartime commercial policy. The one problem was that most of its exports to Britain could not be diversified away and at the same time contributed greatly to state revenue. Russia had to walk a tight line between prohibiting trade with the enemy to prevent the enemy from increasing their military capabilities in time to alter outcomes on the battlefield and allowing the export of raw materials to the enemy, which was essential to the economy of the Russian state.

This chapter starts with the belligerent’s expectation about the type of war they would be fighting. This is done to provide an overview of the Crimean War and to avoid breaking up the narrative of the changes in wartime commercial policies in further sections. The second section outlines the initial wartime commercial preferences of the belligerents, before neutral rights. How the Declaration of the Rights of Neutrals came into existence is explained in the third section. The changes made by Britain, France and Russian in response to the adoption of neutral rights are covered in the fourth section. The fifth section provides trade statistics of the observed level of trade between the belligerents during the war. Alternative explanations are considered in the last section.

Expectations about the Type of War

The war started with Russia moving its troops into two Danubian principalities in order to coerce the Ottoman Empire. After being threatened with war against Britain, France, and Austria, Russia acknowledged that their coercive maneuver failed and removed their troops.
Russia did not, in fact, see this episode as a war. Britain, France and Austria expected a very easy campaign against Russia; however, this campaign never occurred as Russia complied with the belligerents’ demands. Despite resolving the incident that started the war, only Austria left the conflict at this point. Britain and France chose to pursue a Crimean campaign against Russia, invading at Sevastopol. Faced with prospect of fighting two great powers and the potential of an invasion across its Western border from a third, Russia expected this second part to be a long, intense war. Britain and France, on the other hand, expected a short, peripheral war until the initial invasion failed and their troops were forced to winter in Crimea. Expectations of war turned to a long struggle in November 1854.

**Russia**

The immediate cause of the Crimean War was the question of Holy Places in the Ottoman Empire. The Russian government wanted the Sultan to recognize their right to protect Eastern Orthodox believers, just as the French government was recently given the right to protect Roman Catholic believers. Sending troops into Moldavia and Walachia, as the first military action of the Crimean War, was meant as a coercive maneuver on the part of Russia. Nicholas I did not wish to engage in a military struggle with the Ottoman Empire; he wanted to force the Sultan’s hand into accepting Russian demands. It was interpreted as such by the European great powers. The British government officially notified Russian ambassadors that it did not see the coercive maneuver as grounds for war. Facing domestic pressures to declare war, the Turkish government hoped for the European powers to interfere with Russian actions. When it became obvious that European pressure would fall on the Ottoman Empire, to force them to change their policies, the Sultan declared war on October 4, 1853.

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With only the Ottoman Empire as an opponent, Nicholas I was confident of both a naval and a land victory.² This belief was widely shared, and feared, by the European powers.³ However, it would be difficult to claim that Russia expected a short war for two reasons. First, Russia was aware that the Concert of Europe would not allow it to control the Turkish Straits or the mouth of the Danube⁴, much less substantial territory of the Ottoman Empire. Thus, any gains from war would have to be forfeit at the peace conference despite the costs spent acquiring them. Second, the Russian ambassadors in London were informed that any attacks on Turkish ports, where European powers continued their commercial interactions, would provoke a British and French response.⁵ Not wishing to start a conflict with the European powers and knowing that any gains from war with the Ottoman Empire would be forfeit at the end of the war, Russia did not want a military confrontation. Their policy was to avoid the war altogether. The military actions taken were treated as a coercive threat that was expected to prompt a diplomatic solution in Russia’s favor.

To this end, the Russian army received orders not to initiate military action against the Turkish forces without Turkish provocation.⁶ The army was permitted to fire on passing Turkish troops from well defended positions, but not to pursue them. When the Tsar, provoked by the initial skirmishes with the Turks, wanted to start a major offensive against Turkish positions in the principalities, his close adviser and commander of the Russian army in the Danube, Ivan Paskevich, warned him off from such action. The military commander specifically pointed to the fact that the Tsar’s plans would likely elicit a reaction from the Western fleets.⁷ Through the

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² Candan Badem, *The Ottoman Crimean War: 1853 - 1856* (BRILL, 2010), 62.
⁶ Скрыцкий, 153.
beginning part of the “war”, the Russian army was prevented from fighting its opponent.

The situation changed when the British and French entry into the war became inevitable, and Austrian entry into the war a definite possibility. After the Battle of Sinope prompted the Western fleets to enter the Black Sea and after the breaking down of diplomatic relations between Russia and Britain and France, it became evident to Russia that their coercive maneuver did not succeed and the other great powers of Europe are likely to interfere in the conflict. In some ways this removed the need of the Russian army to prevent active engagement with the Turkish army. With inadvertent provocation no longer an issue, the Russian army moved to siege Calafat in February 1854 and Silistria in March 1854. Even after Britain and France declared war, their troops were not expected to make it to the region for quite some time. There was a short window of opportunity where the war was contained to one opponent. The goal, nevertheless, was still to gain some leverage in order to pressure a favorable diplomatic conclusion to the conflict. However, even this gamble had to be ended when it became clear that Austria would not repay Russia for coming to its rescue in 1848, but would instead join the coalition against it. Following an Austrian ultimatum, Nicholas I removed his forces from the Danubian principalities, before the British and the French armies even made it to the region.

Pulling out of the principalities satisfied the Austrian aims and effectively gave them the ability to choose neutrality for the rest of the war. Given the stated British and French war aims, the removal of Russian troops should have also ended the hostilities with the two Western powers. However, the French and the British wanted a war. They had whipped up public opinion to support it; they had gathered the troops and the money for a military campaign; they had transported their troops all the way to the Ottoman Empire – they did not want to leave without a
military victory.\textsuperscript{8}

The allied decision to attack Crimea changed Russia’s expectations of the length of war. Faced with two great powers as opponents, Russia believed the war would turn into a long, intense struggle. There were still memories of what occurred the last time Russia had to stand alone against the military might of the entire continent.\textsuperscript{9} Paskevich was constantly weary that Austria might join the coalition against it and attack through Poland which forced him to split the army between defending Russia’s western border and protecting Crimea.\textsuperscript{10} In Crimea, the Russian officers started out confident of holding off the invading forces until winter, but with the expectation that the fighting would continue in the next season when the French and the British forces would have been weakened by the cold.\textsuperscript{11} The failure to strike quick victories against the Western troops as they landed in Crimea and the subsequent failure to achieve a victory at the Battle of Inkerman (1854) solidified the expectation of a prolonged war.\textsuperscript{12} The expectation of a long, intense war stayed unchanged for the remainder of the conflict.

\textit{Britain and France}

On February 27, 1954, Britain and France sent Russia an ultimatum requiring the removal of Russian troops from Moldavia and Walachia within six days or the countries would find themselves in a state of war. The Tsar did not reply to the ultimatum. While France and Britain were actively preparing for war since February, their official declarations of war were not issued until March 27 for the French and March 28 for the British.

Neither side had a clear conception of what war aims to attach to the future campaign.

\textsuperscript{8} Curtiss, \textit{Russia’s Crimean War}, 236; Figes, \textit{The Crimean War}, 146.
\textsuperscript{10} Скрицкий, \textit{Крымская война, 1853-1856 годы}.
\textsuperscript{11} Figes, \textit{The Crimean War}, 106.
\textsuperscript{12} Curtiss, \textit{Russia’s Crimean War}, 327.
The British government was divided between Aberdeen, who favored chasing Russians out of the Danubian principalities and restoring Turkish sovereignty, and Palmerston, who wanted to severely decrease Russian influence in the Ottoman Empire, as well as, in Europe more generally. The French favored a Crimean campaign in addition to engaging the Russians in the principalities, but only if Austria and Prussia could be persuaded to join the war effort. The Austrians were afraid of the possibility of Russia stirring up nationalistic uprisings and were fully focused on the Danubian principalities. As far as all interested actors could agree, the official policy became to force the Russians out of the principalities. With the Austrians and the Turks striking from one side, and the French and English striking from the other, the allied commanders agreed that the Russians could be swiftly destroyed.

While the expectation was of a short war, this particular campaign never occurred. Before the British and French troops had a chance to engage in any military action, the Tsar ordered a withdrawal from the principalities. By the time the allied troops landed at Varna on August 11, 1854, the Russian troops were already mostly gone. The Austrian army was taking over the vacated position in Moldavia and Walachia amid some squabbling with the Turkish troops present there. Having accomplished all that it wanted, Austria chose to remain neutral after this point, ending the possibility of allied pursuit of Russian armies to Russia’s western holdings.

With the incident that officially brought Britain and France into the war resolved, the war

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14 On March 19, 1854, Palmerston presented the Cabinet with the following war aims, “the restoration of Poland as of 1772; the union of Finland with the kingdoms of Sweden and Norway instead of with Russia; Austria’s retention of the Danubian Principalities, with a surrender of Lombardy and Venetia; Turkey’s enlargement through the acquisition of the Crimea and Georgia; and the enlargement of Austria and Prussia in a Germany freed from the dominion of the tsar” from British National Archives, Public Record Office, P.R.O. 30/22/11C ff 267-8, 19 March 1854.
15 Figes, *The Crimean War*, 158.
16 Curtiss, *Russia’s Crimean War*, 296.
17 Figes, *The Crimean War*, 189.
could have ended as well. However, the French and the British wanted war and had settled on a Crimean campaign to achieve their military victory. The proposed British plan was to strike a decisive blow at Sevastopol.\(^{19}\) The city was the center of Russian sea power in the Baltic and it was assumed that removing Russian naval power would remove its coercive leverage over Turkey\(^ {20}\). Furthermore, it was assumed that the fall of Sevastopol would force the Russian to immediately sue for peace.\(^ {21}\) Palmerston believed that the entire operation would take around six weeks.\(^ {22}\) The French, for their part, needed a quick victory as Louis Napoleon anticipated the French public opinion turning against the war.\(^ {23}\) His opposition continued to stress the argument that the British were dragging the French into a war that would not benefit the country.\(^ {24}\) Napoleon III accepted the British strategy as a way of accomplishing a quick victorious blow against the Russians.

The allies planned to finish the Crimean campaign by Christmas.\(^ {25}\) This was reflected in the preparations made for the offensive. No plans were made for wintering in Sevastopol and no winter provisions requisitioned. The British soldiers were in their parade uniforms, designed for summer.\(^ {26}\) In fact, the warm supplies that were sent to Crimea by November 1854, and were destroyed in the hurricane on November 14, were prepared by concerned British citizens not the government. The French were slightly better equipped, providing their soldiers with sheepskin. While they were envied by the British, it was hardly enough for a Russian winter. Likewise, there was little thought given to providing proper shelter to the troops – tents let in water both

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\(^ {19}\) Lambert, *The Crimean War*, 99.
\(^ {21}\) Figes, *The Crimean War*, 196.
\(^ {22}\) Lambert, *The Crimean War*, 112.
\(^ {23}\) Lambert, 115.
\(^ {25}\) Badem, “The” *Ottoman Crimean War*, 187.
\(^ {26}\) Figes, *The Crimean War*, 280.
from the rain and the standing water in the camp. The provisions were clearly intended for a short campaign.

The expectation that the Crimean campaign would be brief ended by November 1854. The Battle of Inkerman on November 5 was the crucial turning point. On the eve of the battle, it was believed that a renewed bombardment of Sevastopol would allow the Allies to storm the fortress and win their quick victory. However, the stalemate that resulted from the Battle of Inkerman severely exacerbated the limited manpower problem of the allied troops. They were forced to abandon any plans of attacking the fortress and to focus instead on siege tactics. In addition to losing men in battle, more men and many supplies were lost in the hurricane on November 14, which claimed 21 ships filled with medical equipment, warm supplies for the winter, food and ammunition.

After November, the Allies expected a long war, which can be seen from their investments into a long term strategy. For example, the British camp was located about 10 kilometers from Balaklava where the British ships landed and had access to supplies. Throughout the first phase of the war, the allies had to struggle to transport supplies from the ships to the battle camp as there were not good roads or carts. In November, the British government made plans to construct a railroad from Balaklava to the British camp. Construction material started to arrive by the end of January 1855 and the railroad was finished by the end of March, quickly solving the logistical problems of supply. The costly – both in terms of funds and time – investment shows a change in perspective towards a long term strategy.

27 Figes, 281.
28 Curtiss, *Russia’s Crimean War*, 327.
29 Fletcher and Ishchenko, *The Crimean War*, 277.
Initial Commercial Preferences

The initial wartime commercial policies of the belligerents were formed in February 1854, in a world where neutral rights were not universally guaranteed. Each state had their own policies about what neutrals were permitted to do during a war and what they were not. The neutrals themselves were never certain about what standards they would be held to. Neutral commerce on the seas was liable to capture. And, if a belligerent lacked the naval might to patrol the seas, it could hand out letters of marque to individual ship owners to capture commerce on the state’s behalf. Trade between belligerents was, thus, rather hard to accomplish. What all of this meant for a state’s wartime commercial policy was the understanding that during war most seaborne trade in the theater of conflict would be interrupted. States entered the war with the expectation of losing the revenue from trade with the enemy for the duration of the war. On the other hand, they were also secure in their knowledge that neutrals would not be able to take over their market share in the enemy economy. As was explained in Chapter 2, in a world without neutral rights, it is hardly surprising for belligerents to prohibit all trade with the enemy during war. This was precisely what Britain and France adopted for their initial wartime commercial policies. As Russia did not actually expect to be fighting a war with Britain and France at this stage of their coercive maneuver, they did not prepare an initial wartime commercial policy.

Britain

The commercial relationship between Russia and Britain at the time of the Crimean War can be characterized by mutual dependence. British industry needed to import Russian produce, which was at the time of higher quality and more favorable price, in order to remain competitive
on the world stage. Russia supplied 17 percent of the grain Britain imported\(^{31}\) and a high proportion of bristles, flax, hemp, hides, linseed, tallow and raw wood.\(^{32}\) The British manufacturing of linen, canvas, candles, soap, brushes, and oils was largely dependent on imports from Russia.\(^{33}\)

On the flip side of the relationship, Britain was Russia’s primary trading partner, consuming 40 percent of Russia’s European exports and providing for 30 percent of Russia’s imports.\(^{34}\) Direct British exports to Russia were falling in the run up to the Crimean War. Between 1848 and 1852, British exports to Russia fell by 43 percent.\(^{35}\) At the same time, Britain bought more than half of all the raw materials Russia sold. It imported on average 64 percent of Russia’s oilseeds, 43 percent of wool, 77 percent of lard, 66.7 percent of flax, 60.8 percent of hemp, 50 percent of tallow, and 63 percent of timber.\(^{36}\) This made Britain a very important market for Russian exports.

British leaders knew that severing this trade would come with considerable economic pain. It was often pointed out that Britain was an important customer for Russia, absorbing nearly half of Russia’s European exports\(^{37}\) and this could be exploited by the British to damage Russian commerce. However, severing trade would be a double edged sword, as the British industry would not be able to substitute or find alternative exporters for most of the products received from Russia. Britain hoped that it might be able to get some of Russian produce through

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\(^{31}\) F. G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.,” in *Sbornik Statisticheskikh Svedenii o Rossii, Izdavaemyi Statisticheskim Otdeleniem Imperatorskogo Russkogo Geograficheskogo Obshchestva* (St. Petersburg, 1858), 100..

\(^{32}\) Anderson, *A Liberal State at War*, 256..

\(^{33}\) J. L. Ricardo, *The War Policy of Commerce*, 21..


\(^{35}\) Anderson, *A Liberal State at War*, 256.

\(^{36}\) F. G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.”

\(^{37}\) British Library, Add. Ms. 43355, ff 144-51, 23 Oct 1854, “Memorandum on the Commercial Policy pursued with respect to Russian produce since the commencement of the war.”
neutral states, but even if such purchases were made, transferring them to Britain would be a very uncertain exercise in a world without neutral rights. In 1853, in anticipation of the war, merchants purchased considerably more raw materials from Russia than the previous years.38 Expecting a complete prohibition in trade with the enemy, British and French merchants were stockpiling Russian produce.

The British initial wartime commercial policy was its traditional wartime commercial policy: prohibit all trade with the enemy and enforce a strict blockade of enemy ports. At the end of March 1854, two Orders-in-Council were published to emphasize that trade with the enemy was not allowed. The first allowed all Russian ships, vessels and goods to be seized as lawful prize.39 The second forbade British ships from entering or clearing out of Russian ports and issued a general embargo on Russian ships using any ports.40

At the same time a strict blockade was planned. It was meant to put an end to the Russian merchant marine and to cut off Russian imports while at the same time allowing Russian exports out of the country.41 It was assumed that in order to avoid the blockade, commercial traffic would be redirected by land to the first open neutral port from where Russian products could be exported to their original destinations. However, not all products would be able to weather the increased price of land transfer; the lack of established infrastructure for commercial traffic over land was expected to hamper trade further.42 Thus, the blockade was meant to prevent Russia from exporting any bulky or expensive items like timber and coal, while allowing the export of

40 “British Order in Council, for preventing Vessels clearing out of Russia, and ordering a General Embargo or Stop of Russian Vessels” in British and Foreign State Papers, 46:38.
41 Anderson, A Liberal State at War, 248.
primary materials that Britain needed like hemp, flax, oilseeds and tallow. Since Britain was dependent on importing raw materials from Russia, even in a world without neutral rights, it attempted to find a policy that would give it the best possible chance to trade for reasons of necessity. However, even if Russian products survived the costly land transfer, there was no guarantee that they would survive the transfer to the British Isles given that Russia had the option of hiring privateers to interfere with British trade.

**France**

The commercial relationship between France and Russia immediately preceding the Crimean war was nowhere near as close as the Russian relationship with Britain. While France was the third largest trading partner for Russia, Russia was not an important trading partner for France, ranking below the United States, England, Sardinian states, Belgium, German states, and Spain. France imported about 7 percent of Russian goods and provided for approximately 8 percent of Russian imports. Russia mainly imported silk, wine, wool cloth and the madder herb from France, none in significant quantity.

France purchased a small share of the major Russian exports, including grains, lard, flax, timber, oilseeds, wool, potash and bristles. However, the French share of these exports was less than 5 percent of the product total exported by Russia to Europe. The exception was flax, of which France imported 452,167 silver rubles worth in 1853, which was 10 percent of Russia’s European export of flax. However, Russia had a considerable number of alternative states

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46 Levasseur, *Histoire du commerce de la France*; F.G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.”
47 F.G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.,” 232.
willing to buy the flax, and France had several alternative suppliers of the product.\textsuperscript{48}

The French analysis of their commercial relationship with Russia was that “if commercial relations with Russia were momentarily suspended, our supplies should not suffer much.”\textsuperscript{49} Out of the main commodities that France imported from Russia – cereals, oilseeds, wool, brass, raw tallow, linseed, hemp, pitch and tar – with the exception cereals and flaxseeds, Russian products were considered to be of limited importance in foreign purchases.\textsuperscript{50} For most of these products, the French level of stocks at the beginning of 1854 was considerably higher than the level of stocks at the beginning of 1853. The stock of linseeds at the beginning of 1854 stood at 39 percent of the yearly consumption, with foreign countries (excluding Russia) being capable of making up another 23 percent of yearly consumption.\textsuperscript{51} Thus a stockpile that would last France two-thirds of a year was assumed to be enough to survive a short break in commercial relations with Russia.

As far as cereals were concerned, the French believed that their current stockpile of cereals would be insufficient for the period of war, if new arrivals were to cease.\textsuperscript{52} However, most of the Russian cereals imported into France did not go towards domestic consumption, but were re-exported.\textsuperscript{53} Thus, the French were, at the very least, confident that they would not suffer domestically for want of grain, and hoped to make up for any potential losses with cereals imported from the United States.

Based on such an assessment, France believed it would be able to weather the inevitable

\textsuperscript{48} Levasseur, \textit{Histoire du commerce de la France}.  
\textsuperscript{49} French National Archives, F/12/8998 24 Feb 1854, Minister of Commerce to Minister of Foreign Affairs. « si les relations commerciales de la Russie et de la France venaient à être momentanément suspendues nos approvisionnements n’auraient par autant à souffère »  
\textsuperscript{50} Ibid.  
\textsuperscript{51} French National Archives, F/12/8998, “Commerce entre la Russie et la France” Attached to letter from Minister of Commerce to Minister of Foreign Affairs from 24 Feb 1854.  
\textsuperscript{52} Ibid.  
\textsuperscript{53} French Diplomatic Archives 422QO18, 7 April 1854, pp16-7, Report of Minister of Foreign Affairs to the Emperor of France.
break in commerce with Russia. There was, however, one complication. As trade with Russia at the time worked mostly on a system of capital advances to ensure produce was brought to ports by the time navigation was possible, French merchants found themselves in the position where they had already paid for Russian goods, but would be unable to ship them to France because of the starting war. Letters from all the regional Chambers of Commerce flooded to Paris, all mentioning the same concern. Russia would profit doubly at the expense of the French merchants: first, from the credit that was advanced, second, from the products Russia would be allowed to keep because the war was assumed to break commercial relations between the two countries. This problem was aggravated by the fact that there were not enough French ships wintering in Russian harbors to ship all of the products back to France. And given the immanent start to the war, there would definitely not be a chance to make multiple runs. Thus, while France was generally ready to stop commerce with Russia for the presumably short war it was about to fight, they still needed to find a way to import the products their merchants have already bought from Russia.

Declaration of the Rights of Neutrals

Britain and France

While Britain and France set their initial wartime commercial policies based on their individual situations, both understood that they would need to settle on a unified commercial policy. Anything short of that would interfere with their ability to prosecute the war. The first element of the joint policy that had to be rectified was which rights would be allowed to neutral commerce. Both countries were interested in not offending any potentially neutral state and

54 French National Archives, F/12/8998.
55 French National Archives, F/12/8998, 25 March 1854, Merchants to Minister of Commerce.
56 Hosack, The Rights of British and Neutral Commerce, 41.
giving the neutrals a reason to enter the war on Russia’s side. But that is where their traditional views on the issue parted. In previous wars, France’s policy was to determine the legality of commerce by the origin of the ship. Neutral ships, even those carrying enemy products, were allowed to pass; enemy ships, even those carrying neutral property, were considered legitimate prizes of war. The English policy focused more on the origin of the goods. If enemy products were found on neutral ships, they were seized; on the other hand, neutral products found on enemy ships were not. The English also abided the rule that a neutral country could not in a time of war engage in trade that would be new for that country. This prevented neutrals from engaging in coastal trade to help a belligerent move products and information from port to port.

Given the amount of Russian produce, already paid for by France, that was stuck in Russian ports, it was most important for the French to make sure the British accepted the principle that the flag covers the merchandise as well as permitted neutrals to trade between Russian ports. If the British agreed to safeguard Russian goods on neutral ships, the French would be able to hire neutral ships in order to export the Russian produce they had already paid for from Russia. Likewise, allowing neutrals to engage in coastal trade in Russia would help the French collect the goods they had purchased and deliver them to France. The British, however, were not particularly interested in allowing this principle. Through the middle of March 1854, the Office of the Committee of Privy Council for Trade maintained that Russian goods, even on neutral ships, would not be respected and Russian goods purchased at a neutral

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59 J. L. Ricardo, 12.
60 Hosack, The Rights of British and Neutral Commerce.
61 The French were anxious that the British make no declaration on this point without first consulting with the French. British National Archives, F.O. 27/1009, 6 March 1854, Report no 285. In fact, the French pressed for a joint declaration of the rights of neutrals, but never managed to accomplish this. French Diplomatic Archives, P/451, 17 March 1854, Walewski to Drouyn de Lhyus.
62 French National Archives F/12/8998, 10 March 1854, Minister of Foreign Affairs to Minister of Commerce.
port would be considered an illegal purchase.63 The French regional Chambers of Commerce were up in arms when they heard that the Foreign Office was going to make merchandise of Russian origin, even if purchased before the war and even if transported on neutral ships, liable to capture.64 While acknowledging that such a measure was meant by the British to injure Russian trade, they likened British cruisers to pirates for seizing property on neutral ships.65 Their major concern was that this property of Russian origin that the British proposed to capture, was actually bought and paid for by French merchants before the war started, so in fact, the measure would mostly injure French and to some extent British merchants, not Russia.

To secure the agreement from the British government on the principle that the flag covers the merchandise, the French had to accept the British principle that neutral property on enemy ships had to be returned to the neutral owners.66 Together these concessions set the basis for the Declaration of the Rights of Neutrals. Worded almost identically in both states, the declaration appeared in Britain on March 28 and in France on March 29. Under the new laws, neutral ships were allowed to carry any products regardless of origin, with the exception of the contraband of war and communications of the enemy.67

In return for conceding to France the policy for the rights of neutrals, Britain demanded

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64 French National Archives, F/12/8998, 13 March 1854, Marseilles Chamber of Commerce to Minister of Commerce; 15 March 1854; Bordeaux Chamber of Commerce to Minister of Commerce.
65 “L’Angleterre a émis la généreuse pensée d’abolir les lettres de marque, comment dans cette occasion, au mépris des principes qu’elle professe et que nous sommes disposés à pratiquer, aurait elle l’inconséquence d’accepter elle même le rôle de corsaire, vis-à-vis des navires neutres amis, nationaux, chargés en temps de paix, sur la foi des traités.” French National Archives, F/12/8998, 13 March 1854, Marseilles Chamber of Commerce to Minister of Commerce.
66 The idea to link these two principles appears in James Graham’s declaration against the use of letters of marque. British National Archives, F.O. 96/24/33. 3 March 1854. Clarendon pointed out to the French Ambassador that if the British have to make sacrifices, so do the French. French Diplomatic Archives, P/451, 17 March, 1854.
that France agree to a strict blockade of all Russian ports.68 The blockade was the centerpiece of the British initial policy, which seemed ever more important as the British began to concede on the rights of neutrals.69 They needed the blockade in order to make sure the belligerents were not the only two countries that were forced to sever trade with Russia at the outbreak of war. A strict blockade would force all other states to stop seaborne trade with Russia as well. In addition, it was hoped that if British exports were to be prevented from reaching Russia, it would so inconvenience the upper classes that they would put considerable pressure on the Emperor of Russia to sue for peace.70

While the French had to acquiesce to a blockade in order to receive their favored version of the Declaration of the Rights of Neutrals, a strict blockade presented a problem to their main commercial objective – removing Russian produce that was already purchased from Russian ports. The concession allowing neutral ships to carry Russian merchandise meant little if no ships were allowed out of Russian ports.

Two methods were attempted to circumvent this obstacle. First, the French presented an argument to the British for granting a grace period to Russian ships to finish their commercial affairs in allied ports and return to Russia safe from capture. Second, the French government favored a system of licenses, which would be granted to both friendly merchants and neutrals, allowing them to break the blockade when necessary.

To convince the British to institute a grace period for commerce, the French government

68 Clarendon Depository, c. 16, ff 647-656, 29 March 1854, Cowley to Clarendon.
69 “Her Majesty’s Government have it in contemplation to relax in some degree the exercise of belligerent rights as respects neutrals in ordinary case, this would appear to render it more than ever necessary to insist upon the vigorous exercise of such rights in the event of blockade, otherwise the Enemy’s trade will be transferred to, and covered by neutral Flags, the Flags of England, France and Russia being alone excluded” British National Archives, F.O. 83/2280, 20 March 1854, Harding to Clarendon.
made the argument that numerous treaties exist defending this principle. A treaty between France and Russia from 1787 grants merchants on both sides a full year to settle their affairs in the belligerent country before being ranted safe passage home. Additionally, the argument for a grace period was made based on a similar reciprocal relationship that already existed between Russia and Turkey in the current war. Turkey permitted a month long grace period for Russian commercial interests in its ports to finish loading ships and leave the country unmolested, and by reciprocity, Russia allowed the same privilege to Turkish ships in Russian ports. Russia even went so far as to avoid capturing Turkish ships after the days of grace expired, if the Turkish ships could show that they were loaded before the grace period ended. Following the same scheme, France suggested that if the allies extend such a liberal policy towards Russia, that country would reciprocate by allowing French and British ships time to load Russian merchandise and leave the country. The French Minister of Commerce raised the point that reciprocity with Russia would require the agreement of the Turkish government – otherwise Turkish ships would be free to seize Russian ships which were allowed by France and Britain to depart safely. But Turkish cooperation was taken for granted.

While these discussions were taking place the French Ministry of Commerce was inundated with letters from French merchants attempting to pressure the government into settling on a lengthy days of grace period as well as providing additional security guarantees to French merchandise, regardless of the flag of the ship it was loaded on. Both types of requests were continually rejected by the Minister of Foreign Affairs, to whom they were forwarded, on the

71 British National Archives, F.O. 27/1009, 10 March 1854, Cowley to Clarendon No 304.
72 French National Archives, F/12/8998, 8 March 1854, Minister of Foreign Affairs to Walewski.
73 Both countries adopted a month long grace period. French National Archives, F/12/8998, 10 March 1854, Minister of Foreign Affairs to Minister of Commerce.
74 French National Archives, F/12/8998, 8 March 1854. Minister of Foreign Affairs to Walewski.
75 French National Archives, F/12/8998, 13 March 1854, Minister of Commerce to Minister of Foreign Affairs.
76 French National Archives, F/12/8998.
grounds of the expediency of war.\textsuperscript{77}

Like the French Ministry of Commerce, the British Foreign Office, the Board of Trade and the Treasury were overflowing with letters from merchants requesting permission to import Russian produce, which was paid for before the war. At first, the British Cabinet was content to follow the advice of the Queen’s Advocate, complied based on precedent from previous wars.\textsuperscript{78} All merchants were told that despite the hardship this caused them, they would not be able to import products of Russian origin as this would constitute trading with the enemy.\textsuperscript{79} However, after the decision to grant days of grace was made, this position was softened. If Russia were to reciprocate the days of grace, British merchants would be allowed to import the goods that were purchased before the war started. Six weeks were settled on as the appropriate length of time for the grace period, to accommodate the furthest distance a ship might have to travel.\textsuperscript{80} And the allies were ultimately rewarded with a reciprocal proclamation from Russia giving Allied ships six weeks to finish business in Russian ports and clear out safely.\textsuperscript{81}

The only issue that remained to be settled was the question of whether licenses would be granted to allow merchants to legally circumvent the prohibition against trading with the enemy. According to French designs, licenses would be given under four situations: 1. French and British merchants would be allowed to export from Russian ports, blockaded or otherwise, goods purchased before there was any knowledge of the war; 2. Neutral ships would be allowed to export from blockaded Russian ports goods they bought and paid for before the war; 3. Friendly nations and neutrals would be permitted to export grain that was already purchased from Russia;

\textsuperscript{77} French National Archives, F/12/8998, 22 March 1854, “Note sur le délai à accorder aux navires Russes après la déclaration de guerre.” and 22 March 1854 Minister of Foreign Affairs to Minister of Commerce.
\textsuperscript{78} British National Archives, War Office, W.O. 106/45, “Enquiry regarding Trading with the Enemy, Historical Summary” p 33.
\textsuperscript{79} British National Archives, F.O. 83/2280, 15 March, 1854, Queen’s Advocate to Clarendon
\textsuperscript{80} French National Archives, F/12/8998, 13 March 1854, Minister of Commerce to Minister of Foreign Affairs.
\textsuperscript{81} British National Archives, Board of Trade, B.T 1/512, 16 April 1854, “Translation of Russian Decree on Initial Commercial Policy Towards Belligerents.”
4. French and British merchants would be able to, in certain circumstances, to export primary materials necessary for their domestic industry. The fourth condition would basically allow licensed trade with the enemy, specifically in products that would contribute most to the revenue of the state.

The British government strongly opposed any licensing scheme, as it would interfere with their plans for a strict blockade. Trying to convince the French to abandon the scheme, they brought forth three arguments. First, remembering the chaos created by the licenses granted during the Napoleonic wars, it was widely accepted that licenses lead to deception and fraud and the creation of a black market for permissions to trade across enemy lines. Second, if licenses were to be sparingly given, while it would help control trade, it would also create domestic monopolies based on which merchants received licenses and which did not. On the other hand, if licenses were given fairly and therefore indiscriminately, it would render the prohibition on trade useless. And, third, since the French had already agreed to a strict blockade, licenses to enter Russian ports could not be given anyway.

