# CHAPTER VI

# TOWARDS A LEVEL ECONOMY

## (i)

## Introductory

ALTHOUGH the mobilisation of economic resources for war was still at the beginning stage in the spring of 1940, it had already unsettled the civilian economy. Eleven years earlier, in their memorandum on *The Course of Prices in a Great War*, the Treasury had explained the unsettling process: increased demands for goods of all kinds from government and private sources, pitted against a diminishing supply, would drive prices upwards. The Treasury had also prescribed the remedies—drastic taxation, control of prices, profits and wages, consumer rationing. But, as Chapter II related, the different parts of this comprehensive policy became separated as war planning grew increasingly hectic. Some items were scarcely considered at all, and the different threads of policy were never knit firmly together.

The intentions of 1929 had shrunk and when the Chancellor of the Exchequer, introducing his first war budget, spoke of the economic purpose of the Government, it was in much more general terms. 'We are aiming,' he said, 'at maintaining a level economy in which prices and profits and remunerations are kept as steady as war conditions will allow and in which the flow of such goods as are available for civilian consumption is kept in regulated supply.'[1] The phrase 'a level economy', is too vague to be taken very literally; but it suggests the wide variety of inter-related problems with which this chapter will concern itself. How far, for example, was the purchasing power of money preserved, and what methods were used in pursuing stability of 'prices, profits and remunerations'? How did the Government ensure that the civilian economy did not absorb resources needed for the war, and how was the supply of civilian goods regulated to prevent the depletion of stocks and unfair distribution? Did the 'level economy' become in any marked degree a levelling economy, in which control of the general level of money incomes was reinforced by measures to redress the balance between different classes of income on the principle of 'fair shares'?

[1] H. of C. Deb., Vol. 360, Col. 84 (23rd April 1940).

With the stern lessons of 1914–18 behind them, the Governments of 1939 to 1945 could be expected to achieve much greater success in maintaining a level economy. And so indeed they did. The following table tells part of the story:

| | Wholesale Prices* | Cost of Living Index | Wage Rates | | Wholesale Prices† | Cost of Living Index | Wage Rates |
|---|---|---|---|---|---|---|---|
| | Av. Jan. July 1914=100 | July 1914=100 | July 1914=100 | | Aug. 1939=100 | Sept. 1 1939=100 | Beginning Sept. 1939 =100 |
| Jan. 1915 | 117 | 110–115 | | Jan. 1940 | 128 | 112 | 103–104 |
| July 1915 | 129 | 125 | 105–110 | July 1940 | 142 | 121 | 112–113 |
| July 1916 | 158 | 145 | 115–120 | July 1941 | 156 | 128 | 122 |
| July 1917 | 214 | 180 | 135–140 | July 1942 | 163 | 129 | 131 |
| July 1918 | 233 | 205 | 175–180 | July 1943 | 167 | 129 | 136 |
| July 1919 | 250 | 210 | 210–215 | July 1944 | 170 | 130 | 143 |
| July 1920 | 308 | 252 | 260 | July 1945 | 174 | 134 | 149 |
| | | | | July 1946 | 180 | 132 | 161 |

* Statist Index. The source of other 1914-20 figures is A. L. Bowley's *Prices and Wages in the United Kingdom 1914-20* (O.U.P. 1921).

† Board of Trade Index. The source of other 1940-46 figures is the Central Statistical Office.

During the Second World War price questions did not become, as in the later stages of the 1914–18 war, a storm centre of economic stress, social discontent and political controversy. But the figures also suggest that the early months of the Second World War gave no promise that the experience of the First World War would not be repeated; if anything, the spurt of wages and prices in 1939 and early 1940 seemed greater and more rapid than in the corresponding months of 1914–15. Not until the middle of 1941, it seems clear, was the objective of a level economy securely gained and held.

The year 1941 was certainly a watershed in the conduct of the war, producing firm policies of taxation, of free and forced saving, of price control, of rationing and control of civilian supplies, together with exhaustive discussions of wages policy. In 1941, too, these problems were considered as parts of one another. The whole economic situation was illuminated in that year by the new statistical analysis contained in the first white paper on national income and expenditure. In the early months of the war, on the contrary, the statistical information essential for a comprehensive understanding of the national economy, so far from being expanded, had been considered a luxury to be curtailed.

The Government was not well equipped, during the first nine months of war, to measure its financial tasks. But the historian can use in retrospect the technique of later days.

The figures of prices and wage rates already quoted are not a sufficient test of economic stability. In fact, although prices and wages rose rapidly at the beginning of the war, the danger of inflation was only slight. The progress of war production was halting and government war expenditure showed no startling rise. In February 1940, it averaged £34 millions a week compared with about £20 millions in September 1939; part of the increase, moreover, was due to the rise in prices. In June 1940 weekly war expenditure had risen to about £52 millions; but even this figure was low compared with £69 millions in June 1941. In comparison with the figures of 1941 and afterwards, the demands of the Government in 1939–40 were small—although they were, of course, a great increase over pre-war days.

The Government's increased demands for war could be met from three sources—from an increase in the national output, from capital resources or from a diversion of the output normally devoted to personal consumption. Unfortunately, national income white papers cannot tell us how much of the Government's increased expenditure was met from each source. In the first place, no separate figures exist for the rather awkward nine months' period up to Dunkirk. In any case, the white paper figures have serious deficiencies. Table I(a) in the Statistical Summary[1] shows the composition of the national expenditure in each year