Naturally, the French attempted to create a few loopholes, to achieve their commercial objectives, before accepting the British proposal. Most concerned with getting their merchandise out of Russia, they wanted to be reassured that all ships laden in Russia heading to France would be allowed to pass the blockade. In addition, the French hoped to receive a few special licenses for extraordinary conditions which might occur in the future. Finally, they expected a promise from the British government that upon the instigation of either government a discussion would

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82 British National Archives, F.O. 27/1038, 12 April 1854, Walewski to Clarendon. A note by the French Minister of Commerce also states that the British are likely to acquiesce, at the very least, on giving licenses to export products that were purchased before the declaration of war. French National Archives, F/12/8998, 3 April 1854.
83 British Library, Add. Ms 43355, 5 April 1854.
84 British National Archives, F.O. 146/506, 15 April 1854, Letter written by Granville and forwarded by Clarendon to Cowley to present to the French government.
occur over whether a specific port would be exempted from blockade.85 As the British government already agreed to the days of grace, the first demand was essentially already met. The small number of licenses for special circumstances was rejected outright by both the Admiralty and the Council Office on the same grounds as general licenses.86 As for the third, the British government grudgingly conceded the point, as negotiations over the French demand to leave Archangel not blockaded were being carried out at that time anyway.87 Ultimately, the French government agreed not to give out any licenses, while maintaining the ability to forestall and occasionally remove blockades from ports from which they needed to remove their merchandise.

Russia

As the allied powers had hoped, Russia reciprocated the decisions taken by Britain and France regarding neutral rights. On April 16, 185488, a declaration by the Russian Ministry of Finance was published in a supplement to the Commercial Gazette laying out the Russian policies towards enemy belligerents. A six week grace period was extended to all French and English merchant vessels and safety assured to all ships with papers showing that they were loaded before the grace period was over.89 Russia, likewise, adopted the principle that the flag covers the merchandise, with the exception of contraband. Unlike the allied governments, Russia reserved the right to consider the entire ship a legitimate prize of war if it carried contraband

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85 British National Archives, F.O. 27/1012, 20 April 1854, Cowley to Clarendon No 522.
86 British National Archives, F.O. 146/508, 1 May 1854, Clarendon to Cowley No 422.
87 The French pressed the point that the most important item to be exported from Archangel to France was timber, which was necessary for military stores. British National Archives, F.O. 27/1012, 21 April 1854, Cowley to Clarendon.
88 April 6 by the Julian calendar used in Russia. Since the Gregorian dates were used thus far, the dates for Russian policies have also been converted to the Gregorian calendar.
89 The grace period was set to start on April 25 in the Black Sea, Azov Sea and Baltic Sea. In the White Sea the grace period started from the day navigation was open. This policy specifically excluded two British ships, which were detained for military purposes. British National Archives, Board of Trade, B.T 1/512, 16 April 1854, “Translation of Russian Decree on Initial Commercial Policy Towards Belligerents.”
Russia went one step beyond the Allies in establishing that: “English and French goods, even should they belong to subjects of Great-Britain or France, will be allowed to be imported under neutral flags into our Ports in accordance with the usual Custom House tariff regulations, without any hindrance on our part.” While this might sound like a concession allowing trade with the enemy that was not quite the case. For goods to belong to Britain or France on import would mean that no Russian merchant had paid for them yet. And the Russian Decree said nothing about Russian merchants being allowed to pay for British or French goods. Permission was granted for goods of enemy origin, even those owned by the enemy, to be imported and stored in Russian ports. Whether the payment for the purchase of these goods was allowed was left unanswered.

Wartime Commercial Policy

While the Declaration of the Rights of Neutrals was created and adopted for completely idiosyncratic reasons, all three belligerents who subscribed to it found themselves in unfamiliar territory. For the first time they were involved in a war where neutrals were allowed to carry on the trade that was officially severed between enemy belligerents. Prohibiting trade with the enemy suddenly became in part counterproductive and considerably more costly. The three belligerents dealt with this new problem differently.

Britain legalized trade with the enemy so as to avoid relative losses vis-à-vis neutral states. However, not all products were allowed to be traded with Russia. Products that could

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90 The allied governments’ policy was to confiscate the contraband only, unless more than 75% of the ship’s cargo was contraband. British National Archives, F.O. 26/1014, Extract from the Moniteur, “Divergences entre les déclarations francaise et russe au sujet du droit des neuters.”

91 British National Archives, Board of Trade, B.T 1/512, 16 April 1854, “Translation of Russian Decree on Initial Commercial Policy Towards Belligerents.”
increase the Russian military capabilities in time for the current war were prohibited from trade, despite neutrals being about to engage in such trade if they wished. France changed its tariff schedule to make trade with Russia unprofitable and trade with alternative trading partners less expensive, thereby avoiding the economic costs of losing trade with Russia and potential losses vis-à-vis neutral states. Unlike the other two belligerents, Russia was expecting a long intense war. As such it was incentivized to prohibiting as much trade with the enemy as its economy could support. Despite making payment for enemy imports difficult and prohibiting the export of grain and other necessities of war, Russia had to continue exporting raw materials to the enemy to prevent huge losses of revenue.

**Britain**

In Britain, the President of the Board of Trade, Edward Cardwell, pointed out that the inadvertent consequence of combining a strict blockade with the set of concession Britain made on neutral rights would be to throw all British-Russian trade into the hands of neutrals. This would damage British interests at no harm done to Russian interests.\(^{92}\) At the same time, Dr. Lushington, the Admiralty Judge, send a memorandum to the Cabinet detailing his views that British ship should not be allowed to trade with the enemy, but British merchants should be able to trade with Russia.\(^{93}\) The proposal was discussed by the Privy Council on 6 April 1854\(^ {94}\) and it was decided that there was no reason for “preventing British subjects from supplying what is allowed to be supplied without restriction by neutrals.”\(^ {95}\)

Based on this logic, the British government amended their initial declaration that had

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\(^{93}\) British National Archives, P.R.O 30/29/23/4, 5 April 1854, Lushington to Granville. Unfortunately, the text of this memorandum is unavailable as the document was lost while being transferred to the National Archives.  
\(^{94}\) British National Archives, Privy Council, P.C. 4/20, 6 April 1854.  
\(^{95}\) British Library, Add. Ms. 43355, ff 141-3, 7 April, 1854.
followed the precedent of previous wars in making trade with the enemy illegal. On April 15, a
new Order in Council proclaimed that “all vessels under a neutral or friendly flag, being neutral
or friendly property, shall be permitted to import into any port or place in Her Majesty's
dominions all goods and merchandize whatsoever, to whomsoever the same may belong; and to
export from any port or place in Her Majesty's dominions to any port not blockaded any cargo or
goods, not being contraband of war, or not requiring a special permission, to whomsoever the
same may belong.”96 With the exception of British ship being prohibited from entering Russian
ports, a restriction created in the interests of the British vessels since their safety in Russian ports
cannot be guaranteed,97 trade with the enemy was legalized. When the policy was communicated
to the French, the French Ambassador in London conveyed to the British Minister of Foreign
Affairs that the French had no objections to the British measure authorizing trade with the
enemy. The French, however, would not follow suit because the “French legislature leaves the
prohibition of commerce with the enemy almost without sanction.”98

At the end of September 1854, with the war starting in earnest and with the expectation
of the immanent fall of Sevastopol and the possibility of a larger campaign against Russia, some
members of the Cabinet believed a reassessment of the trade policy was in order. The debate
centered on James Wilson, the Financial Secretary of the Treasury, and Edward Cardwell.

Wilson, and others who thought that the trade with Russia should be prohibited, focused
mainly on the argument of absolute loses: “Like all other steps taken in war, the policy of

96 “British Order in Council, in furtherance of Her Majesty’s Declaration of March 28, 1854, respecting the Trade
of Neutrals and British Subjects” in British and Foreign State Papers, 1855, 46:49.
97 British National Archives, War Office, W.O. 106/45, “Enquiry regarding Trading with the Enemy, Historical
Summary” p 43.
98 “Je m’empresse de vous informer sans délai que mon gouvernement n’a aucune objection à faire contre l’ordre du
Conseil projeté pour autoriser le commerce avec l’ennemi. Nous n’aurons probablement aucune mesure de ce genre
da prendre de notre côté, parce que la législation française laisse l’interdiction de ce commerce à peu près dénuée de
sanction.” British National Archives, F.O. 27/1038, 19 April 1854, Walewski to Clarendon. The same is reflected in
a telegraph Cowley sent to Clarendon on 15 April 1854. FO 27/1012.
restricting trade must depend upon the balance of advantages and disadvantages – both parties being considered; upon the fact whether the penalty to be inflicted upon the enemy is greater than the sacrifice at which it is made.”99 It was widely cited that more than half of Russia’s export trade would be affected if commercial relations were severed, compared to only six percent of British exports.100 Therefore, it was argued, Britain would be much better off than Russia if trade was prohibited. Additionally, much fault was found with the blockade, which was both not established as quickly as desired and easily circumvented by land trade through Prussia.101 Adherents of this position assumed that the increased cost of passage was being borne by the British consumer.102 Instead of allowing trade with the enemy, Wilson proposed that Britain prohibit Russian imports into Britain entirely. This was to be accomplished either through a prohibitive tariff on goods of Russian origin or requiring a letter of origin for imports into Britain. Without much evidence given, it was expected that Britain would be able to easily find alternative suppliers of the primary material it traditionally received from Russia, while Russia would be left suffering a huge loss.

On the other hand, Edward Cardwell defended the position that trade with the enemy should be continued. He stressed that looking solely at absolute losses due to a break in commercial relations missed the point. Britain, being a manufacturing nation, had a different relationship with commerce than Russia, as an agricultural nation. For Russia losing this trade is a question of profit only, for Britain it is a question of competitiveness on the world markets and survival of domestic industry.103 The blockade was shown to have served its job of limiting

102 British Library, Add. Ms. 43355, ff 168-80, 17 Nov, 1854, “Observations by Mr. Wilson upon the various objections to interfering with the Trade of Russia.”
Russian imports while allowing Russian exports out of the country. It was also pointed out that after the first year, the additional cost of the land transfer would no longer be borne by the British importer, but by the Russian merchants.\textsuperscript{104} During the Committee in Council meeting on October 30, Cardwell’s argument triumphed.\textsuperscript{105} The decision was approved by the Cabinet, whose members viewed Wilson’s proposal with reluctance and approved of Cardwell’s defense of the original policy.\textsuperscript{106}

Overall, the British government formed its commercial policy based on the assumption that the majority of trade with Russia did not carry any significant security externalities. One of the arguments made by the opponents of the trade with the enemy policy was that any capital that the British merchants sent to secure next year’s produce from Russia, amounting to around ten million pounds, would immediately be invested into the war effort by Russia.\textsuperscript{107} Supporters of the policy, however, countered with the argument that the portion of this payment that actually reached the Russian government was completely insignificant.\textsuperscript{108} Not only was the Russian government believed to be inefficient in tax collection, it was widely believed that it was the Russian aristocracy that pocked the revenue that came from trade not the Russian government. While some domestic actors in Russia were profiting from the trade, the Russian government was not able to take advantage of this in order to increase its military capability to prosecute the current war. Definitely not in a timely manner.

However, not all trade with Russia was placed in this ‘innocent’ category of holding no

\textsuperscript{104} British Library, Add. Ms. 43355, ff 160-3, 31 Oct 1854, “Remarks by Mr. Cardwell on the Commercial Policy of this Country towards Russia.”
\textsuperscript{105} British National Archives, P.R.O. 30/29/23/4, 30 Oct 1854, Russell to Granville.
\textsuperscript{106} British National Archives, P.R.O. 30/29/23/4, 29 Oct 1854, Russell to Granville.
\textsuperscript{107} Hansard, vol 136, House of Commons Debate, 20 Feb 1855, cc1659-713, Mr. Collier.
\textsuperscript{108} J. L. Ricardo, \textit{The War Policy of Commerce}. 
Before the war even began, Britain prevented the export of several marine engines to Russia – marine engines that were almost finished and destined for nearly completed Russian ships. When explaining the necessity for this measure, the Prime Minister stated that it is important to check the export of military stores that had the potential to increase Russia’s military capabilities for the current war. This action stands in contrast to the permission given to British and French merchants to withdraw Russian merchandise that had already been paid for before the war. While the marine engines were already paid for by Russia, they were nevertheless prohibited from leaving the country and, in fact, England later placed them in ships it used to enforce the blockade.

It was not only the marine engines that were prohibited from reaching Russia. On February 18, 1854 – still six weeks before war was officially declared – the export of arms, ammunition, gunpowder, military and naval stores as well as articles “judged capable of being converted into, or made useful in increasing the quantity of, military or naval stores, that is to say marine engines, screw propellers, paddle-wheels, cylinders, cranks, shafts, boilers, tubes for boilers, boiler plates, fire bars, and every article, or any other component part of an engine or boiler, or any article whatsoever, which is, can or may become applicable for the manufacture of marine machinery” was prohibited from Britain. When the Committee of the Privy Council became inundated with letters from merchants asking why they were not allowed to continue exporting arms to countries that were nowhere near Russia, the proclamation was amended by

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109 When analyzing their own policies in the Crimean war as a preparatory measure for WWI, the British subcommittee dealing with the question of trade with the enemy, termed trade that is assumed to carry no security externalities – trade in innocent products. British National Archives, War Office, W.O. 106/45.
110 British Library, Add. Ms. 40348, ff 251-2, 17 Feb 1854, Aberdeen to Queen.
112 Ibid.
113 “Proclamation prohibiting the exportation of Arms, Stores, etc” in British and Foreign State Papers, 1855, 46:31.
an Order in Council of April 11, placing geographical scopes on the prohibition to prevent such items from reaching Russia or Russian colonies.115 With a further Order in Council on April 24, the Cabinet once more refined the prohibition to make it much more targeted – only gunpowder, saltpeter, brimstone; arms and ammunition; marine engines and boilers and component parts thereof were prohibited and they were prohibited from export to “an place in Europe north of Dunkirk, or to any place in the Mediterranean Sea east of Malta.”116 That is to Russian Baltic or Black Sea ports.

After the initial list of items that were prohibited from trade with Russia and its immediate neighbors was established, the list was amended at times that closely track changes in the military course of the war. As the expected length of war changed towards a protracted struggle, additional materials required for shipbuilding were added to the list of prohibitions. Likewise, more items required in the manufacture of arms made it to the list as the war continued to grow longer. In the formulation of the Orders in Council, these products were accompanied with the description of “capable of being converted into or made useful in increasing the quantity of military and naval stores.”117 As the expected length of war increased, more products were prohibited from trade – products that would be able to contribute to Russian military capabilities in time to affect the outcome on the battlefield given the new assessment of the length of war. The orders were also geographically scoped. Whenever Britain wanted to prevent specific items from reaching the Baltic theater, the order would read “any place in Europe north of Dunkirk.”118 Such prohibitions generally targeted items necessary for naval construction.119 If Britain wanted

116 British and Foreign State Papers, 46:52.
118 British and Foreign State Papers, 46:53–57.
119 After the invasion of the Crimean Peninsula, the Russians were forced to sink their own fleet in the Black Sea, thus preventing products necessary for the repair of ships from reaching the Black Sea theater became obsolete.
to prevent products from reaching the Black Sea theater, the order would read “any place in the Mediterranean Sea east of Malta.”\textsuperscript{120} These items tended to be useful in manufacture of arms and gunpowder.

When the war stretched long enough for the British military to burn through all of their military stocks and to start straining the potential to resupply, the tenor of the Orders in Council changed. Suddenly, the reason for the prohibition of export was because items can be “used in the manufacture of military and naval stores.”\textsuperscript{121} The scope of the prohibitions also changed, products were not allowed reach any foreign country. The focus was no longer on the potential of the enemy to increase its military capability, but on the ability of the British army to have access to the supplies it needed to continue fighting the war. Prohibiting the export of products necessary for the British war effort actually increased the amount of revenue available to the British government, or rather made the war effort less expensive to invest in. By prohibiting products from leaving the country, the government was preventing its merchants from selling products at the higher world price and instead forcing them to sell at the lower domestic price. As such Britain was not only increasing the domestic supply of the very products Britain needed, but also decreasing the cost of purchasing them.

<table>
<thead>
<tr>
<th>Date</th>
<th>Prohibiting the export of:</th>
<th>Region Targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Nov, 1854</td>
<td>lead, nitrate of soda, blue lias, Portland cement, “or any article commonly used in the manufacture of marine cement”</td>
<td>any place in Europe north of Dunkirk</td>
</tr>
<tr>
<td>2 Jan, 1855</td>
<td>Rescinding order of Nov 30</td>
<td></td>
</tr>
<tr>
<td>7 Aug, 1855</td>
<td>sulphate of potash and muriate of potash</td>
<td>any place in Europe north of Dunkirk, or any place in the Mediterranean Sea east of Malta</td>
</tr>
</tbody>
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\textsuperscript{120} \textit{British and Foreign State Papers}, 1855, 46:53–57.
\textsuperscript{121} \textit{British and Foreign State Papers}, 46:57–59.
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<th>Region Targeted</th>
</tr>
</thead>
<tbody>
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<td>7 Aug, 1855</td>
<td>rivet iron, angle iron, round bars, rivets, strips of iron, sheet plate iron, Low Moor plates</td>
<td>any place in Europe north of Dunkirk, or any place in the Mediterranean Sea east of Malta</td>
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<td>28 Aug, 1855</td>
<td>Rescinding the order prohibiting the export of iron east of Malta</td>
<td></td>
</tr>
<tr>
<td>30 Aug, 1855</td>
<td>Altering the product description of Aug 7th order (2nd one)</td>
<td></td>
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<tr>
<td>30 Aug, 1855</td>
<td>rivet iron, angle iron, rivets, strips of iron, Low Moor and bowling plates, sheet plate iron exceeding ¼ of an inch, and round bars of from 5/8 to ¾ of an inch diameter</td>
<td>any place in Europe north of Dunkirk</td>
</tr>
<tr>
<td>20 Sept, 1855</td>
<td>Rescinding previous order - nitrate of soda and lead can now be shipped east of Malta</td>
<td></td>
</tr>
<tr>
<td>20 Sept, 1855</td>
<td>chlorate of potass</td>
<td>any place in Europe north of Dunkirk, or any place in the Mediterranean Sea east of Malta</td>
</tr>
<tr>
<td>1 Nov, 1855</td>
<td>saltpeter, nitrate of soda, sulphate of potash, muriate of potash (chloride of potassium), and chlorate of potash</td>
<td>All foreign countries</td>
</tr>
<tr>
<td>27 Dec, 1855</td>
<td>saltpeter, nitrate of soda, sulphate of potash, muriate of potash (chloride of potassium)</td>
<td>British possessions in North America, including West Indian Islands</td>
</tr>
<tr>
<td>28 Dec, 1855</td>
<td>Rescinding order to prohibit export of chlorate of potass</td>
<td></td>
</tr>
</tbody>
</table>

France

The French government was fairly satisfied with the concessions it received in the negotiations with Britain. Through the Declaration of the Rights of Neutrals and the six-week grace period, the French merchants were given time to charter ships for the export of products bought in Russia before the declaration of war. And having gotten the concession from the British that allowed them to selectively remove blockades from certain Russia ports, those ships that could not leave Russian ports within the days of grace could still have a chance to deliver their products to France. Mostly this helped French merchants export timber, purchased before the start of the war, from the ports of the White Sea.122

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122 French National Archives, F/12/8998, 4 May 1854, Minister of Foreign Affairs to Minister of Commerce and 21 June 1854, Minister of the Marine to Minister of Commerce.
When considering how these negotiations affected their wartime trade with Russia, France adopted their own method of avoiding any potential losses vis-à-vis third parties while still preventing Russia from benefiting militarily from trade. Following a plan laid out by the Foreign Minister, France altered its tariff schedule in such a way as to make trade with Russia unprofitable. For products that were supplied by Russia in peacetime and that were used as raw material in French industry, alternative sources of supply or substitutes were found. For example, it was suggested to import flax from Belgium and the Germanic states; wool from Algeria and Turkey, wood from the United States and Austria. Flaxseed that was destined for the production of oil were to be replaced with sesame seeds. Trade with these alternative suppliers and in substitute products was then made substantially cheaper by altering the import tariffs that were previously prohibitively expensive. Thus while the cost of importing Russian products was increasing – due to the increased cost of transportation created by the blockade of Russian ports – the cost of importing similar products from other sources was substantially lowered.

Initially, the French government focused on primary materials used in French manufacturing. The specificity of the changing tariff structure reflects this. For example, the Imperial Decree of 29 April allowed the temporary duty free import of raw tallow provided it will be used in France for the manufacture of candles or of stearic acid, and then again only if these products were to be exported. Additionally, the import taxes on raw materials, which were imported from Russia in peacetime, were lowered or removed when imported from the French colonies or other non-European countries. For example, on May 10, 1854 the import duty

123 French Diplomatic Archives, 422QO18, 17 April 1854, “Note pour le Ministre, sur le commerce entre le France et la Russie, et sur les mesures à prendre pour atténuer les conséquences de l’état de guerre.”
on raw wool from South Africa was lowered by forty percent.\textsuperscript{125} On June 19, 1854, the duty on wool cotton coming from the French colonies was eliminated.\textsuperscript{126} As the French stockpiles of specific products decreased, more reductions on tariffs were made to incentivize the replenishment of these stocks.

Due to the protectionist nature of the French economic policies at the time, France was able to obviate the economic imperative to trade with the enemy that appeared with the Declaration of the Rights of Neutrals. By changing its tariff structure, France ensured that the same products that were being imported from Russian in peacetime could continue to be imported from other sources during the war, largely without any impact on the revenue of the state. Where as in peacetime trade with Russia in raw wool was open and trade with South Africa closed, during the war, France simply switched its position on both states. With the revenue accruing to the state remaining mostly unchanged, and not having to worry about neutral states gaining relative to France during the war, France was free to follow the security imperative to sever all trade with the enemy. However, France did not take the additional step of publishing a specific law prohibiting trade with Russia. While a prohibition on trade with the enemy exists in French common law, France did not bother punishing such trade, as can be gleaned from the French response to the British decision to trade with the enemy.\textsuperscript{127} It didn’t particular need to. The French policy during the war removed the incentives to engage in trade with Russia. The changed tariff schedule combined with the war premium prices on Russian goods made trade with Russia unprofitable.

Still, as the expected length of war increased, following the security imperative, France

\textsuperscript{125} "Décret impérial modifie le tariff d’entrée pour les laines brutes" in Collection Complète des Lois, Décrets, Ordonnances, Réglements, et Avis du Conseil-d’État, 55:109.
\textsuperscript{126} "Décret impérial qui suprime le droit établi à l’importation du cotton en laine des colonies françaises" in Collection Complète des Lois, Décrets, Ordonnances, Réglements, et Avis du Conseil-d’État, 1854, 54:385.
\textsuperscript{127} British National Archives, F.O. 27/1038, 19 April 1854, Walewski to Clarendon.
increased the cost of trade with Russia further. On July 18, 1854 a prize court was set up in Paris to arbitrate claims from captured vessels.\footnote{128} In the middle of November, after the expectation of a quick victory had dissipated, France declared that if any captured ship has any prohibited merchandise on it, not only will these items be forfeit, but the ship will be required to pay a duty of twenty percent of the value when brought to France for arbitration.\footnote{129} This decree increased further the cost of engaging in trade with Russia.

The French approach to severing trade with the enemy also explains why the British government had to remind France to prohibit the export of arms and ammunition from France during the war.\footnote{130} When the imperial decree was published, it showed that the French government had a much wider conception of which products related to the war effort. Of the five categories of products that were prohibited from reaching the enemy, two corresponded to the British prohibition – (1) arms and (5) all things to do with machinery for building ships. In addition to this, France added, “(2) Lead, sulfur, saltpeter, flints, fulminating powder capsule, wooden rifle, projectiles and ammunition of any kind; (3) Articles relating to clothing, camping, equipment and military harnesses; (4) Horses.”\footnote{131} Britain added a prohibition on similar products during the war – when it realized that the war would last longer than the initially anticipated one campaign season and understood that Russia would be able to benefit militarily from such trade. France did not have to make the same distinction as its protectionist economic policies allowed it

\footnote{130} British National Archives, F.O. 27/1008, 22 Feb 1854, Cowley to Clarendon.
\footnote{131} “Décret impérial qui prohibe la sortie et la réexportation d’entrepôt des armes et munitions de guerre, etc.” in Collection Complète des Lois, Décrets, Ordonnances, Règlements, et Avis du Conseil-d’État, 1854, 54:90. List of items prohibited by the decree: “1° Armes de guerre de toute sorte; 2° plomb, soufre, poudre, salpêtre, pierres à feu, capsules de poudre fulminante, bois de fusil, projectiles et autres munitions de guerre de toute sorte; 3° effets d’habillement, de campement, d’équipement, et de harnachement militaire ; 4° chevaux ; 5° bâtiments à voiles et à vapeur, machines et parties de machines propres à la navigation, agrès et appareaux de navires de tous autres objets bruts ou confectionnés de matériel naval et militaire.”
to solve the fundamental problem of trade with the enemy in a different manner. Only one item was added to the list of prohibited exports after the war started – sodium nitrate – and even this addition occurred on April 16, 1854, before any military action occurred.132

On December 8, 1854, after it was clear that the siege of Sevastopol would be a long endeavor, France intensified their prohibition on the export of arms. Whereas before the prohibition prevented arms and ammunition and the rest from leaving the territory of the French Empire, after December the items could not be transported within the empire.133 This decree made it easier for the French government to access domestic supplies when it needed to resupply the army.

As was previously mentioned, France was always conscious of the possibility of having to restart trade with Russia during the war for reasons of necessity. They built this option into the licensing system that was proposed to the British government.134 While the licensing system was not accepted, the necessity to open trade with Russia did come about. The French government was particularly concerned about the grain trade, the export of which was prohibited from Russia at the beginning of the war. The memory of the political repercussions from the famine of 1847 was strong,135 and the French government was anxious to prevent even the rumors of a potential shortage. On November 29, 1854, the French government prohibited the export of grain and flour until July 31, 1855 to ensure adequate domestic supplies.136 However, as the war stretched longer, the situation became more urgent. Thus as soon as the allied fleet started the campaign in the Azov Sea (1855), France became interested in trying to export the Russian grain that was...
stored in those ports.\textsuperscript{137} Although the military campaigns were not the most successful, the French government was able to persuade the British to open the blockade on the Azov Sea to merchants carrying grain.\textsuperscript{138} This was done in parallel with Russia beginning to grant licenses to neutral merchants to export grain, despite the general prohibition on such export.

Table 4.2: French Changes in Tariffs in 1854

<table>
<thead>
<tr>
<th>Date</th>
<th>Tariff Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Mar, 1854</td>
<td>Allows duty free import of colored tartar crystals for export after conversion to cream of tartar or crystalline tartaric acid.</td>
</tr>
<tr>
<td>4 Mar, 1854</td>
<td>Change of import tax on cachou – import from countries beyond Cape Horn on French ships is free</td>
</tr>
<tr>
<td>22 Mar, 1854</td>
<td>Opens the ports of Boulogne and Calais to import shawls of foreign origin to be embroidered in France</td>
</tr>
<tr>
<td>22 Apr, 1854</td>
<td>Removes export tax on manure</td>
</tr>
<tr>
<td>29 Apr, 1854</td>
<td>Allows temporary duty free import of raw tallow for export after conversion to stearic acid or candles</td>
</tr>
<tr>
<td>6 May, 1854</td>
<td>Oil of all kinds, except fish oil, will be charged the same import tax as raw tallow</td>
</tr>
<tr>
<td>10 May, 1854</td>
<td>Lowers the import tax on raw wool coming from South Africa</td>
</tr>
<tr>
<td>13 Jun, 1854</td>
<td>Change of import tax on turmeric root – import from the India on French ships is free</td>
</tr>
<tr>
<td>19 Jun, 1854</td>
<td>Removes import tax on wool cotton from the French colonies</td>
</tr>
<tr>
<td>26 Jun, 1854</td>
<td>Removes import tax on molasses-spirit from French colonies</td>
</tr>
<tr>
<td>24 Jun, 1854</td>
<td>Extends the exception until 31 Dec 1854 of navigation taxes for flour, rice, potatoes, and dry vegetables (Original exception made on 5 Sept and 3 Dec 1853)</td>
</tr>
<tr>
<td>1 Jul, 1854</td>
<td>Temporary permission to import iodine to be refined into potassium iodine</td>
</tr>
<tr>
<td>19 Aug, 1854</td>
<td>Lowers or removes the import tax on vanilla and beet, as well as wood satín, root and wood barberry, scented wood, sassafras, exotic reeds, pods and seed dye, oak apple, iron ore, stone marble, potass if imported by French ships from outside of Europe</td>
</tr>
<tr>
<td>5 Oct, 1854</td>
<td>Increase the import tax on salted meat</td>
</tr>
<tr>
<td>5 Oct, 1854</td>
<td>Increase the import tax on liquor wines in barrels</td>
</tr>
</tbody>
</table>

\textsuperscript{137} French National Archives, F/12/8998, 22 June 1855, “Note pour le Ministre.”
\textsuperscript{138} French National Archives, F/12/8998, 1 Oct 1855, Minister of Foreign Affairs to Minister of Commerce.
Table 4.2: French Changes in Tariffs in 1854 (Continued)

<table>
<thead>
<tr>
<th>Date</th>
<th>Tariff Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Oct, 1854</td>
<td>Extends the exception until 31 July 1855 of navigation taxes for flour, rice, potatoes, and dry vegetables</td>
</tr>
<tr>
<td>25 Oct, 1854</td>
<td>Removes import tax on medical plants if imported on French ships from outside of Europe.</td>
</tr>
<tr>
<td>6 Nov, 1854</td>
<td>Removes import tax on cinchona bark if imported on French ships from outside Europe.</td>
</tr>
<tr>
<td>29 Nov, 1854</td>
<td>Prohibits the export of grain and flour until 31 July 1855</td>
</tr>
<tr>
<td>20 Dec, 1854</td>
<td>Provisionally changes an import tax on sugar, raisins and molasses</td>
</tr>
<tr>
<td>20 Dec, 1854</td>
<td>Reduces the import tax on animal fat of all sorts; fish oil from foreign fishing; olive oil, seed oil, palm oil, coco oil, touloucouna oil, illipe oil; sesame seeds, poppy seeds, rape seeds, flaxseeds; candles, stearic acid</td>
</tr>
</tbody>
</table>

Russia

When Britain and France decided to attack the Crimean Peninsula, Russia found itself in an unenviable position of expecting a long, intense war. Knowing that all trade with the enemy had the potential to increase the enemy’s military capabilities, and with a long war giving the enemy the opportunity to convert most of their gains from trade into military capabilities for use in the current war, Russia had to be very careful with its wartime commercial policy.

Unfortunately, prohibiting most of the trade Russia had with Britain, specifically, would come at a huge economic cost. No other market was large enough to soak up Britain’s share.

In preparation for the war expanding from a coercive maneuver against Turkey to a military confrontation against Britain and France, the Russian government prohibited the export of gold coin from the country.¹³⁹ In part this helped the government fund the war effort; in part it was a response to the domestic panic over the inflation the war was expected to bring. People

¹³⁹ “О воспрещеніи, впредь до усмотрѣнія, вывоза за границу Россійской золотой монеты, моремъ и сухопутно” #27965, 11 March 1854 in Polnoe Sobranie Zakonov Rossii Imperii - 1854, vol. 29 (Sanktpetersburg, 1855), 224.
demanded specie as opposed to credit notes. As far as wartime commercial policy was concerned, however, this prohibition made it considerably more difficult for Russian merchants to pay for imports from the Britain and France.

On March 1st, 1854, Russia prohibited the export of grain through Odessa and all Black Sea and Azov Sea ports until September 1st, 1854. This had a significant effect on the trade in grain, as 71 percent of Russian grain left the country through those ports. Still affecting only trade leaving the southern ports of Russia, the prohibition was extended indefinitely on September 19. Prohibiting the export of grain from the southern borders artificially increased the conversion time of grain into enemy military capabilities. Exporting grain from St. Petersburg or across Russia’s western land border with Europe substantially increased the transportation time to get the grain to the theater of war where the enemy needed it.

The prohibition on the export of grain of November 26, 1855 became more extreme with grain no longer being allowed to leave the country through the European borders, including Poland. The wording of this decree specifically stated that the additional measures were “due to the scarcity of the current crop year.” In fact, the harvests of both 1854 and 1855 provided a lower than normal yield. At the same time, grain had a short conversion time, even including the increased transportation time, and unlike many other raw materials, the war created an increased domestic demand for the product that could rival even the British market. By prohibiting the export of grain, Russia not only deprived its enemies of a product necessary for their war effort,

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141 “О воспрещений вывозить хлѣбъ за границу изъ Одесскаго и всѣхъ Черноморскихъ и Азовскихъ портовъ” #27934 in Polnoe Sobranie Zakonov Rossiiskoi Imperii - 1854, 29:186.
142 F.G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.,” 59–60.
143 “О воспрещений вывоза хлѣба за границу” # 28530 in Polnoe Sobranie Zakonov Rossiiskoi Imperii - 1854, 29:758.
144 With the exception of wheat.
145 “О воспрещений вывоза хлѣба за границу” # 29819 in Polnoe Sobranie Zakonov Rossiiskoi Imperii - 1855, vol. 30 (Sanktpetersburg, 1856), 673.
it also ensured access to low priced grain domestically. To forestall any potential domestic unrest, the Russian government needed to ensure that the hardships of war did not affect the food prices. Preventing grain from leaving the country accomplished just that – the abnormally high supply within the country depressed the price to such an extent that outside of the immediate field of battle, the price of grain was lower during the war than in peacetime.146

Aside from grain, however, Russia could not afford to prohibit the export of its raw materials to the enemy. The amount of revenue received from this trade was too substantial to sever during the war. Instead, the Russian government facilitated the use of neutral states as intermediaries for continued exports to enemy states. On June 30th, 1854, Russia started making trade across the western European land border considerably easier.147 By July 5, 1954, a new tariff schedule was released for Russia’s western land border with Europe, reducing duties on twenty-eight categories of raw materials and semi-finished goods and seventy-nine categories of manufactured goods.148 Additionally, Russia invested in improvements of transportation infrastructure between St. Petersburg and Memel, Prussia, the first neutral port across the Russian border.149 This decreased both the time and cost of transporting Russian exports to the neutral intermediary for re-export to the enemy.

The next part of the Russian commercial policy during the war was to prevent the import of weapons and ammunition into the Caucasus area. On September 3, 1854, when it was clear that the enemy intended to continue the war and to relocate the theater of war to Crimea, in other words when Russia started thinking of the war as a long one, Russia moved to prevent certain

147 “О допущениі нѣкоторыхъ облегченій для торговли чрезъ западную сухопутную границу” # 28349 in Polnoe Sobranie Zakonov Rossisskoĭ Imperii - 1854, 29:636.
149 Hansard, vol 136, House of Commons Debate, 20 Feb 1855, cc 1659-713.
products from entering the battlefield in that region of the Empire. This was done in a rather obscure way. An imperial decree forbade the import into the region, by land or by sea of any products that were “forbidden for import into the Transcaucasian Black Sea Ports by the general tariff of 1850.” Of the items that were prohibited from being imported in these ports, the majority were different classifications of weapons and ammunition. Of course, there was also tea, animal skins, and lottery tickets. But overall, the effect of the imperial decree was to prevent weapons and ammunition of any sort from reaching the battlefield.

Other than keeping guns away from the battlefield, the focus of Russia’s commercial policy during the war was to prevent specific items necessary for the army from leaving the country. On August 24, 1855, all cloth was prohibited from being exported through the European land border. On January 4, 1856 it was declared that meat, in any form or preparation could not leave through the European border. During this time, the complete list of items that could not leave the country became: sheep wool, all meat, cloth (through European borders), cattle, horses and pigs (through western land border), grain wine and spirits (from Bessarabia, and two other provinces), ropes and cables, all fabric (from Black sea ports and Danubian ports), hay

150 “О недозволеніе ввозить въ Закавказскій край иѣтоторые иностранніе товары” #28524 in Polnoe Sobranie Zakonov Rossіiskoi Imperii - 1854, 29:756.
151 “О общемъ тарифѣ по Европейской торговлѣ для таможень Россійской Имперіи и Царства Польскаго” #24533 in Polnoe Sobranie Zakonov Rossіiskoi Imperii - 1850, vol. 25 (Sanktpetersburg, 1851), 501–31. Prohibited items with product numbers: All tea (88), crude saltpeter (180), saltpeter (181), natrum nitricum, nitrate de soude, chili-Saltpeter (192), blades or epees, sabers, daggers with or without gold and silver notches (341), firearms, such as: rifles, pistols and other unnamed weapons in every rim and without it; as well as all accessories to firearms (346), ammunition (352), matches and incendiary chemicals of all kinds (381), wicks (392), tickets of credit issued by Russia (439), foreign lottery tickets (440), all items with holy images (441), gold, silver or bronze foreign coins or medals, except low-proof Russian gold and silver coins (451), skins of beavers, otters, sable, fur seals, sea dogs, and seals (460), gunpowder, small and for cannon (469).
152 A part of this law might have been overturned on Oct 2nd, 1855 - #29661. The new decree allowed “until the end of the current war, the import to Transcaucasia through the land border with Persia and Turkey all European and colonial goods, which by the tariff of 1850 were allowed to be imported into the Black Sea ports of this region.” This might refer only to the tea, animal skins, holy items, and foreign coins and medals; but it is very unclear.
153 “О воспрещеніи вывоза за границу простаго сукна всѣхъ цвѣтовъ” # 29584 in Polnoe Sobranie Zakonov Rossіiskoi Imperii - 1855, 30:545.
154 О воспрещеніи вывоза всякаго рода мяса по всей Европейской границѣ Имперіи” # 29979 in Polnoe Sobranie Zakonov Rossіiskoi Imperii - 1855, 30:748.
(through north-western border). According to a report by the Russian Ministry of Foreign Trade, “during the war, the items that were forbidden from leaving our country to European nations were those that were required in large quantities for our army or those that the enemy might need for theirs.” The focus was on making sure the Russian army was not lacking for supplies and that the enemy was not getting these supplies instead of the Russians. Following the same logic as their British counterparts, these prohibitions forced domestic merchants to sell their merchandise at lower domestic prices instead of being tempted by higher world prices. This had the double effect of increasing domestic supply of necessary goods and decreasing the cost of resupplying the army.

All three belligerents recognized that the Declaration of the Rights of Neutrals changed the situation regarding their wartime commercial policies. But all three responded to it in different ways. Britain legalized trade with the enemy to make sure its merchants had the same access to wartime trade as the neutrals were given. France altered its tariff schedule to divert trade from Russia, avoiding the potential losses vis-à-vis neutral states that the Declaration created. Russia took advantage of the Declaration to ensure its exports continued to reach the enemy and Russia continued to receive the substantial income revenue from this trade.

**Observed Level of Trade**

The following table shows the trade between the belligerents of the Crimean war between 1852 and 1856.

It is quite evident from this table that the war had a detrimental effect on the amount of bilateral trade between Russia and Britain and France. By 1855, direct Russian trade with France and Britain fall below one percent of the 1851-1853 average. Russian imports from these countries dropped as well, however by a smaller percentage. As soon as the war ended, trade with all belligerent countries rebounded to its heightened 1853 level.

Table 4.3: Russian European Trade divided by Country (in million rubles)

<table>
<thead>
<tr>
<th></th>
<th>Russian Exports to</th>
<th>Russian Import from</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1852</td>
<td>1853</td>
</tr>
<tr>
<td>England</td>
<td>42.9</td>
<td>66.0</td>
</tr>
<tr>
<td>France</td>
<td>6.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Turkey</td>
<td>7.3</td>
<td>5.8</td>
</tr>
<tr>
<td>Sardinia</td>
<td>2.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Allies Total</td>
<td>59.8</td>
<td>90.6</td>
</tr>
<tr>
<td>Prussia</td>
<td>10.4</td>
<td>13.5</td>
</tr>
<tr>
<td>Austria</td>
<td>5.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Transit Total</td>
<td>16.1</td>
<td>21.1</td>
</tr>
<tr>
<td>Others</td>
<td>24.2</td>
<td>25.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.1</td>
<td>137.4</td>
</tr>
</tbody>
</table>


It is also evident that direct trade with the enemy occurred during the war. And, as should be expected, the longer the war stretched on, the less of it was allowed. Despite the Russian prohibitions on the export of grain through southern ports and the blockade of the Baltic ports, Russian grain still made up for nine percent of all the grain Britain imported in 1854.157 And a sizable amount of Russian grain made it to England in 1855 through Prussia.158 At the same time, trade in products that could be diversified away from the enemy was slowly transferred to other states. While Britain started the war importing substantial amounts of Russian lard, 2,301,351 pounds’ worth of trade in 1853, this dropped to 26,880 pounds in 1855. Lard had a number of

157 F.G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.,” 100.
158 F.G. Terner, 104.
substitutes, including coconut butter and palm butter which Britain could get from North America or its colonies.\textsuperscript{159}

In addition to the bilateral trade with the enemy, considerable trade with the enemy took place through Prussia and Austria. As Russian ports were blockaded during the war, Russian trade had to continue through the closest non-blockaded ports – Memel, Prussia – and through the land border with Europe. Since the belligerents were allowed to trade with the enemy during the war, the Prussian and to a smaller extent Austrian statistics actually show direct trade between Russia and Britain, carried on through Prussia and Austria.\textsuperscript{160} Interestingly, Prussia maintained its wartime share of Russian exports even after the war ended. Prussia also emerged as the main exporter to Russia after the war, surpassing England.

It should be emphasized that just looking at trade statistics does not present a full picture of wartime commercial policy. A sizable portion of Russian exports fell during the war years because Russia, itself, prohibited the export of grain. Grain accounted for around 30% of all Russian European exports.\textsuperscript{161} And another sizable portion of Russian trade disappeared because of the too frequent peace conferences during the war – with the potential for peace breaking out, merchants did not want to risk buying items transported through Prussia on the off chance peace would resume the flow of cheaper products transported directly by ship.\textsuperscript{162}

\textbf{Alternative Arguments}

\textit{The Role of Domestic Politics}

During the Crimean war, pressure from domestic interest groups did not play much of a

\footnotesize\textsuperscript{159} F.G. Terner, 201–2.
\footnotesize\textsuperscript{160} France did not follow suit. It was not profitable for French merchants to pay the increased cost of these products.
\footnotesize\textsuperscript{161} A. S. Nifrontov, “Vneshnaji TorgovljaRossii vo VremjaVostoenoi Voiny 1853-1856,” 83; F.G. Terner, “Dvizhenie Vneshnei Torgovli Rossii s 1853 Po 1856 g.,” 45.
\footnotesize\textsuperscript{162} F.G. Terner, “Dvizhenie Vneshnei TorgovliRossii s 1853 Po 1856 g.”
role in the formation of wartime commercial policies. As was explained previously, Britain’s initial policy was to prevent their merchants from importing the merchandise they had already purchased in Russia. Through the negotiations with France and the creation of the Declaration of the Rights of Neutrals, the British government actually prioritized neutral merchants to those that make up the domestic constituency. Only after neutral merchants were given the right to facilitate indirect trade between Britain and Russia were the interests of domestic merchants even considered, and then only in so far as such trade would facilitate an increase in state revenue. To the extent that domestic trade interests were given a role in the formation of wartime commercial policy, it was only to occasionally provide specialized knowledge in how to define product boundaries. For example, when the British government prohibited the export of round bars to Russia, merchants had a chance to explain that the security externalities Britain was concerned about came from only a specific subset of round bars, not all of them – thus the prohibition was amended to prohibit the export of round bars from 5/8 to 3/4 of an inch in diameter.

Likewise, the formation of wartime commercial policy in France was not made at the behest of domestic trade interests. While France did want to help its merchants import products that were already purchased from Russia at the start of the war, this was driven by state concerns that Russia would benefit from trade twice. Once because it was already paid for the merchandise, and again because it could use the items that would no longer be allowed to be shipped to France. Further, in agreeing with Britain not to issue licenses during the war for any reason, France took a stance that expressly prevented its merchants from engaging in preferential trade. Overall, during the Crimean war, the wartime commercial policy was formulated largely based on concerns over the security externalities of such trade.
Maximum Economic Pain

The predictions made by the maximum economic pain argument do not match the actual policies chosen by the belligerents in the Crimean War. The first variant of the maximum economic pain argument predicts that states should prohibiting a small number of products that is most essential to the enemy economy and allow trade in all products. This is almost the exact opposite of Russia’s chosen policy during the war. Russia allowed trade with Britain in raw materials that were most essential to the British economy, and prohibited other trade. Britain allowed trade with Russia in everything except arms and ammunition, which was not what the Russian economic was most vulnerable to. France restricted all trade with Russia, not just some basket of goods that would impose damage on the Russian economy. In fact, in creating its wartime commercial policy France cared particularly little about damaging the Russian economy. Their focus was on avoiding economic costs to their own state.

The second variant of the maximum economic pain argument predicts that states should set wartime commercial policy based on their possibilities for enforcing maximum economic pain on the enemy. Only those states that can create such pain should prohibit trade, others should allow trade. Russia, as well as all other belligerents, gave up its right to issue letters of marque to privateers as part of the Declaration of the Rights of Neutrals. Without the additional naval strength, it could not enforce maximum economic pressure on the enemy. However, unlike the predictions of this argument, Russia still restricted imports from enemy states and prohibited certain products from export, most significantly grain.

On the other side of the war effort, creating maximum economic pressure on Russia is particularly difficult due to the size of the country. To impose maximum economic pressure, Britain and France would have needed Prussia and Austria to sever trade with Russia. While
Britain attempted this task, it was not successful. As such, this alternative argument would predict that both Britain and France should have allowed trade with the enemy. France chose to do the exact opposite. And while Britain did allow trade with the enemy it was not because of enforcement concerns but because Britain wanted to maintain its economic competitiveness on the world stage.

Conclusion

The Crimean War shows how the adoption of neutral rights changes state’s thought process about their wartime commercial policy. Before neutral rights were introduced, the belligerents were content to follow their age old strategy of prohibiting all trade with the enemy. However, when the Declaration of the Rights of Neutrals was adopted, each one had to reconsider this initial decision. Britain, expecting a short, peripheral campaign, created a lax wartime commercial policy, legalizing most trade with the enemy. France, likewise expecting a short, peripheral campaign, but having a protectionist economic structure, designed a wartime commercial policy that completely avoided the problem of neutral rights. Russia, expecting a long and intense war, chose a prohibitive wartime commercial policy, but one with a giant hole for raw materials, the export of which was necessary for the revenue of the state.
Chapter 5: World War I

Britain’s initial wartime commercial policy in World War I carefully balanced the military and economic imperatives to trade with the enemy. While direct trade was prohibited for practical reasons and a concern over public opinion, indirect trade was almost entirely permitted. Some products were identified as being too important to the British economy to sever trade in, specifically coal tar dyes, sugar, and metal manufactures. These goods were key to keeping the domestic manufacturing running and as such contributed greatly to the revenue of the state. Other products were deemed “innocent” goods used exclusively in civilian manufacturing. Since Germany, Britain’s primary expected enemy, would not be able to benefit from trade in “innocent” goods militarily in time to affect the outcomes on the battlefield, Britain could continue to supply them. Several products, on the other hand, were deemed too dangerous to trade with the enemy. These were guns, ammunition, gunpowder, airplanes, surgical bandages, and the like – items that could be converted into military capabilities quickly. However, not all military equipment was on the initial list prohibited from trade with the enemy: machine guns, shipbuilding materials, implements for digging trenches were initially permitted to be traded with the enemy. Given the type of war Britain was anticipating, none of these were expected to contribute to the enemy’s war effort.

Of course, this policy was made with a quick war in mind and was significantly amended when this assessment proved incorrect. The longer the war was expected to last, the more products were prohibited from trade with the enemy. The more existentially threatening the war became, the more Britain was willing to give up trade in products important to its own economy. Around February-March 1915, after British leaders realized that the Western front was stalled and that an injection of new men and new supplies would not break this stalemate, the wartime
commercial policy was reevaluated. Numerous items that were previously deemed “innocent” were prohibited from trade. By the end of 1916, with the end of war nowhere in sight and the hopes of victory starting to dwindle, Britain severed trade in the majority of the products that were previously deemed too important to the economy to lose trade in. All trade with the enemy, however, was not severed until October 1, 1918, a month and ten days before Germany surrendered.

This chapter proceeds as follows. The first section describes how the British government developed its initial wartime commercial policy, tracing the debate in the Committee in Trading with the Enemy about which factors should be considered most important in determining a state’s policy regarding trade with the enemy. The following section tackles changes in Britain’s wartime commercial policy during the war. It shows how Britain’s expectations about the length and intensity of war changed and how the wartime commercial policy responded to those updates in expectation. The third section addresses the alternative explanations for the formation of Britain’s wartime commercial policy.

**Formation of Initial Policy**

According to the theory presented in Chapter 2, a state’s wartime commercial policy should be designed based on considerations about the security externalities of trade. First, states are expected to recognize that products vary in the amount of time the enemy takes to convert them into military capabilities. Products with conversion times longer than the expected length of war should be deemed safe to trade with the enemy, as they are unlikely to increase the enemy’s capabilities in the current conflict. Second, states should rank products based on the amount of revenue that would be lost if trade in the product was severed. Products that contribute greatly to the revenue of the state should be considered for trade with the enemy so as to maintain a
continued stream of investment into the state’s long term security. Finally, states need to set their wartime commercial policies based on the type of war they are expecting to fight. At the start of World War I, Britain expected a short war on the continent that would not immediately threaten Britain’s survival. As such, the theory would predict that Britain should adopt a lax wartime commercial policy. Only products that could be converted by the enemy into military capabilities in a short amount of time should be prohibited.

Assessment of Commercial Situation

In 1911, in preparation for a potential war with Germany, the British government created the Standing Sub-Committee of the Committee of Imperial Defense on Trading with the Enemy. Its purpose was to examine “the subject of trade between British subjects and the enemy in time of war, the extent to which it should be allowed and the means and method of carrying out the policy recommendations.”242 One of the necessary pieces of information for this examination was the importance of the trade between Britain and Germany. The Board of Trade provided such an assessment.243 In 1910, German goods imported into and retained in the UK were valued at 58 million pounds, a bit less than one tenth of the total imports into the UK.244 At the same time, Britain exported 37 million pounds of its produce and manufacturing to Germany, which amounted to about a twelfth of its total exports.245 Additionally, there was 25 million pounds worth of transit trade – items shipped from other countries through Britain to Germany or items

242 “Terms of Reference”, Report and Proceedings of the Standing Sub-committee of the Committee of Imperial Defense on Trading with the Enemy, British National Archives, CAB 16.18A, 1912, vi.. (Here after this report will be referred to as Report)
243 This case study relies solely on information gathered by the Board of Trade for the Committee of Trading with the Enemy as this was the information the committee used to make their policy recommendations. The accuracy of either the statistical information or the conclusions drawn by the Board of Trade are largely irrelevant as it was the only expert information provided to the committee.
244 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” Standing Sub-Committee of the Committee of Imperial Defense (SSCID), British National Archives, WO 106.45, December 1911, 2.
245 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 2.
sent from Germany through Britain to be distributed to other countries. Of this, 20 million pounds of trade brought some sort of domestic profit as goods changed hands in the UK.\textsuperscript{246} Goods transshipped to Germany through Britain included sheep or lambs’ wool, rubber, fur, leather and coffee.\textsuperscript{247} Goods transshipped through Britain from Germany were largely manufactures of cotton, silk and wool.\textsuperscript{248} The Board of Trade assumed that this trade would be the most affected by potential hostilities between the two countries, as it would likely pass into the hands of neutrals.

Of the goods Britain imported from Germany, around forty four percent were products for which Germany was the predominant supplier.\textsuperscript{249} These include unrefined beetroot sugar, coal-tar dyes, cotton piece goods, cotton hosiery, mixed silk goods, furs, toys and games, iron and steel manufactures, steel sheet bars and tinplate bars.\textsuperscript{250} Three of these categories – sugar, coal tar dyes, and metal manufactures were important raw materials in British manufacturing. The rest were primarily finished goods that required little processing in the UK. While the Board of Trade believed that domestic manufacturing could have filled the domestic demand for clothing, rubber, and earthenware products, it would have been insufficient to fill the demand for clocks, coal-tar dyes, electrical glow lamps, mixed silk goods and sugar.\textsuperscript{251} In the case of sugar the situation was most dire, as the Board of Trade believed that if Germany was effectively prevented from exporting sugar, there would not be enough global supply left to cover British needs.

\textsuperscript{246} “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 2.
\textsuperscript{247} Products are arranged in order of value of trade.
\textsuperscript{248} “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 3.
\textsuperscript{249} Predominant refers to more than 50%. “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 13.
\textsuperscript{250} “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 13.
\textsuperscript{251} “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 13.
Trade in products flowing from Germany to Britain was assessed by the Board of Trade as being characterized by mutual dependence – Germany needed Britain as a market and Britain needed Germany as a source of goods. However, trade in the opposite direction, from Britain to Germany, was assessed differently. For Germany, imports from the UK accounted for around 8.5 percent of its total imports, however, for nearly two thirds of the products received from the UK, the UK was the predominant source of supply. These items included salted herrings, yarns of wool and hair, heavy woolen tissue, cotton yarns, cotton tulle, cotton tissues, sheep and lamb-skins, tinplate, cotton-spinning and preparing machinery. While this trade would have been difficult for Germany to replace, severing it would not have applied maximum pressure on Germany, as none of these products were raw materials indispensable to industry or indispensable food items.

It was also assumed that Germany was not all that necessary to Britain as a market for British goods. Less than a sixth of the value of exports from Britain to Germany consisted of products for which Germany was the predominant market. These items were maize meal, sharps and middlings, fresh and cured herrings, painters’ colors (barites), thrown silk, slates for roofing, wool flocks, worsted yarns, alpaca and mohair yarns, yarn of hair or wool. While specific groups of merchants in Britain would have been adversely affected by the loss of this trade, overall, Britain would not have suffered much.

A more thorough investigation was conducted of the wool trade, as the main German import from Britain, and the sugar trade, as the main British import from Germany. It was found

252 Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 9.
253 Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 10.
254 Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 11.
255 Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 11.
that in addition to the wool imported into Germany from the UK, most of German wool came from British colonies. While South American wool could possibly have been used as a substitute for British wool, it would have required considerable upfront costs as Germany did not yet have the machinery necessary to process that different type of wool.\textsuperscript{256} A thorough assessment of the sugar trade led to the conclusion that the import of sugar was actually a one sided dependence on the British side. The position of sugar manufacturing in Germany was of minor importance, and Germany could easily use the sugar they produced to satisfy domestic demand.\textsuperscript{257} Thus Germany required British wool, and Britain required German sugar.

The Board of Trade, in making their assessments fully recognized that neutrals would pick up the trade that would be forbidden to British and German ships. In the event that trade with the enemy was allowed, it was assumed that trade would continue between the two countries directly in neutral ships; in the event that it was prohibited, trade would continue indirectly through neutral ports. Based on this assessment, the report made by the Board of Trade pointed out that the real limiting condition in trade would be infrastructural – the capabilities of neutral ports to deal with the increased traffic and the availability of neutral vessels to ship the vast quantities of goods between Germany and Britain.\textsuperscript{258}

*Expected Length of War*

Another significant piece of information the Committee on Trading with the Enemy wanted to have, in order to make appropriate policy recommendations, was the probable duration of war between Britain and Germany with potential allies on both sides. A note of March 12,


\textsuperscript{258}“Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 3–8.
1912, from the General Staff, while refusing to go into any particular details on the subject, stated that “it would not be safe to calculate on the war lasting less than six months.” Given the incentives for the War Office to not make a point prediction, lest they be blamed for it later, and the incentives to not underestimate the length of war because it also affected their arguments about the level of stocks of military items they wanted kept in the country, the committee made the assumption that the war would not be especially prolonged.

Policy for War with Germany

The members of the Committee on Trading with the Enemy, coming from different branches of government, and interpreting the information presented by the experts differently, naturally came to different conclusions about what the British wartime commercial policy should be. Their positions ranged from free trade with the enemy to complete prohibition on direct and indirect trade with the enemy.

The report by the Board of Trade focused on the fact that Germany would likely have the Netherlands, Denmark, and potentially Belgium as neutral neighbors; therefore, “there would be little advantage in maintaining the legal prohibitions against exporting merchandise to an enemy country.” It was assumed that all belligerents would respect neutral rights, which did end up being the case in the opening months of World War I. Focusing on the lessons learned from the Crimean War, the policy position was that so long as neutral rights are respected, a prohibition on trade with the enemy did nothing more than throw trade into the hands of neutrals without increasing pressure on the enemy. The Board of Trade pointed out that the situation would look different if the war was with a belligerent that was of “minor commercial importance” and for

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259 “Note by the General Staff”, Report, March 12, 1912, British National Archives. CAB 16.18A, 424.
260 With the exception of arms, ammunition, naval and military stores.
261 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,”
which Britain was “a principal market.” In situations of one sided-dependence, Britain could, of course, create considerable pressure on the potential enemy. However, in the case of Germany as the potential enemy, this situation could not obtain. There was only one article imported from Germany, for which Britain was the principle market – sugar. Unfortunately, Germany was also the principle supplier of sugar to the UK, making this, in the best case, a situation of mutual dependence in which any exerted pressure on the opponent also placed pressure on oneself, and, in the worst case, one-sided dependence with Germany holding the knife. Overall, the Board of Trade concluded that “we [Britain] are nearly as dependent on Germany for our imports as she is on us for her exports.” Considering the mutual dependence, the Board of Trade posited that Germany would also be hesitant in prohibiting trade with Britain during the war. Therefore, the position articulated by the Board of Trade was something close to complete free trade with the enemy. So long as neutrals could take over all trade that Britain was going to sever, Britain had no control over the enemies’ ability to increase military capabilities; Britain would only be hurting itself by severing trade.

Llewellyn Smith, the permanent secretary of the Board of Trade, and a permanent member of the Committee on Trading with the Enemy, wrote a separate memorandum on the subject. Starting with the assumption that all direct trade between belligerents must stop during the war largely due to the process of war, he restricted his analysis to what should be done about indirect trade. He suggested that Britain follow the existing common law, that all trade with the enemy is illegal except under license, and that, with a few exceptions, all trade should

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262 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 8.
263 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 9.
264 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 10.
265 While this is an unstated assumption, without it the logic of the argument would not hold.
be licensed for trade with the enemy. His list of exceptions included:

- British vessels could not enter enemy ports,
- British produce could not be carried from British ports to enemy ports,
- A very short schedule of goods which could not be carried from British ports to foreign ports, unless Customs was satisfied that these goods would not reach the enemy,
- British vessels could not carry any of the products from this schedule of goods to foreign ports so long as the final destination of the good was the enemy.

The first two exceptions assured that all trade between belligerents would be done indirectly. The practical effect of such a policy would be to increase the conversion time of all products by increasing their transportation time to the enemy. In Smith’s conception, the short schedule of goods should be made up of products used by the enemy for naval and military purposes, as well as a very restricted list of products which could put economic pressure on the enemy, that is raw materials used by the enemy population. His preferred policy focused on preventing the enemy from getting products which could quickly increase its military capabilities and, at the same time, starting to put pressure on the enemy’s economy.

Having been requested to provide a legal overview of the issue of trading with the enemy, Professor Oppenheim included his opinion on policy as well, advocating for some trade with the enemy to remain. In his report, he stated that historically there have been three legal bases on which a prohibition on trade with the enemy was based: the nature of war, enemy subjects could not sue, the purpose of war. However, none of these three legal bases applied to the possible war with Germany. According to his report, in modern wars hostilities were restricted to the

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268“The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” SSCID, British National Archives, WO 106.45, December 1911, 14.
armed forces, and thus the nature of the war no longer pitted the people of two countries against each other, making that basis for a policy of no commercial intercourse moot. The legal basis for preventing enemy subject from suing in the courts of the belligerents had been thoroughly tested in the courts of numerous countries and the principle largely ignored. The general purpose of war was stated as “overpowering the enemy by cutting off the necessaries of life from the enemy country.” Given the rights of neutrals, Professor Oppenheim stated that in a war against a European power, it would not be possible to achieve this purpose. With all three of the legal bases for prohibiting trade with the enemy being excluded as sufficient reason for such a policy, he proposed that “such trade with enemy subjects as is not compatible with the aim of British warfare should, on principle, be prohibited.” Amongst such trade he considered trade in arms, ammunition, naval and military stores. On the other hand, trade that did not contradict British war aims should be allowed – such as “all trade in innocent goods through the channel of neutral countries” Being a legal scholar, he made sure to end his report with “the Crown should be empowered at any time during war…to prohibit all kinds of trading in case such prohibition is desirable.” His position emphasized the possibility that some trade with the enemy could be considered innocent and as such allowed. However, he stopped short of providing a decision rule for how to decide which goods were innocent – except that such trade should not contradict the British war aims.

The view from the Admiralty was that Germany derived a significant portion of its income from import duties and was dependent on industrial production. Germany imported half

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269 All irony applies.
270 “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” 16.
271 “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” 16.
272 “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” 16.
273 “The Question of Trading with the Enemy from the Legal and Political Point of View, No. 9,” 19.
274 This position does not really provide a reason to trade with the enemy, more of a negative case of saying there is no reason to not trade with the enemy, so long as trade does not contradict war aims.
of its total demand for wheat, a quarter of its cereals and large portions of raw materials used in its industries, with cotton, jute and rubber coming entirely from outside the country. Taken all together, this meant to the Admiralty that Germany was susceptible to great pressure through naval means. While believing that the majority of this pressure would stem from a blockade of German ports, any additional pressure that a prohibition on trade could bring was welcomed. It was thus advocated that Britain do all it could to prevent German imports of foodstuffs and raw materials. And the more allies Britain had to follow the same policy, the more pressure could be exerted on Germany in this way. The Admiralty focused on the revenue side of security externalities in making their recommendation. However, they assumed that German revenue from trade was the most important consideration, and somehow overlooked completely the British revenue from trade. They suggested that since Germany benefited financially from its trade, such trade as contributed most to German coffers should be prohibited.

In addition to economic considerations, some of the committee members pointed to domestic political concerns which in their opinion should influence the structure of the wartime commercial policy. Using the Boer war as an analogy, Lord Esher, a permanent member of the Committee on Imperial Defense, suggested that the domestic public, and possibly the allies as well, would expect maximum pressure to be brought to bear against Germany and would therefore be greatly turned against trade with the enemy. “This expectation might be formulated in a demand by public opinion, voiced by the press, in such an overwhelming force that no

276 “Memorandum by the Board of Trade on the Probable Effect of a War with Germany on British Trade, No. 8,” 5.
278 The Admiralty basically wanted Britain to adopt the logic of the first variant of the maximum economic pain alternative argument.
Government would be able to resist it.”279 He went further to suggest that even though the common law in Britain prevented trade with the enemy, legislative action should still be taken to reiterate this in order to appease public sentiment.

While opinions on the proper policy for a potential war with Germany were quite divergent, there were several important elements that the committee members agreed upon.280 First, the selected policy had to match the expected type of war. Second, different types of products should be treated differently under the wartime commercial policy. Third, if Britain chose to prohibit all trade with the enemy and attempted to interfere in neutral trade with the enemy, the enforcement of such a policy could be accomplished.

It was understood by all members of the Committee that economic pressure was a time dependent policy instrument – it took time to achieve any effect. Lord Desart, the Chairman of the Committee pointed out that “a short period of extreme commercial pressure must affect the permanent commercial interests of the nation less than a prolonged period during which that pressure, which must in any case be heavy, was reduced to its lowest possible proportion.”281 Even if the Committee resolved to sever all trade with the enemy and picked the most stringent method of enforcing this policy, in the short term it would have no effect on helping Britain win the war. Only in the long term – if they war become prolonged, would commercial policy be able to contribute to battlefield outcomes. Sir R Chalmers, a representative from the Treasury, emphasized that “if the war were brought to a rapid conclusion by the success of the German armies over France, it would not be worthwhile for us to exercise the weapon of economic

280 Humorously, they could not agree on whether the British public would patriotically stop all trade with the enemy spontaneously or be tempted into war profiteering by the increased price of freights and products.
281 “Note by the Chairman”, Report, February 21 1912, British National Archives. CAB 16.18A, 419.
pressure, which must necessarily require time to produce effect.”

The same held if the allies were to defeat Germany quickly – most of the economic pressure that came from regulating trade with the enemy would not even begin to be felt.

Admiral Troubridge focused on the effect of time when discussing the potential for Germany to reorient its economy from relying on direct trade with Britain, to receiving all of its necessary resources indirectly through neutrals. “It would take a long time before such a huge volume of trade could be diverted to neutral ports. No doubt, however, attempts would be made so to divert it, which would prove more and more successful as time went on, and then it might be important to supplement the naval blockade by prohibiting that considerable portion of trade which was carried on with this country.”

Even arguing from a position of prohibiting all trade and imposing maximum pressure on the enemy, it was recognized that wartime commercial tools could only contribute to this pressure after a period of time. Lord Esher, also talking about the amount of time it took to redirect trade via alternative routes, noted that “it is the estimate attached to that period of time which largely governs the value of the pressure which could be put upon Germany.”

It was a shared assumption among the members of the Committee that creating shortages in enemy supplies took time.

At the same time, the committee was planning for a short struggle. In fact, the secretary of the Committee summarizing the scope and ground to be covered by the Committee on Trading with the Enemy stated “it is of course utterly impossible to foresee what developments of the policy to be adopted may become necessary during the course of a protracted war. Probably all that can be done now is to consider the most suitable policy for adoption at the outset of a

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The Committee recognized that the policy they created had to match the type of war they expected to fight. And if the type of war changed, the policy had to change with it.

In addition to agreeing that the wartime commercial policy must suit the specific war, the committee members decided that different types of products should be treated differently by that policy. They divided trade into three conceptual categories: arms, food and raw materials, and “innocent” goods. Regardless of how open or restricted a member of the Committee wanted the ultimate wartime commercial policy to be, everyone agreed that arms, ammunition, military and naval stores would be prohibited from trade with the enemy. Not everyone agreed on which specific products fit this description, and there were several meeting to discuss this exact question, but all were in agreement that a nebulous list of finished goods used directly in war should never be traded with the enemy in times of war. The opponent can quickly increase their military capabilities with such products even in a fairly short conflict.

“Innocent” goods, likewise, did not pose any difficulty for the Committee members. Goods classified as “innocent” where those used exclusively in civilian manufacturing. They were assumed to not assist the enemy in prosecuting the war, and as such could be safely traded with the enemy. These goods, by definition, had a longer conversion time into military capabilities, thus, they could not add to the enemy’s war effort during a short war.

Raw materials were the contentious category. While it was agreed that these products could not benefit the enemy militarily in a short period of time, they were assumed to increase

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285 Note by the Secretary, No. 1,” SSCID, British National Archives, WO 106.45, February 6, 1911, 1.
286 The emphasis here on ‘finished goods’ is for theoretical reasons. In fact, none of the proposals for arms and ammunition included the raw materials required to make these weapons. It was guns and canons that the Committee wanted to prevent from reaching the enemy, not metal to make them.
287 “Draft Report”, Interdepartmental Committee on Trading with the Enemy, February 21, 1915, British National Archives, CAB 42.1.46, 1.
the revenue of the enemy substantially. The debate was over whether the enemy’s revenue gained from trade should be a relevant factor in making wartime commercial decisions. In their final report, the committee settled on recommending a policy of prohibiting raw materials, such as cotton, raw wool, crude rubber, raw jute and coal, from trade. However, this recommendation was not accepted by the Cabinet. While prohibiting the enemy from gaining raw materials could exert great pressure on the enemy, as the Committee on Trade with the Enemy pointed out, such pressure takes time to have an effect. In a short war, there simply wouldn’t be any time for that to happen.

Finally, it was agreed that enforcing a prohibition on direct trade was easier than on indirect trade. However, if the ultimate policy prescription required it, enforcing a prohibition on indirect trade with the enemy could be accomplished – not perfectly, but well enough to tighten the noose on enemy necks. While some Committee members had doubts about the high economic costs such enforcement would require, after discussing a memorandum by the Board of Customs and Excise on how such enforcement might be carried out, the Committee agreed to continue their proceedings on the assumption that it was possible to prevent a considerable amount of trade through neutral states. The plans made by the Customs office included requiring merchants to furnish detailed statements of goods to be traded and their ultimate destination, giving Customs officers the right to inspect cargo, taking bonds from merchants to ensure their goods were delivered to the correct port where delivery could be certified by the British consul. Additional schemes were put forward for preventing indirect trade with the

enemy, such as the rationing of neutral countries\textsuperscript{292} and vigilance against violators of the policy (precursor to Black List). In fact, all of the instruments ultimately used in World War I to place enormous economic pressure on Germany were considered during the meetings of the Committee before the war even started. The stringent enforcement measures were initially rejected because they were not required in the kind of war Britain was preparing for.

Based on the recommendations of the Committee on Trading with the Enemy, Britain’s initial wartime commercial policy for a war with Germany was: 1. Prohibit direct trade with the enemy, 2. Allow indirect trade with the enemy, except in a few items which were prohibited from leaving the country because they were necessary for military and naval means, and a few items which were prohibited from trade with states adjacent to the enemy, as they were determined to quickly increase the military capabilities of the enemy. While the Committee also advocated for the prohibition of several raw materials required for Germany industry, as was mentioned previously, the Cabinet did not accept this part of the proposal. Restrictions were not placed on trade in the raw materials Germany needed for its industry.

The decision to prohibit direct trade with the enemy was based on concerns, laid out by Lord Esher, over the public outrage the decision to trade with the enemy would bring. In order to forestall such an outcry, and the corresponding crippling pressure on the government, the Committee proposed that for the first few weeks of war direct trade with the enemy be prohibited. This period of most restrictive wartime commercial policy was meant to coincide with the period when the entire transportation infrastructure was overloaded with transferring military personnel and supplies to the front lines. That is, when there would have been little opportunity for trade to occur anyway. So, in fact, the prohibition was not meant to actually

\textsuperscript{292} “Meeting of the 120th meeting,” Committee on Imperial Defense, December 1912, British National Archives, CAB 38.22.42, 8.
prohibit any trade. Later in the war, after the practical barriers to trade were removed, the
Government was meant to switch to the general policy preferred by the Committee, where direct
trade would be allowed. If no public outcry materialized at the beginning of the war, the
government was, likewise, to rescind the prohibition on direct trade.293

With the exception of the prohibition on direct trade with the enemy, the wartime
commercial policy adopted by Britain was based on a reasoned weighing of the economic
benefits of trade against the military costs of potentially helping the enemy. Trade in products
that the enemy could convert into military capabilities by the end of the 1914, when the war was
expected to end, was severed. At the same time none of the products that were of great
importance to the British economy were prohibited from trade, safeguarding the state’s revenue
from trade. In fact, despite the prohibition on direct trade with Germany, the Board of Trade
gave out numerous licenses to individual merchants for the direct purchase of German raw
materials. Such licenses were granted for the import of enemy goods, “which are essential for the
maintenance and development of industries in this country and cannot be supplied to anything
approaching an adequate extent from other than enemy sources.”294 Specifically a large
proportion of the licenses were granted for import of aniline dyes, used in textile and leather
industries, also prominent was the import of various potash compounds, used in the manufacture
of explosives, glassware and dye-making.295

Changes to the Commercial Policy During the War

To borrow a truism – no plan survives contact with the enemy. The initial wartime

294 Llewellyn Smith, “Licenses to import goods from Germany while the new Order in Council is in Force”, Mar 8,
1915, British National Archives, FO 382.186.
295 Llewellyn Smith, “Licenses to import goods from Germany while the new Order in Council is in Force”, Mar 8,
1915, British National Archives, FO 382.186.
commercial policy was created for a short conflict and it quickly outlived its usefulness. Based on the theory presented in Chapter 2, the content of a state’s wartime commercial policy towards enemy belligerents should reflect the progress of the war. As the expected length of war increases, so should the number of products that are prohibited from trade with the enemy. Likewise, as the conflict becomes more existentially threatening, the states should be more willing to give up trade in products that generate substantial income from circulating in the economy. With the expected length of war growing longer, and with the increasing intensity of war, the wartime commercial policy became progressively more restrictive.

*Expected Length of War*

Before the war started, there was a general belief that the coming European war would be over within a few months. The Royal Navy would impose a successful blockade creating the conditions for French and Russian armies to crush Germany and Austria-Hungary.\(^{296}\) In fact, British leaders bought into the premise that a long war between industrial nations was an impossibility, as all economies would collapse from the strain.\(^{297}\) This expectation of a short war was so widespread that no plans were made for a long war or for the mobilization of the resources of the state.\(^{298}\) The army had, what they believed would amount to, a six month supply of ammunition stockpiled. The domestic production of ammunition was geared towards supplying a very small army. Thus, if Britain required more ammunition that that six month stockpile could provide, the domestic industry would not be able to produce it.\(^{299}\) That no actions were taken to rectify this situation before the war started, serves to show that British leaders did

not expect the war to last longer than six months. ‘The boys will be home by Christmas’ was not a pacifying message meant to placate the domestic populace, it was the wide spread belief of the British, and really all European, leaders before the Great War started.

The start of the war seemed promising and for the first three months the expectation of a short war seemed justified. The French and the British leaders were aware of the Schlieffen plan and understood that it was necessary for Germany to get to Paris early in the war. Thus, news of the Russian victory at the Battle of Gumbinnen on August 20, which forced von Moltke to reinforce the Eastern front at the expense of the Western Front was quite welcome. So much so that the German destruction of Samsonov’s army at the Battle of Tannenberg (August 26-30), did not cause British leaders to falter in their optimism. They fully expected Russia to be able to come up with considerably more numbers and continue to press the Germans from the East. Meanwhile on the Western Front, the French and British success at the First Battle of the Marne (September 6-10) stopped the German army from advancing into France thereby preventing Germany from claiming their quick victory. With the German plan effectively halted, all the Entente Powers had to do was win. Unfortunately, that proved harder than anticipated.

Both sides believed that a quick victory was possible if they could only outflank the opponent’s army. The resulting Race to the Sea (September 17 – October 19) spanned more than 125 miles but failed to produce a decisive result. The trench lines on the Western Front mostly stabilized by October 20. By November, exhaustion set in, the war of movement was over, and thoughts of stalemate could no longer be avoided.

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In London, it was slowly sinking in that the short war everyone planned for was not the reality of the day, and the fact that there was no plan for a long war was making itself clear. In November, the British Prime Minister, Asquith replaced ad hoc councils with an official ‘war council’ specifically to discuss strategy for the war. This was not deemed necessity previous to this moment. By December, it was clear that the war would definitely not be over by Christmas but the expected length of war stretched out only as far as 1915. The belief remained that a quick victory was still possible, with an injection of new men and a fresh supply of ammunition the stalemate on the battlefield could be broken.

1915 began with this sense of optimism. However, the French offensives in the First Battle of Artois (December 17 – January 13, 1915) and the First Battle of Champagne (December 20 – March 17, 1915) painted a very different picture. Considerable casualties for little or no territorial gain was the new reality of war, no matter how much new ammunition or how many new men were fed into the meat grinder. There was no way to a quick and easy victory.

Failing to restart a war of movement, some in Britain turned their attention to other theaters searching for a way to win the war without breaking the stalemate on the Western Front. The Dardanelles Campaign was meant to free the straights for allied shipping after the Ottoman Empire had closed it to British and French shipping in October 1914. Additionally, it was meant to cripple the Ottoman Empire, allow attacks on Austria, ensure that supplies can reach Russia, and once it accomplished all that to sway neutrals to the Entente side. On March 30, Asquith

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308 Warner, 69.
predicted that success in the Dardanelles would bring the war to an end by June 1915.\textsuperscript{310} However, by the end of April all of these high hopes were dashed as it was acknowledged that the campaign failed and had devolved into yet another scene of trench warfare.\textsuperscript{311}

By the end of May, with the Dardanelles campaign a failure, with no breakthroughs on the Western Front, with German breakthroughs on the Eastern Front, and with the shell scandal in full rage, Asquith updated his expectation of the length of war to go past the end of 1915.\textsuperscript{312} The Cabinet seemed to be a bit more pessimistic, making the assessment mid-June that the Allies would not be able to mount a combined major offensive on all fronts until 1916, which could only end the war by end of 1916, maybe even 1917.\textsuperscript{313} The increase in the expected length of war can also be seen from the creation of the Ministry of Munitions on July 2, 1915. While the proximate cause was the shell scandal breaking in the newspapers in London, the new department would not have been created, much less been given much leeway unless the war was expected to run long enough to benefit from its work.

In January 1916, Britain introduced conscription, which can be seen as another sign of the increasing expected length of war. The pool of volunteers had dried up after a year and a half of the conflict. Introducing conscription, however, meant that the British demand for soldiers for the current war would continue into the future.

The need to prepare for a longer war effort was confirmed on February 21, when the Germans attacked at Verdun. German action threw a wrench into the major offensive the Allies were planning since the end of 1915, the offensive that the Marshal of France, Joseph Joffre, had

\textsuperscript{310} French, \textit{British Strategy and War Aims 1914-1916}, 87.
\textsuperscript{311} Warner, \textit{World War One}, 65.
\textsuperscript{312} French, \textit{British Strategy and War Aims 1914-1916}, 78.
\textsuperscript{313} French, 105.
convinced everyone would win the war in 1916. In April, the British government had to demote their expectations of what became the Battle of Somme (July 1 – November 18) from a war winning campaign to a diversionary battle to relieve the pressure on the French at Verdun. The battle did succeed at diverting German attention from the French at Verdun, and the initial days were rather promising; however, the battle designed to bring a swift victory through the use of overwhelming power, like many before it, soon turned into a battle of attrition. There was some hope in September that the attritional war can be ended and a war of movement restored due to the introduction of the tank. The use of new technology was meant to terrify the Germans and provide the decisive edge necessary to win the war. However, the early tanks had numerous technological problems preventing a large portion of them from even reaching the assault point. The belief that the tank would get the Allied powers to victory quicker did not last long.

The other glimmer of optimism for the Allies came in August, when Romania joined the war effort against the Central Powers. Romania could prevent the flow of materials between Germany and its allies, and as such was a great prize for the Allies. However, joy at turning Romania to their side turned to despair when Bucharest fell on December 6. With a sizable portion of Romania occupied by the Central Powers, Germany received access to Romanian oil and wheat. Both Britain and France realized that starving a country that has a new source of grain would be rather difficult. By the end of 1916, all of the Allied strategies that the British government was relying on to win the war were tried and have failed.

314 French, 112.
315 Warner, World War One, 95.
316 Warner, 100.
317 Warner, 100.
319 Black, 108.
Nothing in 1917 served to shorten British the expected length of war. In April, the Nivelle offensive not only failed to break the German line but lead to mutinies in the French army. While this news was kept from the British and the French governments, both governments were aware that the attacks on the front were stalled.321 The French army, under new leadership, would undertake no new offensives for the rest of the year, and the British army was focused on preventing the Germans from realizing they could easily break through the French positions.322 And while the United States had finally joined the war on the Allied side in April 1917, their troops were not expected to arrive in force in Europe until 1918 and thus did not affect the chance of winning the war until then. To make matters worse, in November, it became clear that Russia was knocked out of the war by the German armies and that Italy no longer had an army to field.323 From September, the Lloyd George administration, which came to power at the end of 1916, had serious doubts the war could even be won.324 A negotiated peace could not be ruled out as an outcome.325

In 1918, the bad news continued to pile on. Having won in the East, the German army could now shift considerable troops to the Western front.326 And the troops that remained in the East ensured German access to new sources of grain with the occupation of Ukraine327 and access to raw materials from an imposed trade treaty with Russia.328 By July, enough American troops arrived in Europe that they could provide essential relief on the Front. However, that

321 Warner, World War One, 136.
322 Warner, 141.
324 Mosier and East, 313.
alone did not make the Allies reassess their expectations of the length of war. Instead, President Wilson was asked to provide another 100 divisions for the 1919 campaign. A request he agreed to, showing that the war was expected to last well over a year more.\textsuperscript{329}

Victory for the Allies was as much a surprise as the initial realization that the Great War would not be over within six months. On September 9, the Allies had returned to the territorial status quo before the German spring offensives began.\textsuperscript{330} Regaining territory lost to the opponent was a feat many times repeated during the war, and as such did not seem any more special this time. It was not until October 5, when the Allied armies started to break through the Hindenburg Line that there were any thoughts of a quick victory.

\textit{Expected Intensity of War}

Just as the expected length of war continued to increase throughout the conflict, so did the expected intensity of war and with it Britain’s willingness to lose revenue from trade. At the beginning of the war, fairly few changes were made in Britain to accommodate the war effort. However, as the war progressed, and became more existentially threatening to Britain, the state had to take on a greater financial burden as well as a greater role in the functioning of the economy channeling labor and resources towards war production at the expense of the civilians. With these changes came a change in perspective from maintaining the stream of investment into long term security to focusing on short term survival.

The war started as a distant struggle on the continent; the British government was not even sure if it was going to deploy the British Expeditionary Force on the Continent. While the war certainly affected the national security interests of Britain, it did not immediately threaten its survival. At least not in the same way that the war threatened Belgian or French survival. That

\begin{footnotesize}
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\item \textsuperscript{329} Black, 186.
\item \textsuperscript{330} Tucker, \textit{The Great War, 1914-18}, 171.
\end{itemize}
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changed with the German Zeppelin raids on Britain. The first successful attacks on England targeted Humberside on January 19, 1915. On May 30, London became the target of bombing for the first time.\(^{331}\) This brought the war considerably closer to home, making the war seem more existentially threatening. The initial Zeppelin attacks cause considerable panic as the large flying machines seemed impossible to defend against. Fears of a German invasion of Britain intensified. While the practical threat of such an invasion was put to rest with the Battle of Jutland in 1916, the public expectation that the war posed an existential threat to Britain did not dissipate.\(^{332}\) In fact, when men were being recruited for the army in 1915, the motivation used was that Britain was fighting “for its very existence.”\(^{333}\)

In order to finance the war, the British government had to impose considerable costs on the population. In 1915, income taxes rose by forty percent and the earnings level at which the tax was applied was lowered.\(^{334}\) Three domestic War Loans were floated on the exchange, in November 1914, June 1915, and January 1917.\(^{335}\) Britain financed the Allied war effort through 1916, after which point it run out of domestic options and had to start borrowing heavily from the United States.

Starting in 1915, the government began to work to mobilize the domestic economy for war, which necessarily required giving up some degree of civilian production and thus some aspect of civilian comfort. In July 1915, the Ministry of Munitions was formed, which was responsible for the supplying and efficient production of all industries dealing with wartime needs, from arms and munitions to uniforms. The following November, the Ship Licensing

\(^{333}\) Times (London) Special Supplement, 3 November 1915 p. 3.
Committee was created to ensure that the available shipping was utilized for trade considered vital for the war effort.\textsuperscript{336} The controls imposed by these government bodies intensified with the creation of the Ministry of Labor in 1916 which focused on ensuring that “private industry met wartime needs.”\textsuperscript{337} All of these changes reflected a growing willingness of the government to bear the costs of war as each required giving up some degree of civilian production.

Due to the war, the government also had to intervene into the structure of the labor force. While in the opening months of the war the British recruitment centers were flooded more volunteers than they knew what to do with, the excitement dried up when accounts of actual warfare reach the newspapers. The National Registration Act of July 1915 was implemented to keep track of all of the men eligible for service in the country. Three months later, the Derby Scheme tried to increase volunteers by paying men to enlist and defer their service until they were needed by the military.\textsuperscript{338} Ultimately, however, in order to continue the stream of soldiers to the Western Front, Britain had to turn towards conscription. To make up for all of the men leaving for the Front, Britain had to turn towards female labor despite the societal objections to such a policy. In 1915 the government called for female volunteers to fill in for jobs where labor was lacking – mostly in the munitions factories being created to meet the war needs. By July 1917, women accounted for nearly half of Britain’s total labor force; however, with labor unions requiring that female employment be temporary and constrained to the war years only.\textsuperscript{339} All of these changes reflected the growing intensity of the war. Britain had to continually sacrifice more and more to the war effort, shifting its thought process from assuring Britain’s long term

\begin{footnotesize}
\textsuperscript{336} J. A. Salter, \textit{Allied Shipping Control: An Experiment in International Administration} (Clarendon Press, 1921).
\end{footnotesize}
security towards a focus on short term survival.

_Wartime Changes in Policy_

The initial wartime commercial policy towards enemy belligerents received incremental updates throughout the course of the war. Moreover, there were two turning points at which the entire policy was reevaluated and restructured. The first occurred in February-March 1915, as the trench lines in Western Europe stabilized, the war of movement ended, and the expected length of war was extended to the end of 1915. With the initial wartime commercial policy designed to last Britain to the end of 1914, a critical overhaul was necessary. The second change occurred at the end of 1916 and reflected the general belief that the war could no longer be anything by exceedingly long and exceedingly bloody.

At the beginning of the war, control over indirect exports to the enemy started with a short list of product being prohibited from leaving the country, containing 34 product descriptions, and another short list of products prohibited from being exported to countries adjacent to the enemy, containing 59 product descriptions. The products on both lists were those immediately required for the war effort. They had short conversion times, thus even in a short war, the enemy would be able to use them to increase their military capabilities. What determined which list a product would be placed, at this point, was the size of the British stockpiles. Those products that Britain felt it had in sufficient quantity to prosecute the war were allowed for export to the world, with the exception of the enemy. Examples of products prohibiting from export to the enemy on August 5, 1914 were airplanes and engines; arms and ammunition, gunpowder, cotton suitable for making explosives; petroleum; pack animals;

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341 “Action During the War 1914-18.” May 15,1938, BT 11/1000, 10.

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surgical bandages and dressings.\textsuperscript{342}

On the other hand, those products Britain thought might become in short supply, were prevented from export from the country.\textsuperscript{343} The first schedule of products prohibited from export from the country on August 3, 1914 contained explosives, torpedoes, cannon and other ordnance; camp equipment, saddles, horse shoes, marching boots, uniforms; chemicals and tools required to make explosives.\textsuperscript{344} In addition to preventing these goods from reaching the enemy and increasing their military capabilities in the current war, these prohibitions had a second function. They reduced the cost of the war for the British state, thus prohibiting trade in such products did not reduce state revenue. By forcing British merchants to sell their products at lower domestic prices, instead of the temptingly high world prices, Britain increased the domestic supply of these goods while simultaneously reducing the price at which Britain bought them.

Additionally, “forage and food of all kinds for animals” and “provisions and victual of all sorts which may be used as food for men” were prohibited from being exported from the country on August 5, 1914.\textsuperscript{345} It was further clarified that that the prohibition on food only covered animals meant for slaughter, wheat and wheat flour, barley and oats, butter, margarine, cheese, eggs, sugar, jams and marmalades, condensed milk.\textsuperscript{346} In other words, basic ingredients for soldiers’ rations.

These lists of prohibited exports were incrementally amended during the war. By the end of 1914, the schedule of goods prohibited from export from Britain contained 187 product descriptions, with an additional 42 product descriptions being allowed for trade only with British

\textsuperscript{342} “Proclamation Prohibiting the Exportation from the United Kingdom or Warlike Stores to Certain Countries”, 7 Aug, 1914, London Gazette, www.thegazette.co.uk, 6186-6188.
\textsuperscript{343} “Action During the War 1914-18.” May 15,1938, BT 11/1000, 10.
\textsuperscript{344} “Proclamation Prohibiting the Exportation from the United Kingdom of Certain Warlike Stores”, 3 Aug, 1914, Supplement to the London Gazette, www.thegazette.co.uk, 6056.
\textsuperscript{346} London Gazette, 21 August 1914, www.thegazette.co.uk, 6583-4.
colonies. The schedule of goods prohibited from reaching the enemy contained 153 product
descriptions. A considerable number of these changes took place in November, as the war of
movement on the Western Front devolved into a war of attrition. During the first five months of
the war, three of the raw materials identified as crucial to the German economy were prohibited
from export: raw rubber on September 8, 1914347; raw jute, lamb and sheep wool on October 6,
1914.348

Incremental changes were, likewise, taking place in the British policy on indirect imports
from the enemy. Immediately at the start of the war, no measures were taken to prevent enemy
good from being imported into Britain indirectly. In September 1914, certificates of origin were
instituted for goods coming from countries neighboring enemy states.349 Certificates of origin
required the merchant importing the item to convince the Customs agent that the goods being
imported were not of enemy origin. These were required on all goods valued at 100 pounds or
higher. A few months later the value of goods imported requiring such certificates dropped from
100 pounds to 25 pounds.350 Additionally, some effort was taken to make sure neutrals were not
engaging in minimal manufacturing, that is importing goods of enemy origin, changing them in
some small way, and exporting the result as a neutral product. Regulations were introduced that
manufactured goods imported into Britain could not have more than 50% of enemy goods or

Orders, Etc., Passed and Made in Consequence of the War to September 30th, 1914. Darling & Son, Ltd, 1914, 172-
4.
Orders, Etc., Passed and Made in Consequence of the War to September 30th, 1914. Darling & Son, Ltd, 1914, 520-
1.
349 “Memorandum on the Work of the Board of Trade in connection with Trading with the Enemy”, British National
Archives, BT 11.1017, 7.
350 “Memorandum on the Work of the Board of Trade in connection with Trading with the Enemy”, British National
Archives, BT 11.1017, 7.
Taking measures to prevent enemy exports from reaching Britain early in the war made logical sense. While Britain acquired produced from such trade, the enemy acquired currency, which had a rather quick conversion time. Britain was following the same strategy with their imports as with their exports, prohibiting trade that could be converted into military capabilities by the enemy in time to affect battlefield outcomes.

By February 1915, the trench lines on the Western front solidified and the strategy of throwing more men and ammunition into the war failed to produce results. The war was expected to last to the end of 1915, stretching the expected length of war from the six months the initial policy was created for to a year. The incremental changes being made to the wartime commercial policy were deemed insufficient to address the security externalities of trade in this new longer war. The Committee on Trading with the Enemy needed to reassess the entire strategy.

In a report printed on February 25, 1915, the Interdepartmental Committee on Trading with the Enemy described the British policy up to this point as “concentrating efforts mainly on preventing the enemy from receiving those articles which affect his ability to prosecute the war, and to allow greater relaxation in the case of articles of value for the civilian production alone.” The policy for the short war was to prevent trade in products that are quickly converted into military capabilities by the enemy and to allow trade in products that cannot help the enemy on the battlefield. The report continued to state that, “the same principle does not apply as regards the offense of trading with the enemy at the present time.” Since the war was

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351 “Memorandum on the Work of the Board of Trade in connection with Trading with the Enemy”, British National Archives, BT 11.1017, 8.
352 “Draft Report”, Interdepartmental Committee on Trading with the Enemy, February 21,1915, British National Archives, CAB 42.1.46, 1.
353 “Draft Report”, Interdepartmental Committee on Trading with the Enemy, February 21,1915, British National Archives, CAB 42.1.46, 1.
going to last at least another full year, the Committee decided that it now made sense to prevent
certain products that were previously deemed ‘innocent’ for trade with the enemy. A
consolidated list of prohibitions published in February 1915 added prohibitions on 132 new
products, including chemicals, metals and ores, oleaginous nuts, and machine guns.354

One of the most important actions taken to pursue this change in policy was the
consolidation of the Black List. Each department had kept their version of a black list, at this
point the newly created War Trade Department was tasked with consolidating them and
maintaining the Black List with further additions from all departments.355 Around the same time,
the Home Office in conjunction with the Board of Customs and Excise started looking for
methods to strengthen control over indirect trade with the enemy. In terms of British exports, the
new policy dictated that the onus of proving that export trade was not going to the enemy was to
be place on the exporter.356 For a few months export bonds were introduced requiring merchants
to put up a triple-value bond to ensure their export of items on the prohibited list was in fact not
going to the enemy. The policy was, however, removed in August 1915 as being too stifling of
trade. The War Trade Department also suggested that countries neighboring enemy state be
placed on a rationing scheme, where they would not be able to import more products from
Britain than they have done in peace time, thus limiting the indirect trade with the enemy.357 At
this point in the war, however, the Foreign Office was only prepared to pursue agreements with
neutrals based on voluntary rationing, whereby neutrals chose to ration their own imports and

Orders, Etc., Passed and Made in Consequence of the War. Supplement No. 3 to April 30th, 1915. Darling & Son,
Ltd, 1915, 382-92.
355 “Draft Report”, Interdepartmental Committee on Trading with the Enemy, February 21,1915, British National
Archives, CAB 42.1.46, 1.
356 “Note by the Chairman of the Board of Customs and Excise”, Trading with the Enemy, February 1915, British
National Archives CAB 42.1.40, 1.
357 “Report of a Subcommittee appointed by the Prime Minister to consider certain questions of principle raised by
the War Trade Department”, Committee on Imperial Defense, April 12,1915, British National Archives, HO
45.10769.273933, 2.
exports, as opposed to force rationing, where Britain would restrict trade with neutral states.\footnote{Osborne, \textit{Britain’s Economic Blockade of Germany, 1914-1919}, 95.} On the side of indirect imports from the enemy, the 25 pound limit on the value of goods requiring a certificate of origin was dropped completely – all imports from countries bordering enemy states were required to have a certificate of origin. The proportion of enemy goods and labor allowed in manufactured goods allowed into Britain was dropped to 25\%.\footnote{“Memorandum on the Work of the Board of Trade in connection with Trading with the Enemy”, 8.} The most significant change in policy on German exports was the Reprisals Order-in-Council of March 11, 1915 prohibiting all vessels, even neutral ones, from carrying goods of German origin.

The second significant shift in British wartime commercial policy occurred near the end of 1916. All of the Allied strategies that the British government had relied on to win the war were tried and have failed. Despite winning the Battle of Jutland, the public perception that the war posed an existential threat to Britain did not dissipate.\footnote{Butler, \textit{Distant Victory}, 94.} Furthermore, after two and a half years of financing the Allied war effort, Britain finally had to start heavily borrowing from the United States. With the expected length of war and intensity of war growing, British decision makers further restricted their wartime commercial policy. The list of items prohibited from export grew substantially, and started losing the detailed product descriptions. Phrases like “of all kinds” and “all not otherwise prohibited” became frequent modifiers to products, prohibiting whole categories of goods instead of unique products. Import restriction appeared and started to increase in number at a rapid rate.\footnote{Nathaniel Highmore, “Full Record of the Department”, War Trade Department, British National Archives, BT 11.1022, 34.} Due to the strains of war, which had already stretched into two and a half years, the shipping situation became dire and it was necessary for Britain to ration tonnage on ships to ensure products necessary for war economy made it to the country.\footnote{“Notes by Lord Emmott on How the Department came into being”, War Trade Department, British National Archives, BT 11.1022, 4.}
Additionally, changes were made in the policy of granting import licenses of enemy goods. As was mentioned previously, at the start of the war, Britain granted numerous licenses for the direct importation of enemy products, focusing on products necessary for British manufacturing. This policy was curtailed after March 1915, showing a substantial increase in Britain’s willingness to lose revenue from trade, sacrificing investment into long term security in order to make the current war marginally easier to fight. All licenses for dyestuffs and most of the drugs and chemicals were revoked, licenses were restricted to “special machines and appliances urgently needed and unobtainable from non-enemy sources, caustic potash and carbonate of potash, a few drugs on the recommendation of the National Health Insurance Commission, spelter and zinc, flax, iron drums, hosiery needles, Palestine wine for Jewish rites, velonia for tanning, syphon vases, samples for copying purposes and books of a technological, scientific, or educational character.”

After August 1916, only hosiery needles – which were essential to the textile industry – and the occasional enemy publication were allowed to be imported from the enemy.

Trends in Incremental Changes of the Wartime Commercial Policy

The changing nature of warfare during World War I was reflected in the British prohibitions on trade with the enemy. For example, as the Race to the Sea was over by the end of October 1914, and as trenches were becoming solidified on the Western Front, Britain saw that a war of attrition was going to be a major feature of the current war. “Entrenching tools and implements” like pickaxes, shovels and spades were prohibited from being exported to the enemy.

363 “Memorandum on the Work of the Board of Trade in connection with Trading with the Enemy”, 9.
enemy on Nov 10, 1914.\textsuperscript{364} “Machinery for trenching and digging” was not prohibited until February 3, 1915,\textsuperscript{365} when most hopes of returning to mobile warfare have faded.\textsuperscript{366} On the same date, and following the same intuition that a war of movement was not likely to recur, machine guns were also prohibited from trade.\textsuperscript{367} Interestingly, machine guns were not prohibited from trade at the beginning of the war, as there was a wide consensus that machine guns were only useful in wars of attrition, not in mobile warfare. Thus carriages and mountings for machine guns were prohibited from the start of the war, but not machine guns themselves. The same pattern of adapting to the changing nature of warfare can be seen in the British understanding of the German innovation of using poisoned gas. As the British identified the compounds being used by the Germans, these chemicals were prohibited from trade. Chlorine was first used against the British and French forces on April 22, 1915, and it was prohibited from trade on July 28, 1915.\textsuperscript{368} Phosgene was prohibited on October 19, 1915.\textsuperscript{369}

The prohibitions on trade were also made based on products’ conversion times. For example, harnesses and saddles used for military purposes were prohibited from trade at the start of the war.\textsuperscript{370} However, the leather used to make such saddles was prohibited later on October 6, 1914.\textsuperscript{371} Metal fittings for the harnesses were prohibited on July 28, 1915.\textsuperscript{372} Harness making machines could be traded with the enemy all the way up to December 18, 1917.\textsuperscript{373} The wartime commercial policy prevented the enemy from having access to products of immediate use on the

\textsuperscript{365} Warner, \textit{World War One}, 57.
\textsuperscript{367} Warning is not prohibited from trade.
\textsuperscript{369} Edinburgh Gazette, 22 October 1915, www.thegazette.co.uk, 1595-6.
\textsuperscript{371} Manual of Emergency Legislation, 1914, 520-1.
\textsuperscript{373} London Gazette, 18 December 1917, www.thegazette.co.uk, 13241-2.
battlefield first, then tightened progressively to prevent the enemy from gaining the supplies necessary to make those war ready finished goods. The same pattern can be traced through uniform clothing, which was prohibited from trade with the enemy at the start of the war.374 “Cloth, woolen or worsted, if suitable for uniform clothing” was not prohibited until October 19, 1914.375 “Leather, dressed or undressed, suitable for military clothing” was prohibited on February 3, 1915.376 “Uniform clothing, second hand military” which had to be taken apart and the fabric and other parts reused to make a new uniform, was prohibited only in May 10, 1916.377 The longer the product’s conversation time into military capabilities, the less likely it was that the product would be prohibited from trade early in the war.

The most interesting thing to note is that Britain finally decided to cut trade with the enemy in all products on October 1, 1918. That is seven days before the Allied armies broke through the Hindenburg Line, a month and ten days before Germany surrendered. It seems that states were just as bad at predicting when wars would end as they were at predicting when wars would be long.

The British wartime commercial policy at the start of World War I was designed for a quick war that was not existentially threatening to Britain. As such, it was rather lax, only prohibiting trade with the enemy in such products that had particularly short conversion times into military capabilities. The majority of indirect trade with the enemy was permitted. When the expectation of a quick war evaporated, the wartime commercial policy became progressively more suppressive of trade with the enemy. The expected length of war went through numerous shifts between phases of optimism when expectations of a short war returned and phases of

pessimism, when the expected length of war was measured in years. Following these changes, the wartime commercial policy evolved slowly, increasing in intensity in periods of long war expectations and remaining largely unchanged in periods of optimism. At the same time, as the expected intensity of war changed towards an existential struggle, Britain became willing to bear more losses in revenue from severing trade in products that were essential to its industries. The number of licenses granted for the direct import of enemy goods was severely restricted as the war became more existentially threatening.

**Alternative Explanations**

*The Role of Domestic Politics*

When making decisions about which items were to be prohibited from indirect trade with Germany throughout the war, the British government was largely unaffected by domestic lobbying. While such lobbying was strong, the wartime commercial policy continued to be made for security and economic reasons, not because of pressure from domestic commercial interests. That is not to say that business interests had no effect on policy at all. On occasion, when industry representatives could prove that a specific product differentiation could be used to separate products that had military applications from those that did not, the prohibition lists were amended with the more targeted product description.378

An illustrative example was the effort made by domestic firms to remove “Lead, in all forms” from the list of items prohibited from export from the country. In a letter of August 14, 1914, the director of Locke Lancaster made the argument that the product description was too inclusive. It prohibited, for instance, the export of tea lead linings for tea chests and white lead, both of which have no military application and are necessary to sustain the export of certain

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industries. It was also advocated that pig lead, which it was admitted does have military applications, should be prohibited from export to the enemy, not restricted from leaving the country altogether. This was justified by the claim that both France and Russia have previously derived their pig lead from Germany, and if Britain was not available to supply it, the allies would be forced to turn towards purchasing this necessary article from the enemy. This plea sparked a conversation and on August 20, 1914 “Lead, in all forms” was replaced with “Lead, pig, sheet, or pipe,” however this item was still prohibited from leaving the country instead of the less restrictive policy the lead exporter hoped for.

The only clear success case for domestic lobbying was a delegation representing 70% of London’s confectionary trade, which was able to convince the Board of Trade to remove “Confections, all kinds” from the list of items prohibited from export. Confections were prohibited from August 5 to August 20, 1914. This product did not reappear on the prohibition lists until March 12, 1917, but was again removed on May 11, 1917. Of course, the reason such leniency was given to this group was because they were able to convincingly show that there was zero home demand for their products and that their exclusive clientele were British colonies.

On the other hand, rather unsurprisingly, requests to allow the export of ammunition, even to African countries, were habitually denied.

381 “Papers relating to the Proclamation of August 20th concerning the prohibition of exportation of certain articles”, August 20, 1914, British National Archives, BT 11.7, C 7397.
Maximum Economic Pain

The first variant of the maximum economic pain alternative argument would predict that Britain should have identified a set of products which were essential for the Germany economy and started the war with a prohibition on trade in this basket of goods. The Committee on Trading with the Enemy did actually make this exact recommendation to the Cabinet. Cotton, wool, rubber, jute and coal were the raw materials identified as having the greatest impact on the Germany economy.

However, this proposal was rejected. The war was expected to be short and in the time frame the wartime commercial policy was being created for, the prohibitions on trade with Germany in raw materials would not have time to produce an effect. If enforced, such prohibitions would constitute a loss to the British revenue from trade, but would produce no military benefit. The war started with such products being allowed to be traded with the enemy.

Furthermore, when these raw materials were ultimately prohibited from trade, it was not done in one fell swoop to increase the economic pressure on the German economy. Raw rubber was prohibited on September 8, 1914; raw jute, as well as lamb and sheep wool on October 6, 1914; other types of raw wool on September 8, 1916; raw cotton on April 26, 1915. Large steam coal was originally prohibited at the start of the war; however, this prohibition was removed fifteen days later when it was realized that the Admiralty only requested the prohibition to ensure that they have access to the best coal.383 Coal was then prohibited from trade on May 13, 1915.

The second variant of the maximum economic pain alternative argument suggests that Britain should have set its wartime commercial policy based on the possibility for enforcement. If Britain could isolate Germany economically, it should have prohibited all trade with the enemy; on the other hand, if it could not, Britain should have allowed all trade with the enemy.

This explanation has no way to explain the gradual changes that the British wartime commercial policy went through. And more importantly, it cannot explain the product level changes. As the predictions of this alternative argument are all-or-nothing as far as the content of trade is concerned, it is too blunt of an instrument to explain wartime commercial policy formation in World War I.

Additionally, the possibility for enforcement of maximum economic pressure did not actually change during the war. Britain had the capacity to economically isolate Germany in 1914. As was discussed earlier, the mechanism for suppressing trade with the enemy, both direct and indirect, existed before the war started. Enforcement of economic isolation on Germany would have required severing profitable trade between Britain and states adjacent to the enemy, a prohibition on German exports, the rationing of neutrals – all of which would have required considerable cost and would have incited considerable ire in neutral states. Britain knew exactly how it could go about severing indirect trade with Germany; it chose not in the early parts of the war.

However, since the possibility of stringent enforcement existed, this variant of the maximum economic pain argument would predict that Britain should have prohibited all trade with the enemy for the duration of the war. Clearly, that prediction does not match Britain’s actual wartime commercial policy.

Conclusion

The decision to allow or prohibit trade with the enemy was seen by British policy makers as a balancing act between military and economic considerations. The initial wartime commercial policy was created for a short war that would not be existentially threatening. Correspondingly, it was a lax wartime commercial policy which only prohibited trade in
products with the shortest conversion times – arms, ammunition, gunpowder and the like. Trade in the rest of the products was permitted to ensure Britain would maintain its revenue from the circulation of traded products through the economy. However, once it became obvious that the war would not be easily won with a quick strike, the policy grew more restrictive. Prohibitions on exports to Germany covered more and more products, prohibitions on imports from Germany grew in their stringency. As the war became more existentially threatening, Britain was willing to tolerate higher revenue losses from severing trade, further restricting the products which could be traded with Germany.
Chapter 6: World War II

Most of the people responsible for formulating Britain’s wartime commercial policy for World War II had lived through World War I. It would have been easy for them to have learned from that experience that one ought no trade with one’s enemies during war. It would have been easy for them to create a policy for Britain that all future wars should start with a strict prohibition of all trade with the enemy. However, this was not their approach to the issue. From the early days of developing a general policy for economic warfare, it was acknowledged that the wartime commercial policy needs to match the specific war being fought. Certain types of wars, if they are expected to look much like World War I did at its end, should start with a prohibition on trade. But in other types of wars, it would be more expedient for Britain to allow trade with the enemy.

When the next war for Britain did come, it was again against Germany. The war was expected to be long; the estimated length before the war started was set at three years. And the war was expected to be a war for survival, with Britain assuming that Germany’s main strategy against Britain would be a full scale bombing campaign. Preparing for such a long, major war, Britain adopted a very restrictive wartime commercial policy. All direct trade with the enemy was prohibited. Indirect trade with the enemy was restricted to the same degree that existed in 1918. Almost no British trade was allowed to reach the enemy or to come from the enemy. There were no products which were designated as ‘innocent’ for trade during this war.

This policy was not changed for the entire duration of the war. The expected length of war was never reduced. Britain expected the war to remain long almost up to the moment when Berlin was taken. The intensity of the war was, likewise, not downgraded from an existential struggle while Germany was still capable of bombing Britain. Based on these two factors, the
British wartime commercial policy remained as restrictive throughout the war as it was at the beginning of the conflict.

The only trade with the enemy that was allowed to occur existed through tightly controlled licenses. Britain permitted the direct import of dyestuffs of enemy origin, as the textile industry using these dyestuffs was essential to the British war effort. The export of textiles allowed Britain to maintain some foreign reserves which were crucial in financing the import of products vital to the survival of the country. However, since dyestuffs could only be acquired from enemy states, license on their import were highly controlled and the value of purchases was kept to an absolute minimum.

This chapter proceeds as follows. The first section shows how Britain formed a general policy of economic warfare that could later be amended to any specific war. The second section walks through the process of adapting this general policy to the expected war with Germany. Changes, or rather the stability, in the British wartime commercial policy during the war are discussed in the third section. The fourth section deals with alternative arguments for the formation of Britain’s wartime commercial policy.

**Formation of Initial Policy**

Based on the theory presented in Chapter 2, three factors should drive the formation of Britain’s wartime commercial policy. First, British policy makers are expected to make decisions based on the understanding that products traded with the enemy differ in the speed it takes the enemy to convert them into military capabilities. Second, policy makers are likewise expected to form the wartime commercial policy with the understanding that traded products differ in the contributions they make to the British coffers. Finally, the British policy makers need to decide that their chosen wartime commercial policy has to match the expected type of war being
expected. Since World War II was expected to be a long, major war, the theory would predict that Britain would choose a restrictive wartime commercial policy.

The General Policy of Economic Warfare

Whereas the central question of trade with the enemy before World War I was about the conditions under which such trade should be allowed, in the interwar years, the focus shifted to creating the most sophisticated machinery for enforcing the chosen British wartime commercial policy. The Advisory Committee on Trading and Blockade in Time of War (ATB), created to deal with such questions, examined the reports of their predecessor committee from 1911-12 and accepted their logic for making decisions regarding trade with the enemy.¹ As Sir Hipwood of the Mercantile Marine Department of the Board of Trade, a permanent member of the ATB Committee, explained, the goal was to “analyze all the machinery which was in existence during the last war and to decide what portions of it would be essential in the future, where the nuclei should be lodged, etc.”²

The drive to create comprehensive economic warfare machinery did not mean, however, that the committee sought to build the toughest restrictions on wartime trade with the enemy in order to eliminate such intercourse in all future wars. Despite having recently emerged from a war which ended with the strictest control on wartime trade Britain has ever seen, the lesson learned from World War I was not that all trade with the enemy should be eliminated. The lesson was that military and economic considerations needed to be carefully balanced in a wartime

¹ “Summary of Measures that can be Taken to Exert Economic Pressure on the Enemy”, ATB 93 (Revise), 25 November, 1938, CAB 47/4, 11.
² “Conclusions of the Seventh Meeting of the Committee”, Advisory Committee on Trading and Blockade in Time of War, ATB 7th Conclusions, 6 May, 1926, CAB 47/1, 2.
commercial policy. In fact, the ATB Committee made a point of stating in their reports that “the late war cannot be taken as an absolute guide as to the action to be taken in any future war.”

They recognized that World War I was only one type of war that Britain might face in the future and that different types of wars might have different circumstances affecting the best wartime commercial policy for Britain. Under certain conditions, the ATB Committee foresaw the need to allow trade with the enemy. For example, “if neutral trade with the enemy is left free except in certain specified commodities then it would have to be considered whether (subject to certain inevitable limitations) British trade might not be equally free.”

The Committee was tasked with putting together a general policy for Britain that could be applied to any future war. They saw their task as being one of providing a range of options for policy makers to choose between from the most lenient to the most stringent. The type of policy chosen for a specific war, the Committee advised, should be picked “after consideration of all the circumstances of the particular case.”

The degree of latitude built into the system is largely obscured by the severity of enforcement tools created for the policy makers. The legislation, designed to be put in place at the outbreak of war, gave the government wide powers to control all aspects of British trade. The Trade with the Enemy Bill created particularly strict guidelines for what could be designated intercourse with the enemy. The full extent of economic warfare, ultimately put together by the ATB Committee, could not only sever all British trade with the enemy, but bring to a standstill most of world trade. All this was intentional. The ATB Committee believed that “full powers to

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3 “Conclusions of the Seventh Meeting of the Committee”, Advisory Committee on Trading and Blockade in Time of War, ATB 7th Conclusions, 6 May, 1926, CAB 47/1, 2.
prohibit all trading with the enemy should be taken at the outbreak of war.”7 And they did not mean only prohibiting direct trade with the enemy, but also power to prohibit as much of the indirect trade with the enemy as was legally enforceable.

However, all of these tools came with a built in caveat – these powers “should be so administered as to meet the particular circumstances and the changing conditions of war.”8 Fully acknowledging that wars can escalate, the members of the committee wanted the government to be prepared for any eventuality. But they also expected the government to only use the tools that were appropriate for the specific conflict. They gave the government the most stringent enforcement measures at the outbreak of any war to make sure the government could escalate if this became necessary, not because they wanted the government to start every war with the strictest measures in force. Even the Trade with the Enemy Act contained a provision for the repeal of the prohibitions on trade with the enemy. “Any power conferred by the preceding provisions of this Act to make an Order in Council or an order shall be construed as including a power, exercisable in the like manner, to vary or revoke the Order in Council or order.”9 With every additional set of powers the ATB Committee proposed to give to the government that would administer the future war, they built in levers in order to control the intensity of that enforcement. Despite the seeming severity of the tools at the disposal of the government, the extent of economic pressure used in any specific war would “depend upon the military, political and diplomatic circumstances prevailing at the time.” 10

There was a wide spread recognition that economic pressure was not a uniform panacea

7 “Fifth Annual Report”, Advisory Committee on Trading and Blockade in Time of War, CID 938-B, 29 April, 1929, CAB 47/1, 8.
8 “Fifth Annual Report”, Advisory Committee on Trading and Blockade in Time of War, CID 938-B, 29 April, 1929, CAB 47/1, 8.
10 “Summary of Measures that can be Taken to Exert Economic Pressure on the Enemy”, ATB 93 (Revise), 25 November, 1938, CAB 47/4, 4.
for all wars. In the first place, its effectiveness depended on who the enemy was. If the enemy was self-sufficient – that is, did not rely on trade to gather necessary food products and raw materials for industry – economic pressure would not have an effect on the enemy’s war effort. If the enemy could import and export essential products by land through neutral states, economic pressure would be less effective. Economic pressure was a function of a state’s naval strength to suppress maritime trade; it was considerably more difficult, if not impossible, to create a land blockade around most states. If the enemy industry was not vulnerable to disruptions by air attacks, economic pressure would, likewise, not be able to weaken the enemy’s war effort.\(^\text{11}\) In addition to the interruption of maritime trade, the most the British could do to affect the enemy economy was to attempt to disrupt it with air raids. The effectiveness of economic pressure was in some part dependent on the structure of the enemy’s economy.

Additionally, the ATB Committee understood that the extent of economic pressure placed on the enemy must be a political choice made by the government at the outbreak of the war.\(^\text{12}\) And it is precisely the type of conflict that Britain would be facing that ought to determine the extent to which economic pressure is applied. “There may be some wars in which economic pressure may be inadvisable and inapplicable. At the other extreme there may be a war, such as the Great War of 1914-18, in which economic pressure may again prove one of the decisive factors in victory.”\(^\text{13}\) In fact, possible types of wars were divided into three categories, which were unimaginatively called small, medium and great wars. The South African War of 1898-1902 was the prototypical example of a small war. A middle war, “though demanding a great

\(^{12}\) “Fifth Annual Report”, Advisory Committee on Trading and Blockade in Time of War, CID 938-B, 29 April, 1929, CAB 47/1, 5.

\(^{13}\) “Summary of Measures that can be Taken to Exert Economic Pressure on the Enemy”, ATB 93 (Revise), 25 November, 1938, CAB 47/4, 4.
effort on the part of the nation does not require the utilization to the utmost of every resource.”14
A great war was equated with World War I, where the “power of the whole nation is required.”15
In a great war, Britain would utilize all aspects of economic warfare to do as much damage to
enemy trade as possible. However, in other types of wars, trade with the enemy was entirely
conceivable. “Should it be decided that the isolation of the enemy should not be aimed at it will
be for consideration whether British subjects should be licensed to carry on certain trade with the
enemy through neutral channels.”16 Ultimately, while the British government would have the
power to ramp up economic pressure to the max in any war, it would only utilize this ability in a
very specific subset of conflicts.

Furthermore, the ATB committee adopted, from their predecessor committee, the mindset
that economic pressure is a time dependent tool. “With the changing situation of war it might be
found that an article first considered ‘innocent’ might prove anything but ‘innocent’ after a
period of the conflict.”17 Products that have no effect on the enemy’s war effort in a short war,
might become very consequential in a long war. Therefore, considerable effort was dedicated to
determining how and when prohibitions on trade will be amended during a war. Statistics
collected from previous wars, crises, and episodes of imposed sanctions were used to estimate, as
far as possible, how long it takes for economic pressure to affect the enemy’s war effort. For
example, when considering the potential effect economic pressure could have on the situation in
Canton in 192618, the committee noted that in the case of cutting off supplies of cotton textiles,
“except when dealing with a power which utilizes cotton textiles for narrowly military purposes,

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14 “The Organization of the Supply of Munitions and Armaments in a Future War”, C.C. (H.A.) 6, CAB 15/20, 2.
15 “The Organization of the Supply of Munitions and Armaments in a Future War”, C.C. (H.A.) 6, CAB 15/20, 2.
16 “Fifth Annual Report”, Advisory Committee on Trading and Blockade in Time of War, CID 938-B, 29 April,
1929, CAB 47/1, 8.
17 “Minutes of the Fourteenth Meeting of the Sub-Committee”, Advisory Committee on Trading and Blockade in
Time of War, ATB 14th Meeting, 19 April, 1929, CAB 47/1, 9.
18 This was in the midst of the Canton-Hong Kong strike of 1925-26.
this restriction is only useful if extended for a period of about two years.”19 In order for economic pressure of severing trade in cotton textiles to have an effect, the war – or rather crisis, in this particular case – would have to extend for at least two years. For a situation lasting a shorter period of time, severing trade would contribute little economic pressure on the opponent.

To help differentiate products by the speed of their contribution to the opponent’s war effort, more sophistication was added the classification of products. Even at the abstract level of general policy making, products were divided into three conceptual categories. Goods necessary for war purposes were related “directly to carrying on war and include the whole range of activities from the manufacture of warships and munitions to housing, feeding, clothing and transporting the forces.”20 This category was very similar to the category referred to as “arms, ammunition, military and naval stores” before World War I. However, the category identified as ‘innocent’ before World War I – goods used exclusively in civilian manufacturing – was further subdivided into two parts. Goods necessary for vital civil purposes were related to “supplying the essential needs of the civil population (food, clothes, communications, fuel and light, and housing) and include the maintenance of the export trade as an important factor in safeguarding the financial position of the country.”21 Goods necessary for ordinary civil purposes were the rest of the products which did not fit into either of the preceding categories.22 These categories of goods were to be treated differently depending on the type of war Britain was preparing to fight. In a great war, goods necessary for vital civil purposes would be treated with as much suspicion as those necessary to war purposes, as potentially aiding the enemy’s war effort. However, in a small or middle war, this category of goods might be considered ‘innocent’ alongside the goods

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19 “Possible application of economic pressure to Canton”, ATB 26, 22 March, 1926, CAB 47/2, 3.
necessary for ordinary civil purposes.

Finally, in order to conform to the goal of creating the greatest range of enforcement options, the ATB committee approached the question of wartime trade from a more global perspective. Whereas prior to World War I, the focus of the economic discussion surrounding trade with the enemy was how the British economy interacted with the enemy economy, planning in the interwar years focused on how the enemy economy fit into the world economy. Naturally, the bilateral relationship with Britain was still of crucial importance; it was used to determine the costs to Britain of using the potential enforcement options in its arsenal. However, the examination of the enemy also included how it went about resupplying its economy in general. Emphasis was placed on identifying alternative sources of supply for each of the products determined to be of primary importance to the enemy. Considerable attention was given to the question of neutral trade. As Britain assumed it would have command of the sea during future conflicts, the only trade it would not be able to monitor closely would be between the enemy and its adjacent neutrals. In the discussion about neutrals before World War I, this was a concern in as much as it provided an avenue for indirect trade between Britain and the enemy. In the interwar planning, however, the focus shifted to neutrals serving as a connection hub between the enemy and the rest of the world. Enforcement measures were no longer meant to only stop British indirect trade, but disrupt as much as possible world trade with the enemy through neutral states.

However, the ATB Committee deliberately limited the potential extent of economic pressure at the start of the war by making the choice to adhere to neutral rights. The decision was made with the full understanding that this weakened the potential economic pressure that can be exerted on the enemy. For example, establishing a long-distance blockade where all neutrals
ships are stopped regardless of origin and destination creates the strictest enforcement mechanism to sever neutral trade with the enemy. But this action would be a “formidable extension of anything previously sanctioned under international law.”23 And the committee was unprepared to recommend such a breach, except as retaliation for a serious infringement of international law by the enemy.24 By adhering to neutral rights at the outbreak of war, the ATB committee removed the possibility of exerting maximum economic pressure.

In creating the general approach to Britain’s wartime commercial policy, the ATB committee adopted the logic for trading with the enemy formulated in 1911-12 and supplemented it with a more sophisticated machinery for economic warfare. In borrowing from the work done prior to World War I, the committee acknowledged that economic pressure is not always the most appropriate tool for the situation. They identified conditions when the enemy was impervious to economic pressure and accepted that economic pressure was time dependent, making it less effective in shorter wars. In this regard, the committee adopted the approach that the ultimate policy needed to match the type of war that was being fought. At the same time, the committee aimed to give the British government as much power to control trade as was possible. Starting with the assumption that wars can escalate, they wanted to be certain that the government always has the necessary tools to adapt to the situation. In order to accomplish this, the committee focused on creating the enforcement mechanism that would help the government not only limit British trade with the enemy, but also neutral trade with the enemy.

_Economic Warfare Handbook_

The decisions about how to enforce the chosen wartime commercial policy were codified in the Economic Warfare Handbook, the final version of which was approved on July 27, 1939.

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It included all possible tools the government could use to limit everything from direct trade between Britain and the enemy to enemy trade with neutral states. The primary mechanism through which this control was to be exercised was the blockade. A well enforced blockade could: 1) halt enemy shipping, forcing the enemy to rely on the limited capacity of neutral shipping, 2) prevent contraband from neutral states from reaching the enemy, limiting enemy imports in important war materiel.\(^{25}\) In addition to the blockade, the Economic Warfare Handbook laid out diplomatic and legislative tools to control enemy trade. The easiest of these to enforce was control of direct trade between Britain and the enemy. It could be prohibited by the Trading With the Enemy Act.\(^{26}\) Removing indirect trade was more complicated as it required separating trade with the enemy from bone fide trade with neutral states. At the same time, dealing with British trade was infinitely easier than attempting to control neutral trade with the enemy. Neutrals had their own preferences for interactions with the enemy and had to be convinced or coerced into doing what the British government preferred. Additionally, neutrals would be faced with a similar pressure from the enemy to change their policies to favor the enemy over Britain.

If in a future war the British government desired to sever all indirect British exports to the enemy, the mechanism for this was the Export Prohibited List. Functioning in the same way as during World War I, the list contained all products that were prohibited from export from Britain subdivided into three categories: prohibited to all destinations, prohibited to all destinations except for the Empire; prohibited to the enemy. It was assumed, for technical reasons, that it would be impractical to start the war with a long list – the bureaucracy would not be able to handle it, delays would ensue bringing legitimate trade to a standstill. Instead, the war was to

\(^{26}\) "Second Annual Report", Advisory Committee on Trading and Blockade in Time of War, CID 658-B, 9 Dec, 1925, CAB 47/1, 12.
begin with a short prohibition list which contained products that were “vitally essential to either retain in this country or to prevent from reaching the enemy.” As soon as possible after the outbreak of war, a more extensive prohibition list would be enforced. In the meantime, the plan was to request exporting firms to restrict or delay exports to countries adjacent to the enemy in order to stop indirect trade. The ‘short’ list of only the most vital necessities contained military supplies, as might be expected, but also raw materials, manufactured and semi-manufactured goods. For comparison, the list of products prohibited from export at the start of World War I contained mostly goods of immediate utility on the battlefield. But the purpose of this ‘short’ list was to help impose the most severe restriction on trade, thus the list was considerable longer than its World War I counterpart.

In order to sever indirect British imports of enemy goods Certificates of Origin would be required for all products imported from countries adjacent to the enemy. British Consuls, residing in neutral states, would issue the certificates when they were reasonably certain that the product was not of enemy origin. Products could not be considered neutral if they contained more than a predetermined amount of enemy material or enemy labor; likewise, if an enemy national had an interest in them exceeding a predetermined percent of the value of the goods. The levels at which a product would still be allowed to receive a certificate of origin was to be set at the start of the war. Additionally, provisions were made for an Import Prohibited List. It was mainly meant to help Britain conserve foreign reserves by prohibiting the import of luxury goods and products demand for which could be filled domestically. At the same time, by prohibiting the import of products typically received from enemy states, Britain could prevent

30 “Commercial Policy: Import Control”, Board of Trade War History, 9 Jan, 1940, BT 131/7, 1.
endeavoring to interfere with neutral trade with the enemy was considerably more complicated and required more costly enforcement measures.\textsuperscript{31} The blockade allowed for the control of some of the enemy imports, specifically by allowing the British navy to stop neutral trade in contraband of war. To create the strictest possible control of contraband trade, the British borrowed an American idea used in World War I. Instead of publicizing a list of all products which the British government considered to be contraband, they designed a short list of five product descriptions – four absolute, one conditional contraband – in such a way that “the great majority of articles entering into international trade can be regarded as falling into one or another of them.”\textsuperscript{32} A long contraband list was expected to draw ire from the neutrals both for its length and for its content. Using a short list modeled on the American contraband list from the previous war was meant to help obviate American objections to the ploy. The short and vague published list would be supplemented with a confidential list detailing all products that correspond to the five categories. Officials “will be informed, at the outset of the war and at intervals thereafter, which articles mentioned in the Confidential Supplement, are not to be regarded as contraband for the time being.”\textsuperscript{33} This method of contraband control not only allowed the government flexibility in its policy, but also facilitated the extraction of a considerable amount of information from neutral countries. It was hoped that neutral traders would enquire with British officials to determine if their shipments would be considered contraband. The officials would then be able to obtain the full details of the proposed shipment before providing an answer.\textsuperscript{34}

In order to reduce some of the strain this process placed on neutral trade, the British

\textsuperscript{31} Costly economically, but also politically. Neutral states frequently lodged complaints when the tools in this category were used.
\textsuperscript{34} “Chapter VI. Military Action”, Economic Warfare Handbook, 10 Feb, 1939, BT 11/994, 7.
planned to introduce a system of commercial passports for goods known as Navicerts. These certificates would be given out before goods were shipped and would contain all information about the shipment: which products were shipped and in which quantity, who sold them and who was purchasing them. With this passport, the delays to neutral trade would be shortened considerably as all of the investigative work determining the bone fide character of the trade would take place before the goods were shipped. However, the system could only be used in a lengthy conflict.\footnote{35 “Chapter V. Diplomatic Action”, Economic Warfare Handbook, 24 Jan, 1939, BT 11/994, 18.} In order for a Navicert to be granted, the officer making the decision would need to know if the recipient was involved in trade with the enemy or was a trusted merchant. It would take some time before such information could be gathered, consolidated and available for use to the officials in neutral states.

Plans were put into place to start gathering such information even before the war began. At the outbreak of war, the government was to make public a Statutory list of all firms and persons legally designated as being the enemy. On this list would be all firms and persons located in enemy territory, all subsidiaries of enemy firms located in neutral states, all firms where the controlling interest belonged to an enemy national. As the war progressed, a Black list would be assembled for firms or persons suspected of trading with the enemy. In very severe circumstances, a White list of firms or persons known to be above suspicion, would designate the only possible points of contact for trade in a specific location. Political considerations were not allowed to interfere with this instrument of prohibiting trade with the enemy. Those people or firms that needed to be kept off the Statutory list for political reasons were instead added to the Black List, which was not public but still used to interfere with trade.\footnote{36 “Chapter V. Diplomatic Action”, Economic Warfare Handbook, 24 Jan, 1939, BT 11/994, 28.}

All of the preceding measures would only affect enemy imports carried by sea, and
sometimes by air; to inflict the maximum economic pressure on the enemy, land trade between neutrals and the enemy would also need to be interrupted. Naturally, this was a difficult problem as neutrals have their own preferences for commercial policies with their neighbors which does not necessarily cohere with British requirements. The simplest proposed solution, was diplomatic. At the start of the war, the British government would attempt to induce neutrals adjacent to the enemy to prohibit the export of contraband goods to the enemy state. They would also attempt to induce neutrals to prohibit the export of goods “of which our own supplies are adequate and those of the enemy inadequate.”37 If simple negotiation failed, they could withhold British exports of products that were necessary to the neutrals. A more severe measure was rationing of the neutral states, which would require limiting the British exports to neutrals to pre-war levels, thus ensuring that neutral states would not have anything left to re-export to the enemy. Finally, The British proposed a very expensive measure of purchasing neutral products “of which we already control a large part of world production, where purchases may be made solely in order to prevent the commodities in question from reaching the enemy.”38 The goal was to leave the enemy with nothing to import even if the neutral states wanted to deal with the enemy.

When it came to enemy exports, the problem did not have a solution. “It has not been possible to find any procedure for interfering with enemy exports shipped from neutral ports in neutral bottoms which would not be open to objection on existing International Law principles.”39 The law of neutrality protects neutral goods in neutral ships, even if such goods are of enemy origin. To export its products to the world, all an enemy state need to is sell the products over the land border to a neutral state. The neutral state would then be free to do with

the products as they pleased, facilitating trade in enemy products. Given that Britain chose to adhere to neutral rights at the start of any future war, it would not be able to interfere with such trade.

In the Economic Warfare Handbook, the British government had at their disposal a comprehensive set of tools for severing enemy trade, not only with Britain but also with the rest of the world. To decide which of the tools to use; however, they needed to know what kind of conflict to adapt the policy to. The Chiefs of Staff were responsible for creating the war plans for any potential conflict Britain could be drawn into. And the Economic Pressure Committee was responsible for dissecting the economy of any state that might become the enemy in the future. Given these two inputs, Britain could set a wartime commercial policy.

**Preparing for War with Germany**

The interwar years provided Britain with plenty of opportunities to tailor their general economic warfare plan to specific crises. Between 1926, when the first outlines of the economic warfare plan were put together, and 1939, when a war finally broke out, Britain considered specific plans for economic pressure against Canton, Japan, South China, Soviet Union, Italy and Germany. They even developed a dossier on the potential economic pressure they could leverage against France. With every crisis in the international system, Britain diligently adapted the general plan to apply to the situation, determining if economic pressure was possible, to what extent, under what conditions, on what timeline, and finally, whether it should be applied at all.

In 1937, the Economic Pressure on Germany Sub-committee (EPG) was tasked with formulating the specific plan for economic warfare against Germany in a potential future war. In order for them to start their work, they required two important pieces of information – how long is the war expected to last and what is the economic situation vis-à-vis Germany.
*Expected Length of War*

The potential war with Germany was expected to be a long one. In February 1937, the Chief of Staff Sub-committee on Planning for a War with Germany posited that one of two outcomes was likely in a confrontation with Germany: a quick defeat or a long war.\(^{40}\) Either Britain would be knocked out of the war by Germany through an overwhelming bombing campaign, or Britain would need to gear up for a long struggle before victory became a possibility. It was assumed that as a result of their breakneck re-armament, Germany was vastly superior to both Britain and France in terms of military capabilities.\(^{41}\) Consequently, it would be impossible for Britain to end the war through a quick strike. At the same time, Britain assumed that the German economy could not handle the stress of a long war. Thus, the only solution was to “confront our potential enemies with the risks of a long war which they cannot face.”\(^{42}\) The military policy ultimately adopted by the Allies was broken down into two phases. The first required Britain to take the defensive and build up her capabilities. Only in the second phase would Britain switch to offensive operation required to win the war. This first phase would “necessarily be a long one.”\(^{43}\) Overall, it was expected that the war would last at least three years.\(^{44}\)

*Assessment of Commercial Situation*

The first order of business in assessing the commercial position vis-à-vis the enemy was to determine the importance to Britain of trade with Germany. In 1937, the United Kingdom

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\(^{42}\) “Defense Expenditure in Future Years”, CP 316 (37), December 1937, CAB 24/273/41, 2.


imported 38.9 million pounds worth of goods from Germany, around 3.8 percent of their total imports. For Germany this represented around 8.5 percent of their total ‘visible’ exports. For Britain exported 23.4 million pounds worth of goods to Germany, accounting for 4.5 percent of their exports for that year. For Germany, this represented around 6.3 percent of their total ‘visible’ imports. Chief items traded between the two states were coal, cotton, wool and wool yarns, fish and fish products. Additionally, Germany was a prominent customer of the British re-exporting trade, taking in eight million pounds of re-exported goods or around 10.6 percent of the total British re-export trade. An analysis of German trade with the rest of the world revealed that Germany traded directly and in considerable volume with the British Empire. Main products imported by Germany from the Empire were oil seeds, rice, wheat, cocoa, jute, cotton, wool, hides and skins, tanning materials, nickel ore, copper, manganese ore, and rubber.

Analyzing the content of British trade with Germany in more detail, British imports were divided into three categories: food, raw materials, and manufactured goods. While the actual proportion of the total value of British imports from Germany taken up by food products changed over the 1930s, it never rose above ten percent. Almost all of the food products imported had an oversupply in the world; accordingly, it was assumed that there would be no problem associated with losing Germany as a supplier. Raw materials, likewise, accounted for a small amount of the value of British imports from Germany. Also, all of the raw materials coming from Germany either had substitutes or alternative sources of supply, requiring only

45 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, Annex I.
46 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, Annex I.
47 “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany on August 1, 1938”, CAB 104/35, 10.
49 “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany on August 1, 1938”, CAB 104/35, 10.
50 A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 10.
temporary switching costs as a result of severing trade.\textsuperscript{51}

Approximately eighty percent of the imports from Germany were manufactured goods. Most problematically, in a number of cases such products were raw materials required for British industry. Severing trade in such products was expected to cause considerable inconvenience and unemployment for a length of time before alternative suppliers increased their production to meet British demands.\textsuperscript{52} Examples of such products included: potash, which was an important fertilizer, acetic anhydride and oxalic acid, which were used in the manufacturing of dyes, some classes of synthetic dyes, required for the textile industry.\textsuperscript{53} Some chemicals used in the manufacture of drugs and imported from Germany in peacetime, would likewise require significant time and a significant investment to produce domestically, and even then the price of the domestic product would be considerably higher than the German fine chemicals.\textsuperscript{54}

Additionally, if trade with Germany was severed, there would be a considerable problem acquiring specialized machine tools, especially hosiery latch needles which are essential to the textile industry.\textsuperscript{55} To indicate the difficulty of finding an alternative supplier for such products, it was noted that in peacetime Britain licensed the important of German machinery to the value of 750,000 pounds a year duty free. Even in the highly protectionist atmosphere of the inter-war years, the British government made exceptions for machinery imported from Germany, as no suitable substitute could be found.\textsuperscript{56} This assessment changed slightly towards the end of the decade, when American suppliers of similar products became available. However, Britain

\textsuperscript{51} A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 10.
\textsuperscript{52} A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB 47/8, 5.
\textsuperscript{53} A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB 47/8, 5.
\textsuperscript{54} A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB 47/8, 5.
\textsuperscript{55} A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 10.
\textsuperscript{56} A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB 47/8, 5.
understood that switching from German supplied machine tools would entail considerable
dependence on the United States\(^{57}\), which might or might not be free to export such goods to
Britain depending on how the American Neutrality Acts were invoked in any future war.

As far as British exports to Germany went, there were several products for which
Germany was the main market. Britain exported thirty percent of its fish to Germany, twenty-
four percent of wool, thirty percent of woolen and worsted yarns, and thirty-five percent of
cotton yarns. Of these, the British government believed the wool industry would actually benefit
from a cessation of trade with Germany, but that the loss of the German market would be “a
serious matter” for the fishing industry.\(^{58}\) Most of the main products exported to Germany from
Britain, including the Empire; however, were commodities that were in some way related to the
war effort. As such, in any war, there would be an increased domestic demand for these products.
It was assumed that losing trade with Germany in this set of goods would not come with any
significant loss of income, as there would be an easily available alternative market.\(^{59}\)

The re-export trade, on the other hand, would pose a significant loss to Britain if trade
were severed – not only during the war, but in terms of permanent loss of market share after the
war as well. The re-export trade consisted of states using Britain as an entrepot, storing products
meant for further destinations in Britain, with Britain re-exporting these products to their final
destinations. Germany imported butter, tea, coffee, fur skins, rubber, raw wool and leather by
this method.\(^{60}\) If this trade was cut during the war, Britain assumed it would be a permanent loss.

“We may assume that Germany would make every possible effort to get into touch with the

\(^{57}\) “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany
on August 1, 1938”, CAB 104/35, 10.

\(^{58}\) A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 10.

\(^{59}\) “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany
on August 1, 1938”, CAB 47/8, 10.

\(^{60}\) A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB
47/8, 7.
original suppliers of the overseas produce which she now buys from us in large quantities.”61
And once the original suppliers found a way to trade with Germany directly, Britain assumed
there would be little reason for them to resume the pre-war export trade.

Given the switch to a more global perspective taken by the ATB Committee, in order to
make the decision about wartime commercial policies, they also requested reports on German
domestic production and German trade with the world. These reports tracked which products
were necessary for German home consumption, how much of those needs were produced
domestically, the level of stocks kept, the principal sources of supply for products that were
imported and what portion of those imports were consumed domestically. They learned that
Germany was steadily increasing home production of food.62 In order to make herself less
susceptible to economic pressure, Germany was increasing stocks of raw materials kept in the
country.63 But despite such efforts, it was impossible for Germany to become completely self-
sufficient and areas vulnerable to pressure remained.64

It was expected that Germany would remain dependent on imports of animal and
vegetable fats, which were purchased from Newfoundland, Denmark, Soviet Union and France.65
Whether Germany would have sufficient meat would be determined by fish imports from
Norway.66 In terms of textiles, Britain would be able to restrict German access to cotton and
wool, as most of the regular German supply came from the Empire; however, it would not be
able to prevent Germany from resupplying in hemp, which it mostly imported from Italy.
German stocks of liquid fuel would run out after a year of the war, and it was assumed that the

61 A.T.B. (E.P.) 15. “Possible Economic Consequences of an Embargo on German Goods”, April 11, 1934. CAB
47/8, 7.
63 “Some Notes on German Industry and Industrial Capacity.” Jan 4, 1933. CAB 47/8.
66 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265,
5 July 1937, ATB (EPG) 2, CAB 47/13, 14-5.
United States would not be able to resupply Germany because of difficulties in transportation. Romania would be able to fulfill the German need, but three neutral states would have to agree to allow the transport across their territory for Germany to get it. To maintain its wartime armaments production, Germany would require iron ore, which was primarily imported from Sweden. Alternatively, if Germany were to take control of Lorraine, much of the need to import iron ore would dissipate. Such analysis was used to determine which products the Germany was most in need of that would simultaneously be easiest to restrict her access to – that would be the basis of applying maximum economic pressure on the German economy. The commodities, shortages in which would affect the German economic structure most, were iron ore, non-ferrous metals, liquid fuels and foodstuffs.

As one of the biggest problems in terms of economic pressure before the ATB committee was the inability to legally limit German exports at the outbreak of war; it was suggested that a potential method of achieving this goal was to attempt to take over German export markets by providing similar British goods. However, this strategy proved to be impracticable. “A large part of Germany’s exports consist of highly manufactured and often of highly specialized goods, adapted with special regard for the requirements of the market in which they are intended to be sold.” In fact, the same lack of substitutes that drive Britain to continue to import German machinery affected most other German customers as well. This meant that Britain could not push Germany out of their export markets by supplying similar products themselves.

67 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 16.
68 “Economic Situation in Germany in April 1939”, Sub-Committee on Economic Pressure, 5 April, 1939, ATB (EPG) 50, CAB 47/15, 3-4.
69 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 17-8.
70 “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany on August 1, 1938”, CAB 104/35, 4.
71 A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 17.
Planned Policy for War with Germany

The EPG Sub-Committee started preparing plans for a specific war with Germany in 1937. At that time, they made the assumption that Czechoslovakia would be a neutral state and that the Soviet Union would not trade considerably with their ideological enemy Germany. These were safe assumptions to make in April 1937, but obviously have proven wrong by September 1939. In the last official update of the Plan for Economic Warfare Against Germany, disseminated on September 1, 1939\textsuperscript{72}, the political situation was assumed to be a war between Great Britain, France, Poland and Turkey against Germany and Italy, with Japan staying neutral at the outset.\textsuperscript{73} The Soviet Union, “if not actually engaged on our side”, was expected to maintain neutrality.\textsuperscript{74} United States, Greece, Romania were expected to be friendly neutrals and the sympathy of Portugal, Norway, Switzerland, Netherlands, and Belgium were likewise expected to be with the Allies. Hungary, Spain and Yugoslavia were expected to be unfriendly neutrals, with Bulgaria sympathizing with the Central Powers. This arrangement of states allowed the Allies to mostly surround their enemies, creating the conditions where economic pressure could inflict considerable harm to the opposite side.

The assumed arrangement of states mattered considerably for the final plan. The EPG Sub-Committee started with the assumption laid out in the general economic war plan that the wartime commercial policy needs to match the specific war being fought. In discussion specifically about Germany, they expected two considerations to particularly important: the extent to which Germany will be surrounded by states willing to sever trade with it, and the expected length of the war.

\textsuperscript{72} But obviously written before August 23, 1939, since it did not take into account the Soviet-Nazi Commercial Agreement.
\textsuperscript{73} “Plan for Economic Warfare Against Germany and Italy”, ATB (EPG) 61, 1 Sept, 1939, CAB 47/15, 1-2.
\textsuperscript{74} “Plan for Economic Warfare Against Germany and Italy”, ATB (EPG) 61, 1 Sept, 1939, CAB 47/15, 1-2.
On the first point, a conceptual distinction was made between a ‘sector’ case and a ‘circle’ case. In a ‘sector’ case, only a portion of Germany’s frontier would be closed to trade, leaving Germany open to resupply through the unblockaded portion of the frontier. If such a situation occurred during the war, the sub-committee believed the right policy would be to focus on “maximum interference with a small number of commodities.” The proposed commodities were metals, particularly iron ore, fats, and petroleum. In order to prevent neutrals from trading with Germany over the unblockaded border, Britain would have to pre-purchase all the products Germany would wish to import. This would mean not only importing large amounts of products that Britain might not need, but also at a considerable price premium to outbid Germany. To do this with all products Germany was willing to import would come with an astronomical price tag.

On the other hand, in a ‘circle’ case, nearly the whole of Germany’s border would be closed to trade. In this situation, the sub-committee believed the policy should be to “interfere with the maximum number of commodities.” After Germany absorbed Austria, annexed the Sudetenland and signed the Pact of Steel with Italy, the Sub-Committee believed Britain to be in a ‘circle’ case vis-à-vis Germany.

On the second point, the sub-committee firmly believed that “the pressure exerted would depend on the length of the war.” If a short war against Germany occurred, the focus should have been on interfering in trade of petroleum and fat. These products have a quick conversation time. Additionally, Germany was expected to face a shortage in vegetable fats and edible oils.

75 “Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 8.
76 “Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 8.
77 “Plan for Economic Warfare Against Germany and Italy”, ATB (EPG) 61, 1 Sept, 1939, CAB 47/15, 2.
78 “Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 11.
soon after the war started. In the event of a long war, “interference of tropical products, rubber and fruits assumed considerable importance.” These products had a much longer conversion time to military capabilities. Rubber was included in this list, despite its high military significance, because it was known that Germany was developing synthetic rubber to reduce their imports of the natural product.

Given the information supplied by the Chiefs of Staff, the EPG Sub-Committee knew to expect a long war against Germany. They also expected it to be a great war. From the first report disseminated by the Sub-committee, they advocated for the establishment of the Ministry of Economic Warfare from the start of the conflict. An action that according to the general economic warfare plan should only be taken in a great war – one where the power of the whole nation is required. Due to type of war the policy was being prepared for, every report by the EPG Sub-Committee also pointed out that decisive results from economic pressure cannot be expected in the short term. Every estimate suggested that at least a year had to elapse before any results could be observed. In April 1939, this estimate expanded to be fifteen to eighteen months. Because of such a time-lag, “the policy should be put into operation as swiftly and vigorously as possible.” The earlier trade is severed, the sooner the point at which it starts to affect the enemy.

Planning for a long, major war the Sub-Committee knew that the enemy would have time

79 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 14.
80 “Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 12.
81 “Plan for Economic Warfare Against Germany. Report by Economic Pressure Sub-Committee”, Advisory Committee on Trading and Blockade in Time of War, ATB 176, 18 July, 1938, CAB 47/6, 8.
83 “Plan for Economic Warfare Against Germany. Report by Economic Pressure Sub-Committee”, Advisory Committee on Trading and Blockade in Time of War, ATB 176, 18 July, 1938, CAB 47/6, 4.
84 “Economic Situation in Germany in April 1939”, Sub-Committee on Economic Pressure, 5 April, 1939, ATB (EPG) 50, CAB 47/15, 6.
85 “Notes for Appreciation by the Joint Planning Committee of the Situation in the Event of War Against Germany on August 1, 1938”, CAB 104/35, 2.
to convert all sorts of products into military capabilities to help with the war effort. “It would be of little use to ration wheat if flour were allowed to enter freely or ores and metals if scrap and alloys were allowed free passage.”\textsuperscript{86} Even in rather lengthy supply chains, Germany would have time to convert raw materials into finished goods to be used in the war effort before the war was expected to be over. As such, the EPG Sub-Committee developed a comprehensive approach to severing trade with the enemy. Since all products are ultimately convertible into military capabilities and the enemy would have the time to do so with all products – trade in all products had to go.

The aim of the wartime commercial policy at the start of the war was suggested to be “any diminution of Germany’s economic resources as a whole.”\textsuperscript{87} Maximum interruption of trade should be sought for products in which Germany has not yet reached self-sufficiency. However, it was assumed that “Germany is unlikely to attempt to import goods which are not either useful for the conduct of the war or at any rate conducive to the efficiency and contentment of her civil population and to the smooth working of her economic system.”\textsuperscript{88} Thus the list of products for which maximum interruption would be sought was basically the full list of products Germany was importing.

That the intention of the policy was to stop all trade with Germany can be seen in the exchange between R. G. Hawtrey, the Treasury representative on the EPG Sub-Committee, and J. W. Nicholls, from the Foreign Office. Hawtrey inquired if the goal of the policy was to prevent Britain from exporting to Germany only contraband exports or all exports, “do we not wish to prevent non-contraband goods reaching the enemy indirectly, because if they are non-

\textsuperscript{86} “Imports to Limitrophe States of Principal Commodities to be Covered by a Rationing Scheme”, Sub-Committee on the Economic Pressure on Germany, 27 June, 1938, ATB (EPG) 26, CAB 47/14, 1-2.
\textsuperscript{87} “Plan for Economic Warfare Against Germany”, July 1938, ATB 181, CAB 47/14, 5.
\textsuperscript{88} “Plan for Economic Warfare Against Germany”, July 1938, ATB 181, CAB 47/14, 5.
contraband, he is wasting his resources on buying goods not essential to the prosecution of the war.” In essence, Hawtrey was asking if Britain planned on recognizing some class of goods as being innocent at the start of the war; innocent goods being safe to export to Germany indirectly. The response was: “If the enemy buys anything whatever, he will have some good reason for buying it; and that, to my mind, is sufficient reason for us to try and stop him.” The answer quite clearly stated that there would be no innocent goods at the start of the war. With enough time, all goods were ultimately useful for the war effort. Since Germany would have enough time, all trade had to be severed.

Even products traded with Germany in small amounts were not saved from the chopping block. Members of the Sub-Committee complained when the statistics they received included the word “negligible” under the volume of trade in some products. The small volume of trade “does not provide a reason for ignoring them, since certain items, though of great importance to Germany in war, are only required by her in relatively small quantities.”

Once the aim of the policy was determined, the next question became implementation. If the desired policy, for some reason, were impossible to carry out, that might provide reason to change it. However, despite the manifold problems of implementing a strict restriction on all trade, direct and indirect, with the enemy, the British stuck to their guns.

Severing direct trade with Germany was simple enough. A Trade with the Enemy Bill was already drafted in the general economic warfare plan. In order to sever indirect exports from Britain to Germany, an Export Prohibited List was created. From the point of view of severing all indirect trade with Germany, the best solution would have been to place all products on the

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91 “Imports to Limitrophe States of Principal Commodities to be Covered by a Rationing Scheme”, Sub-Committee on the Economic Pressure on Germany, 27 June, 1938, ATB (EPG) 26, CAB 47/14, 2.
list of goods prohibited from export to Germany’s neighboring states. However, this action would require giving up bone fide trade with these neutral states. That would have been a counterproductive decision to make in a major war, where exports generate the much needed foreign reserves used to resupply the nation.

While severing all trade with neutrals was too costly an action, this did not stop Britain from creating a rather extensive Export Prohibition List. In fact, three separate lists were planned. The first was a short list of essential commodities prohibited before the outbreak of war. In the actual war that broke out with Germany, this list was issued on August 24, 1939. It contained thirty nine product descriptions, most of which were categories of items, and covered metals, textile raw materials, fats, petroleum, rubber and resins. All were products vital for the British war effort and at the same time products in which Germany was expected to be deficient in. The second list of export prohibited goods was to contain mostly foodstuffs, raw materials and semi-manufactured goods and to be issued at the start of the war. This list had 294 product description most of which were categories or contained phrases such as ‘and like material’ or ‘and parts thereof.’ Most of the products could not be exported from Britain at all. The few products that were prohibited from export to states bordering Germany were products that Germany was expected to be deficient in, but that Britain was well supplied with - dairy products, tobacco, cotton, iron, phosphates, pyrites. Despite the expressed preference of the general economic warfare policy to keep the initial prohibition list, the list issued at the start of World War II was as long as the Export Prohibited List in 1918. The third list was to contain products that would be added to the existing list once the Licensing Department was ready to

93 “Export Prohibited List – Memorandum by the Board of Trade”, Sub-Committee on Economic Pressure, 27 March, 1939, ATB (EPG) 49, CAB 47/15.
take on more work. There were not many products left to be placed on it.

The next step in severing indirect trade was the blockade which would control contraband trade with the enemy. The EPG Sub-committee, in the desire to curtail imports into Germany, advocated a very long contraband list.95 During the war, the plan laid out in the general plan of economic warfare was followed. A short but exceedingly general list of published96 and a separate confidential interpretation list circulated to British officials. The actual contraband list had over 300 product descriptions on it, containing mainly raw materials, primary products and semi-manufactured goods.97 Contraband control bases were set up at Kirkwall, Portland, Gibraltar, Haifa, Aden to cover as much sea-borne traffic to the enemy as was possible.98

These measures still leave room for indirect trade with the enemy through neutral re-export – acquiring more of a product than required for domestic consumption and re-exporting the rest to Germany. So long as neutrals were available to conduct such business, Germany would be able to resupply, resisting economic pressure “for as long as she can pay for her imports.”99 To prevent Germany from being able to pay for her imports, the Britain would have to prevent Germany from exporting.100 This was illegal under international law, as enemy products were safe from capture under neutral flag. Unwilling to be the first to break international law in the war, the British policy was to bide their time and wait for Germany to give them a reason to invoke retaliation policies, the first of which would be a control of all

95 “Draft Minutes of the Fourth Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 13 Dec, 1937, ATB (EPG) 4th Mtg, CAB 47/12, 3.
96 “A Proclamation Specifying the Articles to be Treated as Contraband of War”, 4 Sept, 1939, London Gazette, www.thegazette.co.uk, 6051-2.
97 “Draft Minutes of the Fourth Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 13 Dec, 1937, ATB (EPG) 4th Mtg, CAB 47/12, 3.
99 “Suggestions of Evidence on which to base an estimate of the time-lag before economic pressure would decisively affect Germany”, Industrial Intelligence Center, ICF/278, 9 June 1936, CAB 104/34, 6.
100 “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 6.
German exports.

The alternative solution to prevent Germany from resupplying was to ration neutrals, that is only allows neutral states to import products up to the level of their pre-war imports. Aside from the problems of rationing anticipated in the general plan for economic warfare, the situation vis-à-vis Germany presented two new complications. First, there were nineteen neutral states to contend with. For the flow of products to the enemy to be effectively limited, all neutral states had to be rationed.\footnote{“Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 3.} If one state were to escape the system, it would become the channel of indirect trade to the enemy, with only its infrastructural capacity to handle trade as the limit. With nineteen states to convince or coerce into participating in willing rationing, some members of the EPG Sub-Committee expressed doubt that a rationing scheme could succeed.\footnote{“Extracts from the 331st Meeting of the Committee of Imperial Defence”, Sub-Committee of Economic Pressure, 5 Sept, 1938, CAB 47/14, 5.} Instead of resolving the question, however, the committee decided to punt the question to the Government of the day and prepare a policy based on the assumption that rationing was possible.\footnote{“Scheme for the Exercise of Economic Pressure Against Germany”, Advisory Committee on Trade Questions in Time of War, ATB 182, 8 Sept, 1938, CAB 47/6, 5.}

The second complication was Soviet Russia as a potential neutral state. “If willing to place her resources unreservedly at Germany’s disposal, she could make good nearly all German’s deficiencies for a long time.”\footnote{“Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 27.} Additionally, Russia could import products from America over the Pacific Ocean, then export to the enemy similar products manufactured close to the German border. It presented a huge gap in the blockade Britain was planning. In fact, in one of the earlier assessments of German susceptibility to economic pressure, the ATB Committee came to the conclusion that if Russia traded with Germany, the effect of the blockade would be considerably lessened and if the USA and Argentina traded with Germany, which they
could do through a neutral Russia, there would be no point to the blockade.\textsuperscript{105}

Despite realizing that these problem posed a great challenge to the enforcement of their chosen wartime commercial policy, in the last report issued before the war both problems were assumed away into non-existence. It was hard for the British to imagine Soviet Russia establishing close economic ties with Germany.\textsuperscript{106} And despite the lukewarm approach to negotiations with Russia, there was some hope that Russia would be a British ally in the coming war with Germany.\textsuperscript{107} As for the problem of rationing neutral states, Britain imagined that Germany’s behavior in the lead up to the war made most of the neutrals sympathetic to the British cause and willing to sign War Trade Agreements following the British policy at the outbreak of the war.

Planning for a long, major war, Britain adopted a wartime commercial policy that restricted as much trade with the enemy as was possible. The policy was comprehensive, severing trade in all products – regardless of how irrelevant the product seemed to the war effort, regardless of whether the product was a raw material or a finished good, regardless of the insignificance in the amount or value of trade in peacetime. Since all products could contribute to the German war effort given a long war, and a long war was precisely the kind of war expected, trade in all products was prohibited. Direct trade with the enemy was cut off with the TWE Act of 1939. Indirect exports to the enemy from Britain were prohibited through an extensive Export Prohibited List. An equally long Contraband list was created to prevent neutrals from acting as a channel of indirect trade. Negotiations with neutral states started at the outbreak of war to enforce self-rationing schemes. The only ‘lax’ point of the policy was the lack of control of

\textsuperscript{105} A.T.B. (E.P.) 2, “Note by Secretary”, May 19, 1933, CAB 47/8, 1.
\textsuperscript{106} “Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 28.
\textsuperscript{107} “Plan for Economic Warfare Against Germany and Italy”, ATB (EPG) 61, 1 Sept, 1939, CAB 47/15, 1-2.
German exports, and this gap existed only because it was impossible to find a legal method of detaining German exports. Unwilling to be the first to break the laws of neutrality, the British policy was to wait until Germany gave them an opening by breaking international law first.

**Changes to the Commercial Policy during the War**

While the story of the wartime commercial policy in World War I was one of change, the story of wartime commercial policy in World War II was one of stasis. The British expectations about the kind of war they were fighting never wavered, and therefore the policy created for the beginning of the war continued to be the appropriate policy throughout the entirety of the war. The only change that did occur was planned for. Britain started the war with a plan to institute reprisals against German exports at the first possible opportunity, and that was precisely the one change that was made to the wartime commercial policy.

*Expected Length of War*

The expected length of war, throughout the entirety of World War II, stubbornly remained long. While the war was being planned for by the British Chiefs of Staff, it was expected to be long. At the outbreak of war, it was expected to be long. When France fell, and Britain found itself alone in a face off against Germany, there were some doubts about the possibility of winning. But for those who steadfastly believed in it, eventual victory would be in the distant future. When the United States joined the war effort doubts about eventual victory disappeared, but references to victory being ‘eventual’ did not. Throughout the almost six years of the war, no one expected a speedy conclusion to the war until Berlin fell.

The British started with the assumption that the war against Germany would be long.108

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The chosen strategy was one of delay. Over time, the ability of Britain and France to defend themselves was expected to increase, while the ability of Germany to stay on the offensive would decrease due to air bombardment and economic blockade.\textsuperscript{109} Eventually, Germany would be defeated through internal upheaval or through an allied invasion. The invasion was not expected to begin until about two years of the war had already passed.\textsuperscript{110} The initial strategy, and therefore assessment of the length of war, was dealt an immediate blow by the signing of the Nazi-Soviet Pact and the commercial agreement that followed it. With Soviet Russia supplying Germany with large quantities of oil and raw materials, the allied economic blockade developed a Russia sized hole that the Allies could not hope to close.\textsuperscript{111}

In addition to planning for a long war, it is possible to see this assessment reflected in other actions taken by the British government. At the start of the war, Britain and France made a deal with Turkey to purchase all of their production until January 1943, in exchange for arms supplies.\textsuperscript{112} The goal of the arrangement was to pre-purchase supplies that could have ended up exported to Germany. It also provides an estimate of how long the Allies expected to need to keep supplies from reaching the enemy – from September 1939 at least through January 1943. A bit longer than three years.

From the fall of France in 1940, victory became “indefinitely postponed.”\textsuperscript{113} With no ability to fight a land campaign against Germany, the Chiefs of Staff proposed to Churchill, and he accepted, a strategy that relied on organizing guerilla resistance in occupied Europe to topple Germany from within. Even under the most optimistic projections, this strategy was not expected


\textsuperscript{111} Philip Michael Hett Bell, \textit{Twelve Turning Points of the Second World War} (Yale University Press, 2011), 2.

\textsuperscript{112} Clive Ponting, \textit{Armageddon} (Random House, 2012), 50.

to bear fruit until 1942, more than two and a half years after its intended launch date.\textsuperscript{114} Germany’s declaration of war on the Soviet Union did not usher in expectations that the British burden would lighten significantly enough to lead to a quicker victory. The British believed that the German diversion in the Soviet Union would only provide them with a few weeks of breathing room, before Russia too fell to the German onslaught.\textsuperscript{115}

After the United States joined the war effort, in early 1942, they proposed a buildup of forces in Britain for a cross-Channel invasion in the spring of 1943.\textsuperscript{116} This was a plan looking a year and a half into the future and still not seeing victory at the end but a movement of the war to a different stage. Even this plan was abandoned by the end of July in favor of an invasion of French North Africa. On July 29, 1942, Churchill mentioned to his colleague Clement Attlee that “It certainly will be several years before British and American land forces will be capable of beating the Germans on even terms in the open field.”\textsuperscript{117} The success of Operation Torch in French North Africa, in November 1942, was widely regarded as a turning point, a switch from a defensive strategy to one of offense for the allies and the beginning of the phase of war where the goal became to undo German territorial gains.\textsuperscript{118} However, no one expected this process to be a quick one.

There was some optimism surrounding the Italian campaign started in September 1943, with wishful thinking prompting American commanders, and even Churchill, to expect the fall of Rome by the end of October.\textsuperscript{119} This optimism extended only as far as knocking Italy out of the war, not winning outright. And at the start of winter of 1943, the hopes of quickly ending the

\textsuperscript{114} Ferris and Mawdsley, \textit{The Cambridge History of the Second World War}, 35.
\textsuperscript{115} Laurence Rees, \textit{World War II Behind Closed Doors: Stalin, the Nazis, and the West} (Knopf Doubleday Publishing Group, 2009), 116.
\textsuperscript{116} Ponting, \textit{Armageddon}, 126.
\textsuperscript{117} Rees, \textit{World War II Behind Closed Doors}, 196.
\textsuperscript{118} Jeremy Black, \textit{World War Two: A Military History} (Routledge, 2003), 126.
\textsuperscript{119} Antony Beevor, \textit{The Second World War} (Weidenfeld & Nicolson, 2012), 529.
Italian campaign also dissipated as dispatches decoded from ULTRA transmissions made clear that Hitler planned on mounting a ferocious defense.\textsuperscript{120}

Not even the Normandy landings decreased the expected length of war. Successful landing did not guarantee immediate victory. Fear abounded that the struggle would settle into a stalemate and that the Allies would not be able to make any forward progress.\textsuperscript{121} A momentary glimmer of optimism appeared in the last two weeks of August, 1944.\textsuperscript{122} The success in Normandy and the liberation of Paris encouraged the commanders to believe they could successfully drive straight to Germany and that the war would be over by Christmas.\textsuperscript{123} However, this optimism did not have a chance to solidify into a change in the expected length of war as the end of August also revealed incredible logistical problems facing the Allies. An offensive at the time was rejected out of hand, because it could not be properly supplied.\textsuperscript{124} At the same time, Germany showed that it was far from defeated by attacking the Allied forces in Arnhem in September.\textsuperscript{125} Churchill fully expected that “the enemy would still be resisting when the New Year came.”\textsuperscript{126} The expected length of war remained long.

\textit{Expected Intensity of War}

The war started with the assumption that it would be a major war – one where the entire power of the nation would be required for the war effort. It was also expected to be an existential struggle for survival from the very beginning, forcing Britain to prioritize short term survival over long term security in most instance. In the pre-war planning, Britain made the assumption that before war was even declared, Germany would attempt a knockout blow against Britain

\begin{footnotes}
\item[120] Beevor, 530.
\item[121] Bell, \textit{Twelve Turning Points of the Second World War}, 181.
\item[122] Parker, \textit{The Second World War}, 205.
\item[123] Beevor, \textit{The Second World War}, 633.
\item[124] Parker, \textit{The Second World War}, 205–6.
\item[125] Black, \textit{World War Two}, 177.
\item[126] Bell, \textit{Twelve Turning Points of the Second World War}, 188.
\end{footnotes}
through an overwhelming bombing campaign.\textsuperscript{127} In 1938, it was predicted that 3,500 tons of bombs would be dropped on London on the first day and 700 tons per day in all subsequent days.\textsuperscript{128} Using the Spanish Civil War as an example, each ton of bombs was expected to lead to fifty casualties. In fact, to prepare the nation for the expected attack on the homeland, the British government started evacuations of children on September 1, 1939. In an operation called Pied Piper, approximately 1.5 million people were moved to the countryside.

Britain entered World War II with the expectation of a war for survival, afterwards, there was no opportunity to reassess this expectation towards a less intense war. While the bombing campaign against Britain did not immediately materialize, the home front witnessed other signs of the intensification of war. Import control was introduced limiting the products which could be imported into Britain affecting what could be bought by consumers. Rationing was introduced on January 8\textsuperscript{th}, 1940 starting with bacon and ham, butter and sugar.\textsuperscript{129}

With the evacuation of British troops from the continent and the Fall of France, the expectation of an existential struggle grew more solid. In addition to the bombing raids that were immanently anticipated, having conquered France, Germany now had the ability to stage an amphibious invasion of the British Isles.\textsuperscript{130} It terms of supplying Britain with necessary consumer goods, the fall of France meant Britain no longer had the ability to import French produce. Britain had to readjust their plans for import schemes and distributions of raw materials to accommodate the loss of the large market.

The start of the Battle of Britain represented the beginning of the actual existential

\textsuperscript{127} Ferris and Mawdsley, \textit{The Cambridge History of the Second World War}, 32.  
\textsuperscript{128} Robert Mackay, \textit{Half the Battle: Civilian Morale in Britain During the Second World War} (Manchester University Press, 2013), 4.  
\textsuperscript{130} Basil Collier, \textit{The Defence of the United Kingdom} (Naval & Military Press, 2004).
struggle that was expected from the beginning of the war. Emphasizing the enormous scale of importance of the battle, Churchill famously stated on June 18, 1940, that “our own British life, the long continuity of our institutions and our Empire” depended on it.\textsuperscript{131} The German invasion of the Soviet Union did not much change the assessment of the intensity of the war. The Soviet Union was expected to fall to the Germans as fast as all the other states of Europe. Within two months of the invasion, Britain expected Germany to refocus on Britain.\textsuperscript{132}

Even the American entry into the war did not shake the British assessment of World War II. While the American commitment convinced Britain that the war against Germany would eventually be won, the economic assistance provided by the American allies came with very stringent conditions. Britain was expected to use every last ounce of domestic resources before they could draw on American resources. And the American resources could only be used for the war effort directly; they could not be used to help maintain the stability of the British economy.\textsuperscript{133} This prevented Britain from being able to reassess the intensity of the war and their decrease their willingness to lose the income from trade.

\textit{Wartime Changes in Policy}

Since the expectation for a long, major war never wavered in Britain, the wartime commercial policy remained incredibly restrictive through the war. If there was any movement, it was in the direction of taking more stringent measures of control.

From the outbreak of war, Britain was waiting for an opportunity to cut off German exports. To do that, they needed, legally speaking, for Germany to break international law with a high enough frequency and with a large enough body count for the Prize Court to recognized a

\textsuperscript{131} “If the Empire lasts a thousand years men will say, this was their finest hour”. \textit{The War Illustrated}. 28 June 1940, 687.
\textsuperscript{132} Ponting, \textit{Armageddon}, 116.
\textsuperscript{133} “Commercial Policy: Import Control”, Board of Trade War History, 9 Jan, 1940, BT 131/7, 1.
legitimate need for reprisals. The Admiralty and the Air Ministry kept evidence of such German ‘atrocities’, which were compiled into a report stating that between the September 1 and November 4: thirty British and three Allied ships were sunk illegally, thirty three neutral ships were attacked, sixteen of them sunk in circumstances believed to be illegal.\textsuperscript{134} However, it was not until seven neutral ships were sunk by German mines, which were laid without any warning, leading to serious loss of life – most prominent among them the Dutch liner, \textit{Simon Bolivar} – that a case for retaliation could be made.

On November 28, 1939, a Reprisals Order-in-Council was issued. It banned all merchant vessels from carrying goods from enemy or enemy controlled ports. It also banned the carriage of goods of enemy origin or enemy property, regardless of where the ship was coming from or sailing to. All enemy exports found were to be discharged in a British or Allied port.\textsuperscript{135} In essence, what this meant was that neutral ships were no longer allowed to carry enemy products, a fundamental right of neutral states established in 1856. German exports were effectively removed from sea-borne trade.

On July 31, 1940, amidst the German onslaught at the start of the Battle of Britain, Britain issued an Order-in-Council stating that goods not expressly covered by a valid Navicert or Certificate of Origin would be automatically assumed to have an enemy destination or be of enemy origin.\textsuperscript{136} The presumption became of guilty until proven innocent; doubt about the origin of goods where no information could be recovered was no longer an acceptable reason to allow a shipment to be delivered. Neutral states were forced into the Navicert system, where British officials could enforce greater control to make sure that products did not reach the enemy.

The only other change was the continual stream of notifications from the Foreign Office

\textsuperscript{134} W. N. Medlicott, \textit{The Economic Blockade}, 1:18.
\textsuperscript{135} 28 Nov, 1939, London Gazette, www.thegazette.co.uk, 7959-60.
designating new territories as being ‘in enemy occupation’, keeping pace with German expansion. Such states stopped being neutral and were treated as ‘the enemy’ for the purposes of wartime commercial policy.

To keep the Export Prohibited List current with the German advances, in April 1940, a new category of states was added – “countries which were in imminent danger of being overrun by the enemy.”¹³⁷ Products which it was desirable to keep out of enemy hands were prohibited from being exported to states in dangerous of being quickly overrun. Aside from this change, the Export Prohibited List was not changed throughout the war. It was reorganized several times to make the work of Custom’s officials easier, which required adding some product descriptions to the list. However, these were not actually new prohibitions, but clarifications about how existing prohibitions applied to specific items.¹³⁸

**Licensing Prohibited Trade**

Despite creating and maintaining a highly restrictive wartime commercial policy throughout the war, Britain did grant specific licenses for direct trade with the enemy. Such licenses were tightly controlled and granted under specific circumstances. Licenses for export were almost never made. As the British assessment of their commercial relationship with the enemy revealed, the goods traded in peacetime were mostly those related to the war effort. Not only was there a strategic reason to prevent these goods from reaching the enemy, the increased domestic demand consumed most of such products that could have been exported. Licenses, however, were occasionally granted for the importation of products of enemy origin. Specific consideration was granted for products that were only obtainable from the enemy and at the same time required for important value added production in Britain, especially if the end result of this

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¹³⁷ “Board of Trade War History, Sept 1939 – June 1940”, BT 131/7, 5.
¹³⁸ “Board of Trade Announcement: Export Licenses”, CUST 106/118, Jan 4, 1940.
production was exported abroad. In order to keep domestic industry afloat and exporting, thereby keeping the domestic economy from collapsing and foreign reserves from shrinking, Britain was willing to import enemy products.

During World War II, some open general licenses for trade existed. While they granted the right to import and export to all destinations, these general licenses had little to do with actual trade with the enemy. The open general import licenses included products such as fresh fish, books and newspapers, coal, gold, silver, tin and cinematographic film. Fish, coal and tin were products that Germany needed to import; making the purpose of the open license an attempt to get neutrals to trade in these products with Britain as opposed to Germany. It was assumed the enemy would have no interest in exporting gold or silver, much less to Britain. As for the books, newspapers and film, the goal was to increase the availability of information. Essentially, the products for which general import licenses existed would never come from the enemy. The open general export licenses were not even licenses at all. They “represent arrangements by which the export control is exercised by some special method as, for example, control of cinematographic films by the Ministry of Information, and of coal and coke by export certificates issued by the Mines Department.” The existing open general licenses were not designed to allow any relaxation on trade with the enemy.

On the other hand, specific licenses – granted to a specific merchant, for the import of a specific product in a predetermined quantity or value from a specific source – facilitate direct trade with the enemy. “It was sometimes necessary to allow trade with enemy territory in order ultimately to get for the Allies necessary commodities which it might otherwise be difficult to

139 “Letter from H.J Shackle (Board of Trade) to G.H. Newsom (Trading with the Enemy Branch)”, 8 May, 1941, CUST 106/374.
140 “Letter from H.J Shackle (Board of Trade) to G.H. Newsom (Trading with the Enemy Branch)”, 8 May, 1941, CUST 106/374.
get or alternatively, to draw from enemy territory commodities which the enemy were in need of."\textsuperscript{141} Additionally, sometimes such licenses were provided to merchants importing into neutral states when the product was used to manufacture something for the Allies.\textsuperscript{142}

A considerable portion of the products imported on such specific licenses were dyestuffs and products used in the manufacture of dyestuffs.\textsuperscript{143} Wishing to reduce their dependence on enemy produced dyestuffs, Britain attempted to encourage the formation of a domestic dye manufacture. The problem they ran into was that some of the chemicals required in the production of the dyes, likewise, could only be obtained from the enemy. While Britain went forward with the domestic dye manufacturing, they could not fully escape the textile industry’s need for German products. Between June 1940 and March 1942, on average a bit more than 4,500 pounds worth of dyestuffs was imported from the enemy per month. An additional 2,200 pounds per month of products used in the manufacture of dyestuffs was imported from enemy sources between October 1940 and March 1942.\textsuperscript{144} 400 pounds per month was provided to the enemy to import their publications.

Occasional licenses were granted for: spare parts for brush-making machinery, electrical goods, hosiery machine needles and sinkers, agate bearing for making automatic weighting scales, x-ray tubes and apparatuses, spare parts for agricultural machinery, and cigarette paper folding machines.\textsuperscript{145} As Britain anticipated from the analysis of their commercial relationship with Germany, they could not find an alternative supplier of specialized machinery or parts for

\textsuperscript{141} “Licensing Advisory Committee”, 23 Aug, 1950, BT 271.343, 2.
\textsuperscript{142} W. N. Medlicott, \textit{The Economic Blockade}, 1:18.
\textsuperscript{143} “Weekly summaries of T/E licenses”, TE 11741. BT 271/612 for 1940; BT 271/610 for 1941; BT 271/609 for 1942
\textsuperscript{144} The start date and the end date are not meant to indicate that licenses were not granted outside of this time period. The data is limited by the extent of the weekly summaries made to the Board of Trade. Such summaries started in June 1940 and were no longer required after march 1942.
\textsuperscript{145} “Weekly summaries of T/E licenses”, TE 11741. BT 271/612 for 1940; BT 271/610 for 1941; BT 271/609 for 1942
such machinery.

The Ministry of Economic warfare occasionally authorized sizable purchases of raw materials from territory occupied by the enemy, considering it a lesser evil to provide an occupied territory with funds, which might not necessarily find their way into German coffers, then to leave large quantities of raw materials for the Germans to use. For example, a purchase worth 30,000 pounds of esparto grass was made from a French owner in August 1940. Two purchases of ferro-chrome of Yugoslav origin were made. One in November 1941 worth 60,000 pounds, the other in January 1942 worth 15,000 pounds. ¹⁴⁶

License to trade with the enemy was also required for subsidiaries of British companies housed in neutral states. Such subsidiaries were as limited in trading with the enemy as their British parent companies. Occasionally, there was no way to stay operational without importing products from the enemy. In such situations, licenses were sometimes granted to ensure the survival of the subsidiary, but only if the survival of the subsidiary served the larger purpose of economic warfare against Germany.¹⁴⁷ For example, J&P Coats, Limited, a British firm, had a Spanish subsidiary Fabra y Coats, which had a local monopoly on the production of thread. Unfortunately, they required German dyestuffs in their manufacturing process. Fabra y Coats was granted a license to purchase German dyestuffs, after the Advisory Licensing Committee was assured that it was impossible to obtain the same from non-enemy sources.¹⁴⁸ When debating in 1943 whether it would be wise to continue this trade, the final affirmative decision was made after hearing “that a German firm in Alsace might export thread to Spain if Fabra y Coats were unable to supply the market and in this event the Germans would acquire more pestas

¹⁴⁶ “Weekly summaries of T/E licenses”, TE 11741. BT 271/612 for 1940; BT 271/610 for 1941; BT 271/609 for 1942
by exporting thread than by merely exporting dyestuffs."149

A very rare case of licensed trade with the enemy came from the work of the Import Licensing Department. At the beginning of the war, when the Import Licensing Committee was considering how best to allocate existing foreign reserves to ensure an effective resupply of all materials necessary in the country, they came across a few products where tough calls had to be made. In peace time, trade in these products was mostly with enemy countries and prohibiting trade would throw trade into neutral hands; however, what made it a tough call was that home production was being developed to cover the domestic demand. Spectacle glass is an example of a product around which such discussions took place. In 1937, 94 percent of spectacle glass came from enemy countries, and it was expected that in two months time after the report was compiled a domestic company, Pilkingtons, would be able to meet the domestic demand. The Committee decided to license freely the import from the enemy for the two months in order to “discourage traders from going to some trouble to establish new sources of supply, as there is no doubt that supplies from non-enemy countries should be cut off when Pilkingtons are in production.”150 The choice was to allow the enemy to receive some profit from selling to Britain in order to spare domestic merchants the cost of diversifying trade which would be disrupted against once home production would reach a high enough level to cover domestic demand. All such schemes ended with the Fall of France, as Britain had to further restrict their Import Control and could not afford to spend currency on saving their merchants some grief.151

The British wartime commercial policy adopted at the start of the war with Germany served the country well throughout the entirety of the war. As the expectations of the long, major

149 “Minutes of the 15th Meeting of the Committee”, Licensing Advisory Committee, 9 June, 1943, BT 271/675, 4.
150 “Note on the Possible Field for an Extension of Import Licensing”, “Import Licensing Department, 27 Sept, 1939, BT 131.010.
151 “Commercial Policy: Import Control”, Board of Trade War History, BT 131/7, 1.
war remained constant, severing all trade with the enemy continued to be the best policy for Britain. The only trade that was allowed to continue was the occasional import of materials absolutely necessary to British industry which could not have been acquired anywhere else. Even then, all possible effort was made to encourage domestic manufacturing to replace the products imported from the enemy.

**Alternative Explanations**

*The Role of Domestic Politics*

The formation of the British wartime commercial policy for World War II was mostly unaffected by domestic lobbying. The government knew that severing all trade with the enemy would come at a serious loss to some of the domestic industries, but chose to take that action regardless.\(^{152}\) The fact that all trade with the enemy was prohibited and strongly enforced without prejudice doesn’t leave much room for domestic lobbying. There were no firms or industries which were allowed to export their products to the enemy, no industries which were allowed to import enemy products indiscriminately. As was evident from the policy in World War I, it was possible for Britain to create a more nuanced wartime commercial policy with trade in some products allowed and trade in other products prohibited. However, no relaxations on policy were made in World War II. If the domestic lobbying argument were to explain the formation of such a policy, it would have to be through an argument that all domestic firms held the same preference for severing trade with enemy states. Such unified preferences among all commercial actors in a state are hard to believe.

The only trade with the enemy which was possible occurred through licenses. These licenses were tightly controlled and only issued when sufficient evidence existed that no

\(^{152}\) A.T.B. (E.P.) 2. “Note by Secretary”, May 19, 1933, CAB 47/8, 10.
alternative source of supply was available. The products such licenses were granted for are the same products which were identified before the war started as being imported exclusively from Germany. This corroborates the claim that licenses were granted for strategic reasons, as opposed to domestic political ones.

Additionally, there is reason to believe that domestic lobbying did not play a role in the formation of the wartime commercial policy which comes from the negotiations with the French about restricting enemy resupply. It was decided to standardize the British Export Prohibited List with the French counterpart, especially in the list of products both countries wanted to prevent from reaching the enemy. While both states had their own considerations for the products which could not leave the country in the interest of resupply, the two agreed on the set of products which were “vital for the enemy to import” and thus most advantageous for both states to prevent trade in. In order for an industry to successfully lobby for their products to be kept out of such a prohibition, it would have had to convince two governments to allow for a gap in their economic warfare against Germany.

To the extent domestic industries were used by the government, it was not in the formation of wartime commercial policy, but in its implementation. The government interacted with numerous trade associations in order to take advantage of their specialized knowledge both about the domestic production in their industry as well as foreign suppliers. To make the government less susceptible to accusations of corruption or favoritism in the granting of trade licenses, trade associations were asked to allocate licenses among the merchants in the industry. When the associations themselves attempted to bring domestic rivalry into the process, the

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Licensing Department did not accept their advice. For example, after inquiring for information with the Woven Manufacturers’ Association in connection to the import of wire gauze, the Department was able to make the assessment that “their advice is colored by their former rivalry with the importers who used to be able to undersell them.”\(^{155}\) For the most part, however, the cooperation with trade associations was mutually beneficial. Commenting on the allocation of licenses between domestic importers of watches and clocks run by the Trade Committee of the Horological Section of the London Chamber of Commerce, it was noted that “there has been little criticism from the trade, and no grounds for suspicion that members of the Section have been given more favorable treatment.”\(^{156}\)

Overall, Britain made the most restrictive wartime commercial policy they could and did not allow any domestic interests to interfere with the enforcement of that policy. Domestic trade associations were used to save the government time and increase the efficiency of implementation of the policy. Given the length and intensity of World War II, leniency in allowing trade with the enemy would have been highly counterproductive to the survival of the state.

**Maximum Economic Pain**

There are two variants of this alternative argument. The first contends that before the war started, Britain should have identified a set of vulnerabilities in the Germany economy and designated a basket of goods without which the German economy would ultimately collapse. Their chosen wartime commercial policy should have been the prohibition of this basket of goods, while trade in all the other products should have been permitted. According to this

\(^{155}\) “Use of Trade Associations Etc. in Licensing Imports of Machinery”, 7 April, 1942, BT 131/7, 1.

\(^{156}\) “A Short Account of the Scheme for Licensing Imports of Watches and clocks through the London Chamber of Commerce.” 7 April, 1942, BT 131/7.
variant, the goal would have been to deprive the German economy of the most vital products causing maximum economic pain; trade in the rest of the products would have been irrelevant for the British war effort and thus could have been allowed to continue.

In their discussion to craft the British wartime commercial policy, the EPG Sub-Committee did consider the possibility of a ‘sector’ war, which would have focused Britain on preventing a specific set of products from reaching Germany. However, the proposed policy for a ‘sector’ war was ultimately rejected based on the geopolitical considerations of the day, and a policy suited for a ‘circle’ war was implemented. The actual wartime commercial policy of Britain prohibited trade with Germany in all products, not just in the products that the Germany economy needed most.

Had the war stated as a ‘sector’ case, this would not have dictated what the wartime commercial policy would have been, it would have only affected the implementation of the chosen policy. Even under a ‘sector’ policy for World War II, the preference was for a cessation of all trade with Germany. “Maximum interference with a small number of commodities” meant that maximum enforcement should be dedicated to the basket of German vulnerabilities.157 Attempting maximum interference with all products would have required preventing all neutral adjacent to Germany from exporting all products to Germany. In practice this meant purchasing the entire content of neutral states’ export trade to Germany, at war premium prices. While acknowledging that a full enforcement of their preferences would have been impossible in a ‘sector’ case, Britain still preferred to sever all trade with the enemy. Products outside of the basket of German vulnerabilities were not allowed to be freely traded with Germany. The EPG

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157 “Minutes of the First Meeting of the Sub-Committee”, Sub-Committee on the Economic Pressure on Germany, 29 July, 1937, ATB (EPG) 1st Mtg, CAB 47/12, 8.
Sub-Committee was quite clear, there would be no ‘innocent’ goods in a war with Germany.\footnote{“Letter from J.W. Nicholls to E.W. Reardon”, 20 Feb, 1939, BT 11/994.}

In fact, the British government expressly rejected the idea that maximum economic pain can be inflicted by restricting German access to a few vital products. “Although individual commodities differ in degrees of importance, it is by the creation of a cumulative, increasing and ultimately insupportable scarcity of everything that final disintegration is brought about.”\footnote{“Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 12.} Starving Germany of some resources was not a viable strategy. Since all products were useful for the war effort, given enough time, allowing trade in those products not considered vital to the economy would amount to helping the enemy. “The progress of science, the flexibility of modern manufacturing processes, as well as the extreme difficulty of really stopping all imports of an essential commodity, renders it wholly unsound to aim solely at such an objective in practice.”\footnote{“Economic Warfare Against Germany: Notes on the Probable Situation in 1939”, Industrial Intelligence, ICF 265, 5 July 1937, ATB (EPG) 2, CAB 47/13, 6.} At the end of the day, the idea of prohibiting trade only in the basket of goods vital to the Germany economy was rejected as being wholly unsound.

The second variant of the maximum economic pain argument would suggest that given the geopolitical condition surrounding the war, Britain expected to do considerable damage to the Germany economy and therefore created a comprehensive policy prohibiting all trade with Germany. If, on the other hand, Britain were to find itself in a situation where inflicting maximum economic pain were not possible, Britain would have chosen a considerably less restrictive policy. If there was no way to stop Germany from resupplying, to a considerable degree, from neutral states, it would become unreasonable for Britain to prevent their merchants from engaging in the same trade.

Britain did, indeed, start the war with the assumption that they would be in a ‘circle’
situation vis-à-vis Germany. Nearly the whole of Germany’s border could be closed to trade. A significant amount of economic pressure could be brought to bear on the enemy, considerably reducing Germany’s potential for resupply. And the starting wartime commercial policy, in fact the wartime commercial policy for the entire war, was a strict prohibition of all trade with the enemy. There are, however, two problems with interpreting these facts through the maximum economic pain argument.

First, this variant of the maximum economic pain argument assumes that enforcement drives policy, not the other way around. A restrictive policy is only chosen when the enforcement conditions are favorable, otherwise a lax policy is chosen. This was not how the British wartime commercial policy was determined. As was mentioned earlier, in both the ‘sector’ and ‘circle’ cases, the British wartime commercial policy would have been the same – the cessation of all trade with Germany. The question of ‘sector’ or ‘circle’ was meant to guide the implementation of that policy. The selection of the policy was made prior to considerations about how the policy would be enforced, and for completely different reasons. Policy preferences drove questions of enforcement, not the other way around as this variant of the maximum economic pain argument suggests.

The second problem with interpreting British wartime commercial policy through the maximum economic pain argument is the role of the Soviet Union. Shortly before the outbreak of war, Russia agreed to supply Germany with a considerable amount of raw materials and petroleum, rendering the Allied economic blockade almost useless from the point of view of starving the Germans of supplies.\textsuperscript{161} If British policy makers were following the logic of the maximum economic pain argument, they should have reconsidered their entire approach to wartime trade after receiving this news. Germany could resupply from Russia and through

\textsuperscript{161} Bell, \textit{Twelve Turning Points of the Second World War}, 2.
Russia from Japan, the Middle East, and the Americas.\textsuperscript{162} Knowing this, Britain should have adjusted their wartime commercial policy to be considerably more lax. They should have allowed their own merchants to trade with the enemy to avoid losing market share to neutral states and prevent relative losses vis-à-vis the neutrals. In practice, nothing of the sort occurred. Even after the realization that Russia was creating a giant gap in their economic blockade of Germany, Britain retained its strict policy of no trade with the enemy.

Neither variant of the maximum economic pain argument can explain the British wartime commercial policy in World War II. Both make predictions that did not match the empirical reality. The first variant would predict that Britain should have prohibited trade in a basket of goods vital to the German economy and allowed trade in the rest of the products. In fact, during World War II, Britain adopted a wartime commercial policy that did not recognize any products as being ‘innocent’. The second variant would expect Britain to change its wartime commercial policy to allow trade with the enemy after it became known that Russia signed a commercial agreement with Germany, and to return to a fully restrictive policy only after Germany declared war on the Soviet Union. Needless to say, there was no such period of lax wartime commercial policy. All trade was strictly prohibited for the duration of the war.

Conclusion

The British wartime commercial policy for World War II was designed with the expectation that the coming war would be long and intense. While the British decision makers recognized that products could be differentiated based on the time it takes for the enemy to convert them into military capabilities, they fully expected the war to outlast even the longest supply chain. All products were expected to add to the German war effort, given the expected

\textsuperscript{162} “German Imports from and through the USSR, 1939-1941” in W. N. Medlicott, \textit{The Economic Blockade}, 1:667–71.
length of World War II, and therefore, trade in all products had to be prohibited. The British
decision makers also recognized that traded products have varying importance to their own
economy, and that severing trade in the more important products would adversely affect the long
term health of the economy. Because World War II was expected to be a war for survival, Britain
was willing to suffer the loss of considerable income from trade in order to deny the enemy the
ability to increase its military capabilities. However, even with such a high threshold, dyestuffs
of enemy origin were still imported into the country to keep the vital textile industry alive. As the
assessment of the type of war Britain was fighting did not change throughout the war, the
wartime commercial policy was likewise not amended. Britain started the war with a highly
restrictive policy and it ended the war with it.
Chapter 7: Statistical Analysis

In order to generalize some of the patterns observed in the case studies, this chapter tests the theory at the product level. To do this I use a dataset of all the products that were prohibited from export from Britain during World War I. Two aspects of the theory are tested. First, whether product characteristics have an effect on the timing of a product’s prohibition. I find suggestive evidence that in Britain in WWI products with shorter conversion times were prohibited earlier in the war than products with longer conversion times. Second, I test whether expectations of the type of war a state expects to fight affect how suppressive the wartime commercial policy becomes during the war. I find suggestive evidence that when Britain expected a long war it prohibited more products from export to the enemy than when Britain expected a short war. Likewise, when Britain expected to be fighting an intense war more products were prohibited from trade with the enemy.

Testable Implications of the Theory

The theory presented in Chapter 3 can lead to the formation of several testable implications. Flowing the presentation of the theory, the first set of implications are about which products are more or less likely to be prohibited during the war. The second set of implications are about the number of prohibitions that are expected to occur based on different expectations about the war.

Taking the content of the bilateral trade relationship between a state and its enemy in peacetime, it is possible to arrange all traded products on a scale of their conversion times. A product’s conversion time is the amount of time it takes the enemy to convert the gains from trade in this product into military capabilities. A product with a short conversion time can be used by the enemy to increase its military capabilities rather quickly, and can affect the
battlefield outcomes. This trade is very dangerous to a state wishing to win the war, and is therefore very likely to be prohibited from trade with the enemy. A product with a long conversion time, on the other hand, takes a while to be converted into military capabilities, and will take longer to become useful in changing battlefield outcomes. This trade can be considered ‘innocent’, and is therefore more likely to be allowed for trade with the enemy. In formulating a wartime commercial policy, a state wants to prohibit only those products that the enemy can use to increase their military capabilities in the current war. Products with shorter conversion times are more likely to be prohibited earlier in the war, while products with longer conversion times are more likely to be prohibited later in the war.

**H1:** The longer a product’s conversion time, the later in the war it should be prohibited from trade with the enemy.

Products traded with the enemy in peacetime can also be arranged based on the amount of revenue that a state will lose if trade with the enemy in these products is severed. Products that have close substitutes or alternative sources of supply other than the enemy, will not cause a significant drop in state revenue as trade in them can continue even if trade with the enemy is severed. However, products that can only be traded with the enemy will have a differential effect on the amount of revenue that will be lost from prohibiting trade. Losing trade in products that contribute greatly to the revenue of the state means losing a portion of investment the state could make into its long term security. Such products are less likely to be prohibited from trade with the enemy because they would require a state to compromise its long term security. However, just became a product has a low contribution to the revenue of the state, does not necessarily mean that the state is likely to prohibit trade. It means that the economic costs of a prohibition
are lower than for other types of products, but this does not provide a reason to enforce a prohibition.

**H2:** Products that can only be traded with the enemy and provide a significant amount of revenue to the state, are more likely to be traded during the war.

The second set of testable implications are about the effect of the expected type of war on the number of products prohibited from trade each month. If a state is expecting to fight a short war, fewer products should be prohibited from trade with the enemy. In a short war, the enemy will have a short amount of time to convert the gains from trade into military capabilities that can be used in the current war. Only those products that can be of military benefit to the enemy in that short amount of time need to be prohibited from trade. In a long war, the enemy will have a longer period of time to convert the gains from trade into military capabilities and use them to affect battlefield outcomes. A relatively larger number of products need to be prohibited from trade with the enemy to avoid helping the enemy win.

At the same time, a state only has so many products that it traded with the enemy before the outbreak of war. The longer the war stretches, the fewer new prohibitions can be introduced each month, as eventually the state will start running out of products that have not been prohibited yet. But given this decreasing trend during the war, the number of new prohibitions introduced in months when the war is expected to be long is likely to be greater than the number of new prohibitions introduced in months when the war is expected to be short. In other words, periods of short war expectations should have relatively lax wartime commercial policies. Periods of long war expectations should have relatively restrictive wartime commercial policies.

**H3:** The longer the war extends, the fewer new prohibitions can be made each month.
H4: Given the decreasing trend in new prohibitions each month, the longer war is expected to last, the more products should be prohibited each month.

The expected intensity of the war should also affect the number of products being prohibited from trade. The more existentially threatening the war becomes, the more a state will be willing to focus on short term survival at the expense of long term security. In terms of traded products this means that a state will be willing to sever more trade in products that generate significant revenue for the state and thus forgo the corresponding investment into long term security. The rising expectation of the intensity of war should increase the number of products prohibited from trade. The same pattern ought to exist with the expected intensity of war as with the expected length of war, in terms of the number of new prohibitions that can be made each month. As the war continues to increase in intensity, trade in fewer and fewer products will remain for new prohibitions to sever. Taking this trend into account, the more intense the war is expected to be, the more products should be prohibited from trade.

H5: Given the decreasing trend in new prohibitions each month, the greater the intensity of the war, the more products should be prohibited each month.

Data

In order to test these implications of the theory, I created a dataset of all products that Britain prohibited from export during World War I. The data was collected from official proclamations which were publicized to the domestic merchants through the London Gazette. For each product that was prohibited from trade by Britain, the date of the prohibition was recorded, the geographical scope of the prohibition, and all the subsequences changes that occurred during the war. For example, if the prohibition on the product was removed or if the geographical scope of the prohibition was changed.
The geographical scope refers to the extent of the prohibition. Products were prohibited from export from Britain when “it is considered of national importance to conserve all such supplies as may exist in the country.”¹ Such prohibitions included products required for the manufacture of munitions and for military use. Products were allowed to be exported only to the British colonies “when supplies are short, but not sufficiently short to justify us stopping exports to the Empire, when it is of especial importance to prevent any particular article from reaching the enemy.”² Finally, products were prevented from export to countries neighboring the enemy which “it was desired to prevent reaching the enemy but of which there was no marked shortage in the United Kingdom.”³

Frequently the prohibitions covered categories of products as opposed to individual goods. When such categories were divided into unique products in subsequence proclamations, I also divided the category into the unique products and a leftover category for all other goods in the category not captured by the unique product. For example, if “Nitrates, all metallic” is prohibited from export at one point, then “Sodium Nitrate” and “Potassium Nitrate” are prohibited from export at a different point, the dataset would keep track of three product descriptions: “Sodium nitrate”, “Potassium nitrate”, “Nitrate, all metallic, other (except sodium nitrate, potassium nitrate)”. As such, some of the observations in the dataset are unique products, other observations are categories of products. But the data is disaggregated to the lowest possible level given the product descriptions provided over time. Overall, the dataset includes 2,714 product descriptions.

The conversion time of each product is operationalized by the relative position of each product in a supply chain. As defined in chapter 3, conversation time is a function of four

¹ “Action During the War 1914-18.” May 15,1938, BT 11/1000, 10.
² “Action During the War 1914-18.” May 15,1938, BT 11/1000, 10.
processes – transaction time, transportation time, production time, taxation time. While all of these would vary across different products, the only one that I can plausibly approximate is the production time. The expectation is that products at the beginning of a supply chain should have a longer conversion time than products at the end of the same supply chain, by virtue of them having to be produced into the end result.

To put together this variable, I divided all products prohibited from trade into four categories based on their relative position in the manufacturing process – finished goods, intermediate goods, raw materials, and substitute goods. Substitute goods are those used in the manufacturing process after the products they are replacing are no longer available. For all products for which it was possible, the coding into categories was based on the product description. For example, products descriptions that included “, raw” were coded as raw materials. Product descriptions that included “, parts of” were coded as intermediate goods, while the products they were parts of were coded as finished goods. When a specific product could be used as both a finished good and as an input into further manufacturing, it was coded as a finished good, to bias the coding against the predictions of the theory. The category of substitute goods includes products which I assessed were most likely not being used for their intended purpose but for substitution into a different supply chain. For example, “Bakery utensils, wholly or partly made from tinplate” are coded as substitute goods, given that the product description implies that the interest in the bakery utensils stems from them being made from tinplate.

Finished goods are expected to have the quickest conversion time, followed by intermediate goods, then raw materials. Substitute goods should have the longest conversion times relative to other products in the supply chain.

For the war characteristics, I put together a measure of the length of war based on the
operationalization guidelines explained in Chapter 3 and the narrative on the changing expectation of the length of war during World War I in Chapter 5. Two versions of the measure are used in the analysis. The first includes the assessment of how many more months would be necessary before Britain expects to win the war. This captures the expected length of war in some detail, but unfortunately it is only possible to code it through the end of 1916. After this point British leaders expect a long war without attaching any specific end date to their predictions. The second measure is a binary version of the expected length of war, where months when the war was expected to be short are coded as 0 and months when the war was expected to be long are coded as 1.

The intensity of war is operationalized by the number of new people enlisting each month as a percentage of the total forces. The more intense the war becomes the fewer people would want to voluntarily enlist into the war effort. This is why states frequently have to resort to conscription in order to staff their war efforts. The data on the number of monthly enlistments and troops strength comes from the British War Office report from 1922, “Statistics of the Military Effort of the British Empire During the Great War.”

From the same source, I also create a measure of casualties per month of the war, the percentage of troops serving at home out of total forces, both of which are used as controls. Both could plausibly influence the assessment of the length of war. Additionally, I include a dummy variable for the months when Germans allowed unrestricted submarine warfare. In some ways, this decision mirrors the German expectations about the length of the war, using restricted warfare when expectations turned towards long war and hoping that the economic blockade of Britain might shorten the struggle. Finally, two measures of the British economy are included as

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controls, the monthly income and war tax collected and the interest paid on war debt each month. Data from these measures was compiled from the London Gazette where the “receipts into and issues out of the Exchequer” are published weekly.

**Testing the Effect of Conversion Time on Prohibition Date**

The first two hypotheses are about the effect product characteristics have on when a product will be prohibited from trade. Unfortunately, I don’t have data on each product’s substitutability, potential for diversification, or contribution to the British revenue. For the time being, I cannot test the effect a product’s contribution of revenue has on its prohibition date (H2). However, using the relative position in the manufacturing supply chain as an operationalization for a product’s conversion time, I can test whether a product’s conversion time affect the point at which it will be prohibited.

I will only be looking at a subset of the full list of prohibitions for this test. As was shown above, there were two reasons for Britain to give different products specific geographic scopes. The first was domestic shortage; the second was preventing the enemy from acquiring the product. Looking at the full dataset, I would not be able to tell which of these two reasons was driving the decision to prohibit the product from trade. However, those products that were prohibited from export to countries neighboring the enemy were always prohibited for reasons of restricting enemy supplies. Thus, I focus on the subset of products that at some point during the war were prohibited specifically for this geographic scope. With this subset, I can be more certain that the product was on the prohibition list because it was important to prevent the enemy from acquiring it.

All the products that were at some point prohibited from export to countries neighboring the enemy can be divided into four categories based on their relative position in a supply chain.
Figure 7.1 shows the distribution of these products based on how long it took before Britain prohibited their export, disaggregated by their supply chain position. Products in all four categories are distributed across the full duration of the war, which logically coheres with conversion time. Some supply chains are short and very useful to the war. In these supply chains, while the finished goods should still be prohibited before the raw materials, both should be prohibited fairly early in the war. On the other hand, some supply chains are short but take a long time to convert into military capabilities; or maybe the enemy just has a large stockpile of all of the goods necessary for the supply chain. In these cases, both the raw materials and the finished goods in the supply chain should be prohibited further into the war.

Figure 7.1: Density Plot of Days before a Type of Product is Prohibited

![Density Plot](image)

Figure 7.2 shows the average number of days before a product of each type was prohibited from trade. On average, it took about nine months for raw materials to be prohibited
from export, a year for intermediate goods, a year and a half for raw materials and about two years for substitute goods.  

\[ \text{Finished goods are prohibited before intermediate goods which are prohibited before raw materials. Goods used to substitute others in the normal manufacturing process are the last to be prohibited from export, as it takes longer for them to become converted into finished goods.} \]

**Figure 7.2: Average Number of Days before a Product in Each Category is Prohibited**

In order to determine the effect of a product’s position in a supply chain on when it was prohibited from export by Britain in World War I, I use the Kaplan Meier model to estimate the survival of a product over time. Given that I do not have any product specific covariates, it is a naïve model looking at the effect of conversion time on prohibition date. Figure 7.3 shows the result. It illustrates the probability that trade in a specific product will be permitted at a specific point during the war.

For all types of products, the probability that trade in the product will remain decreases as the war stretches on. This is another way of saying that the longer the war, the fewer products are

\[ \text{Finished Goods (N=293)} \]
\[ \text{Intermediate Goods (N=323)} \]
\[ \text{Raw Materials (N=159)} \]
\[ \text{Substitute Goods (N=188)} \]

\[ \text{5 All differences in means are statistically significant at the .01 level.} \]
permitted to be traded with the enemy. What is most important on this graph, however, is that different types of products have differently shaped curves. At each point in the war, at least for the first two and a half years, the likelihood that a finished good will be traded with the enemy is lower than the probability that an intermediate good will be traded with the enemy, which is lower than a raw material and a substitute good.

Figure 7.3: Survival Plot by Product Type

At the start of a war, a finished good has about a 50 percent likelihood of being allowed to be traded with the enemy. A year into the war, it only has about a 30 percent likelihood of still being traded with the enemy. Two years into the war, about 12 percent likelihood. A raw material on the other hand starts the war with about a 90 percent probability of being traded with the enemy. It doesn’t drop to a 50 percent likelihood until about a year and three months into the war. These results are suggestive evidence in favor of H1. The longer a product’s conversation time, the more time it is allowed to be traded with the enemy before it is prohibited.
Testing the Effect of Type of War on New Prohibitions

The second set of hypotheses is related to the type of war Britain expected to be fighting. The unit of analysis for this test is a month of the war. And, again, the subset of the full dataset relating only to products that were prohibited from trade with countries neighboring the enemy is used. The dependent variable is the new number of products prohibited from export in a specific month. It ranges from 0 new products added in a given month to 70 products added in a month. The median number of new prohibitions per month is 10, the average is 23.5.

Figure 7.4: Change in Prohibitions over Time by Product

Figure 7.4 shows the changes in the prohibitions over time. Each line represents a different type of product based on their position in a supply chain. The y-axis is the percent of products prohibited in a given month out of the total number of products prohibited in that product type during the war. The shaded areas represent periods of the war when Britain expected the war to be long.
Table 7.1: Average Number of New Prohibitions Per Period of War

<table>
<thead>
<tr>
<th></th>
<th>Short</th>
<th>Long</th>
<th>Short</th>
<th>Long</th>
<th>Short</th>
<th>Long</th>
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<tbody>
<tr>
<td>Finished Goods</td>
<td>7.5</td>
<td>2.8</td>
<td>1.0</td>
<td>8.6</td>
<td>4.7</td>
<td>2.3</td>
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<td>Intermediate Good</td>
<td>10.5</td>
<td>14.0</td>
<td>1.7</td>
<td>7.8</td>
<td>3.7</td>
<td>2.8</td>
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<tr>
<td>Raw Material</td>
<td>8.5</td>
<td>2.5</td>
<td>3.3</td>
<td>6.8</td>
<td>0.3</td>
<td>2.2</td>
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<td>Substitute Goods</td>
<td>0.5</td>
<td>1.5</td>
<td>0.3</td>
<td>6.8</td>
<td>3.3</td>
<td>3.8</td>
</tr>
</tbody>
</table>

To help see the effect of the expected length of war on the number of products being prohibited each month, Table 7.5 provides the averages across each period of war. That is the average number of new prohibitions in a month. For example, in the first period of long war expectations, on average 2.8 finished goods were being prohibited per month. But in the following period of short war expectations, only 1 finished good was prohibited per month.

The averages are a bit muddled in the first and last periods of the war. The average number of prohibitions is rather high in the first period, despite it being in a period of short war expectations, because it includes the products being prohibited with the start of the war. The last period of long war expectations has a rather low average number of products added per month because the period includes almost a year of no changes. In the last twelve months of the war almost no new prohibitions were made because there weren’t that many products left that were not prohibited from trade with the enemy. Accounting for the fact that the number of new prohibitions are decreasing as the war stretches on, on average, more products are prohibited in periods of long war expectation than in periods of short war expectation.

I test the effect of the expected type of war on the number of new prohibitions made with an ordinary least squares regression. Table 7.6 presents the results. The first model includes the main explanatory variables. The second model also includes the control variables. The third model includes month fixed effect, to control for the seasonal effect of warfare. LengthWar is the
number of months of war that have already passed. LongWar is the binary measure of the 
expectation of how much longer the war is going to last. 0 represents expectations of a short war; 
1 represents expectations of a long war. The two variables are interacted in the model because it is expected that the effect of the expected additional length of war before victory is conditional on the fact that the passage of time decreases the overall number of products available to be prohibited.

Table 7.2: Results of OLS Model: DV = Number of New Prohibitions

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Model1 Estimates</th>
<th>Model1 CI</th>
<th>p</th>
<th>Model2 Estimates</th>
<th>Model2 CI</th>
<th>Model2 p</th>
<th>Model3 Estimates</th>
<th>Model3 CI</th>
<th>Model3 p</th>
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<tbody>
<tr>
<td>(Intercept)</td>
<td>137.83</td>
<td>82.20 – 193.46</td>
<td>&lt;0.001</td>
<td>137.95</td>
<td>-9.23 – 285.13</td>
<td>0.073</td>
<td>168.02</td>
<td>-31.96 – 367.99</td>
<td>0.110</td>
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<td>LengthWar</td>
<td>-4.07</td>
<td>-6.44 – -1.69</td>
<td>0.002</td>
<td>-3.38</td>
<td>-6.40 – -1.37</td>
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<td>LongWar</td>
<td>-30.91</td>
<td>-60.69 – -1.13</td>
<td>0.048</td>
<td>-28.58</td>
<td>-61.43 – -4.27</td>
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<td>-30.70</td>
<td>-70.01 – 8.61</td>
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<td>PTroopsHome</td>
<td>-0.94</td>
<td>-1.48 – -0.40</td>
<td>0.001</td>
<td>-0.89</td>
<td>-1.52 – -0.26</td>
<td>0.008</td>
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<td>-1.71 – -0.31</td>
<td>0.009</td>
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<td>-2.36 – -0.36</td>
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<td>LengthWar:LongWar</td>
<td>2.57</td>
<td>0.34 – 4.80</td>
<td>0.029</td>
<td>2.43</td>
<td>-0.06 – 4.93</td>
<td>0.063</td>
<td>2.68</td>
<td>-0.35 – 5.72</td>
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<td>-11.74 – 11.09</td>
<td>0.956</td>
<td>-1.69</td>
<td>-15.53 – 12.15</td>
<td>0.812</td>
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<td>log.Casualties</td>
<td>4.55</td>
<td>-10.74 – 19.85</td>
<td>0.563</td>
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<td>-18.68 – 25.75</td>
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<td>log.IncWarTax</td>
<td>-4.69</td>
<td>-16.36 – 6.98</td>
<td>0.436</td>
<td>-4.78</td>
<td>-26.60 – 17.04</td>
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<td>log.WarDebtInterest</td>
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<td>-2.12 – 3.92</td>
<td>0.562</td>
<td>-0.17</td>
<td>-3.78 – 3.43</td>
<td>0.926</td>
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<td>factor(Month)2</td>
<td>-8.35</td>
<td>-31.35 – 14.65</td>
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<td>-40.66 – 9.40</td>
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<td>-28.53 – 35.98</td>
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<td>factor(Month)6</td>
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<td>-43.13 – 18.31</td>
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<td>-39.97 – 27.90</td>
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Observations: 51
R² / adjusted R²: 0.422 / 0.358 0.455 / 0.336 0.564 / 0.273
As expected, the relationship between LengthWar and the number of new prohibitions is negative (H3). The longer the war lasts, the fewer prohibitions can be made, because trade in fewer and fewer products is available to be prohibited. For each subsequent month of the war, on average 4 less products were prohibited per month.

The interaction term, however, is positively related to the number of prohibitions. Given a specific length of war up to this point, 2.7 more products per month should be prohibited in long wars than in short wars. This variable is only weakly significant at the .1 level, providing weak evidence in favor of H4.

The percentage of troops that enlisted in a given month, which is the operationalization for the intensity of war, is negatively related to the new number of prohibitions in a month. For a 1% decrease in enlistment, 1.5 products are prohibited from trade per month. This result implies that the rising intensity of war leads to an increase in the number of products being prohibited, providing suggestive evidence for H5.

Out of the control variables, only the percentage of troops stationed at home is significant. For a 1% decrease in the troops stationed in Britain, the number of prohibitions increases by 1 product per month. The effect of the German unrestricted submarine warfare campaign, the level of casualties on the battlefield, the increasing financial cost of war do not seem to have an effect on the number of new prohibitions, according to these results.

**Conclusion**

The results presented in this chapter are suggestive only. I am not confident that they will stand up to stress testing, nor am I certain that the specific models presented are the best way to test the theory. This should be read as a preliminary examination of the data I gathered to see the general trends in British prohibition decisions in World War I. For this reason, I do not place
much value on the substantive effects predicted by the models, but instead focus on the direction of relationship between the variables. Using the results presented in this chapter, it can be said that a product’s conversion time affects when it will be prohibited. Finished goods are, on average prohibited earlier in the war, while raw materials are, on average, prohibited later in the war. Additionally, the type of war a state expects to fight affects how suppressive the wartime commercial policy is. In periods of long war expectation more new products are prohibited from trade than in periods of short war expectations. Likewise, in periods of intense war more products are prohibited from trade with the enemy.
Chapter 8: Conclusion

Why do states trade with their enemies during a war? The conventional wisdom on this question argues that states should not trade with their enemies because any such trade will assist the enemy in winning the war. Such an argument emphasizes the security imperative to sever all trade with the enemy over any other considerations that might go into a state’s wartime commercial policy. This dissertation has argued that while this logic is appropriate to some situations, these cases are very rare, especially in the modern world. Most of the time, state have to be more nuanced in their wartime commercial policies, balancing the security imperative to sever all trade with the enemy during a war with the economic imperative to keep all trade with the enemy in spite of the war. Explaining how states balance these imperatives was the focus of this dissertation. This chapter will provide a brief summary of the main theoretical claims and empirical findings, followed by a discussion of implications of this research and avenues for future research.

Summary of Theoretical and Empirical Findings

The fundamental problem of trade with the enemy was an inadvertent creation of the development of neutral rights. Before neutral states were given the freedom to carry enemy commerce without fear of seizure, the extent of economic pressure that could be brought to bear against an enemy state was rather high and the cost of this policy was to some degree dispersed among all the trading states. Severing all trade with the enemy was a beneficial course of action. However, after the introduction of neutral rights, the extent of economic pressure that stems from severing trade decreased considerably and the costs were localized to the state severing trade. With higher costs and lower military benefit to severing trade, states had to seriously consider the option of trading with the enemy.
In order to solve the fundamental problem of trade with the enemy, the bilateral trade between the two belligerents has to be assessed at the product level. Two characteristics of products affect the extent of the security externality trade in the product generates: the product’s conversion time and the product’s contribution to state revenue. The shorter the product’s conversion time, the more likely it is that trade will increase the enemy’s ability to win. Products with short conversation times are most likely to be prohibited from trade with the enemy to satisfy the security imperative to sever trade with the enemy. The greater a product’s contribution to state revenue, the less funds the state will have to invest into long term security if trade in the product is lost. To satisfy the economic imperative to trade with the enemy, trade needs to be kept in those products that can only be gotten from the enemy and are simultaneously important in domestic industry.

While product characteristics show that some products can be safely traded with the enemy during the war, they do not give the answer to which products should be traded with the enemy in a specific war. A state’s wartime commercial policy is designed to match the specific type of war the state is expecting to fight. The expected length of war sets the amount of time the enemy has to convert the gains from trade into military capabilities to use in the current war. The longer the time period, the more products have to be prohibited from trade to avoid helping the enemy win. The expected intensity of war corresponds to the level of revenue a state is willing to lose in order to ensure its survival. The greater the intensity of war, the more revenue the state will be willing to lose, the fewer products will be permitted to be traded with the enemy. The type of war the state expects to fight determines how suppressive of trade its wartime policy will be.
To determine which products should be traded with the enemy in a specific war, a state assesses the characteristics of products traded with the enemy in peacetime against the expectations about the type of war they will fight. Products with conversion times longer than the expected length of war should be traded with the enemy, because they will not help the enemy win the current war. Products that contribute more revenue for the state than the state is willing to lose to ensure its survival should be traded with the enemy, because the generated revenue helps ensure the long term security of the state. As a state’s expectations about the war change, so does its wartime commercial policy.

I evaluated my theory with three case studies. The Crimean War shows how a state’s thought process about their wartime commercial policy changes when it moves from a world without neutral rights to a world with neutral rights. Britain, Russia and France all had to reassess their preferred policies after the realized that the Declaration of Neutral Rights changed the costs and benefits of severing all trade with the enemy. British wartime commercial policy followed the predictions of the theory. Expecting a short easy war, Britain permitted trade with the enemy with the exception of some products that had particularly short conversion times. When it realized that the war was going to be long, Britain started to prohibit more products from being traded with Russia. Russia’s wartime commercial policy also coheres to the prediction of the theory. Expecting a long war from the very beginning, Russia made it considerably more difficult to import products from the enemy. However, it could not afford to sever its exports to the enemy, as a considerable portion of state revenue came from this trade. France, on the other hand, realized that it did not actually need to solve the fundamental problem of trade with the enemy as it could divert all trade from Russia to other sources without losing state revenue in the process.
British wartime commercial policy in World War I and World War II exemplify the theory’s prediction about the type of war setting how suppressive of trade the wartime policy is. Starting the war with expectations of a short conflict in the First World War, Britain chose a lax wartime commercial policy. Expecting a long war from the very beginning of the Second World War, Britain designed a restrictive wartime commercial policy. In both wars, Britain permitted some trade with Germany in products indispensable to domestic industry which could only be acquired from enemy sources.

Additionally, I conducted a large-n analysis of British wartime prohibitions on trade in World War I, finding suggestive evidence that a product’s conversion time affected when the product was prohibited from trade with the enemy. Products with shorter conversion times were prohibited earlier in the war; products with longer conversion times later in the war. The analysis also provides some evidence that Britain prohibited more products in periods when it expected a long war. Likewise, Britain prohibited more products when it expected a more intense war.

Overall, my analysis shows that states balance the security and economic imperatives when making their wartime commercial policy decisions. Expectations about the type of war determine how suppressive of trade the wartime commercial policy is, and product characteristics help determine the content of that policy.

Implications
The analysis presented in this dissertation focused exclusively on situations of wartime trade between enemies. By relaxing this assumption, the arguments could provide some useful implications for fields of study in international relations. For example, how do states think about their commercial policies in peacetime towards expected enemies? Maybe a war is expected to
break out with a particular state imminently. Maybe the previous war with the same enemy did not yield conclusive results and a restart to hostilities is expected in the future. How do these tense security environments affect a state’s formation of their commercial policy towards their rivals?

Empirically, we know that states continue to trade with opponents they are expecting to fight in the future. However, it has also been shown that states trade less with their rivals than what would be expected under free trade.¹ States set limitation on their commercial interactions during tense security environments in expectation of war to come. The arguments presented in this dissertation can be fruitfully extended to such situations to assess the content of trade that can be expected between rivals.

The fact that trade exists between rivals means that, at the very least for the basket of goods being traded, states managed to solve the relative gains problem. Both rivals believe that they are gaining equally from the commercial interaction, or are otherwise satisfied with the level of gains they are receiving. All else being equal, this means both states find themselves with the same level of gains from trade that can be invested into long term security. Overtime, both states will have the chance to develop more military capabilities, but the balance of power between them should not be affected in terms of the amount of investment that a state has access to from this particular source. States clearly have different strategies for investing into their long term security, but whether a state chooses to invest in an arms race is a separate question. The relevant aspect of peacetime trade is that both states have come to an agreement where they are satisfied with the level of gains they are making, knowing that this level ultimately affects their long term security. In this respect, trade with a rival does not disadvantage a state militarily.

¹ Gowa, Allies, Adversaries, and International Trade; Copeland, Economic Interdependence and War.
At the same time, in peacetime, states do not have access to belligerent rights. It is not possible to blockade a rival, nor is it possible to use strategic bombing to destroy land-based trade routes. Both would be considered as *causus belli*. Outside of the war context, the ability to interfere with the rival’s trade with the rest of the world is very low. Severing trade with a rival simply leads the rival to acquire the product elsewhere, and the state can do fairly little to make this diversification more difficult for the rival. If the state severing trade does not diversify its own trade at the same time, the result would be a relative loss vis-à-vis both the third state and the rival. The relative loss does introduce the potential for military imbalance in the long term, all else being equal. If the state severing trade can diversify trade, the important question is the relative cost of diversification for the state compared to the rival. That is which state has to pay more for switching trade to a different trading partner. A policy that would be more expensive for the state creating the commercial policy would once again introduce the potential for military imbalances in the long term.

Overall, in peacetime, it actually makes perfect sense to trade with a rival, to make sure that a state’s investment into long term security in not adversely affected compared to the rival. But at the same time, these decisions are being made in the anticipation of a war to come. Thus any potential to decrease the rival’s ability to invest into long term security should be beneficial to the state causing this outcome. Products that are harder, or rather more expensive, for the opponent to find replacement trade in are likely to be restricted from trade with a rival.

Given that a war is expected in the future, state can make some assumptions about the kind of war it is likely to be. It the war is expected to be long and intense, the wartime commercial policy for that war will be quite suppressive of trade. Most trade will have to be prohibited from trade, except the trade the state simply cannot afford to lose even if it helps the
enemy fight the war. Knowing that such trade could exist during the future war, states are likely to spend peacetime encouraging the domestic development of industries for the production of such products or substitutes for such products. The goal would be to reduce dependence of key domestic industries on trade with the enemy during the future war, if it is at all possible.

Additionally, extending the theory into peacetime, I would expect the commercial policy towards rivals to be dependent on a state’s expectations about the length of the period of peace before war is expected to break out again. The shorter the expected period of peace, the less trade the state would want to revive with the enemy. Given that trade would have to be prohibited all over again during the war, reviving it for a short period of time would cause frequent domestic trade disruptions due to the switches in policy. Also, providing the enemy with military capacity right immediately the war is expected to break out has the exact same problems as providing the enemy with military capacity as soon as the war begins. The closer to war, the more warlike the commercial policy is expected to look like. The longer the expected period of peace, the more trade with the rival the state would want to revive. Given that the rival can resupply through third parties anyways and there are no methods available to prevent this resupply, it is best for the state to capitalize on the economic benefit of trade while such gains can be made. The pattern of goods revived for trade with the rival should be the inverse of the pattern for prohibiting products during war. Trade in products with the longest conversion times should be revived first, while trade in products with the shortest conversion times should be revived last.

*Trade between Blocs in the Cold War*

One important rivalry that could be examined through this lens is the relationship between the Soviet Union and the West during the Cold War. Since the two blocs never openly faced each other in war, the conditions for the development of a wartime commercial policy
never materialized. However, the two rival alliances were frequently on the precipice of war. And the economic relationship between the European countries and the Soviet Union reflects the changes in this relationship. The relationship with the United States considerably less so.

An important caveat to this discussion is that there was never much trade between Soviet Russia and the Western countries after the birth of that state. In a large part, this was due to the isolationist policies adopted by Soviet Russia after the Russian revolution as part of the process of converting the country to communism. In some part it was due to the fact that no one in Europe had much experience setting up trade with a communist state. Most importantly, this lack of trade before the period of tense security relations meant that the problem of relative gains was never solved. Thus with the beginning of the Cold war, very little trade could have been revived with the Soviet Union, as very little of it existed before.

For the trade that did exist, based on the discussion presented above, it would be expected that in periods when war with the Soviet Union seemed imminent, the Western states would restrict trade with their rival. However, when the expectation of war seemed further way, trade should slowly resume. For example, during the Korean War, the European officials suspected that the Soviet Union was mobilized for general war. At the time the United States and the Western allies agreed to heavily restrict trade with the Soviet Union. By 1954, this strategy was abandoned by the European states, and instead they began to develop commercial relations with the Soviet Union. By 1958, two-thirds of the Soviet trade with capitalist countries was with countries of Western Europe. In fact, by the 1980s, Europe was supplying the Soviet Union with

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technologically sophisticated machinery, precisely what the Soviet Union needed most, because Europe did not wish to lose relative to Japan, who was an economic competitor.

The situation was different between the United States and the Soviet Union. I expect this has more to do with domestic political pressures than the factors being discussed here. The commercial relationship between the United States did mirror its political relationship with the Soviet Union, but this had little to do with any actual expectations of a coming war with the Soviet Union.

Trade between the United States and China in the Future

Another interesting rivalry to consider is the potential for war between the United States and China. If a war between these two states occurs in the future, it is possible to forecast what kind of wartime commercial policy the United States should adopt based on the expectations about the type of war it will be. If the war with China is expected to be a long and intense conflict, then most trade with the enemy would cease. However, such an eventuality is not particularly likely as a war for survival is not possible between nuclear states. In a peripheral war, a lot more trade with the enemy can exist. The extent would depend on how long this war laws. If it is a short war, a considerable number of products can be traded with the enemy; if it is a long war, a fewer number of products can be traded with the enemy. Either way, trade in products the two states cannot diversify away from the enemy, that is trade where interdependence exists, is likely to continue during the war. One of the implications of this continued trade with the enemy during war is to highlight the faulty logic linking high levels of interdependent between states and the prevention of conflict. If trade is expected to continue during the war, states are not likely to consider it as a cost of war when making their decisions to start the war. Additionally, the calls to increase interdependence with China in order to decrease
the potential for conflict will only lead to higher levels of trade with the enemy during a potential war.

The current trade war with China can provide a picture of what indirect trade with China could look like during a potential war. While the tariffs are preventing the direct import of Chinese products into the United States, Vietnam and Thailand are importing Chinese goods, relabeling them and shipping them out as products of ‘neutral’ origin. While such practices are illegal, given enough time third party state could develop manufacturing industries to process the imports from China to a degree where they could legal label them as being made domestically before exporting the result to the United States. Ultimately, these third parties will benefit at the expense of the domestic interests in the United States, but trade between China and the United States will continue through this indirect channel.

While the relationship between the United States and China is at the rivalry state – that is before an actual war breaks out – it does not make sense to sever all trade with China. So long as both China and the United States have the ability to diversify trade to alternative trading partners, severing trade with each other will only increase the cost of trading for both countries. Only if a war with China is expected to occur fairly soon, would make sense to restrict trade which China would find it harder to diversify than the United States.

**Avenues for Further Research**

The themes developed in this dissertation provide two interesting avenues for further research. The first is on the temporal dimension of policy tools. Time in international relations has generally been studied in terms of change over time. How has the passage of time affected the development of ideas, technology, institutions, etc.? This project suggests a different way of

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studying time. It implies that policy tools available to decision makers can be disaggregated by their temporal effects. Are these tools more useful in the short term or in the long term? Do these tools provide continual use over time or are they one shot? The example provided in this dissertation is the economic pressure that stems from severing trade. This pressure is particularly low in the short term, but builds gradually in intensity over the long term. From the British discussions on financial policy tools, it seems they work in the exact opposite manner.

Introducing financial pressure produces the greatest effect in the immediate term, but “this pressure would diminish as time went on and that it would come to an end almost altogether in the course of a few months.”5 Financial pressure is a one short policy tool – after it is used it can no longer produce any additional pressure. This suggests that financial pressure is more useful as a threat, banking on the enemy’s uncertainty about its ability to survive the shock to force a change in their behavior. It does not seem useful as a wartime policy, as any enemy that does survive the initial shock will no longer be affected by this policy tool. It is likely other policy tools available to decision makers have different effects in different temporal scopes. Analyzing these effects will bring us closer to determining which tools are best used in which situations.

The second interesting avenue for further research has to do with expectations policy makers form about the war. As historians have frequently pointed out, and as this project makes use of, state frequently predict the length of wars incorrectly. Interestingly, even though it has been shown in the literature that militaries frequently work from analogy of previous wars and knowing that states have historically made catastrophically wrong predictions about the length of war, there does not seem to be any evaluation that occurs in how states determine the potential length of war. What’s more surprising is that states do not prepare a plan B – an alternative

5 “Conclusions of the Eleventh Meeting of the Committee”, Advisory Committee on Trading and Blockade in Time of War, ATB 11th Conclusions, 17 January, 1927, CAB 47/1, 1.
strategy assuming their initial forecasts end up being mistaken. Even if it is rational to expect a quick victory in a specific war, knowing that such predictions can be wrong and the consequences of making these predictions wrong, it seems that states should protect their investments into war making by taking the effort to come up with a plan B. The fact that these plans to do exist is an enduring puzzle to be explored.
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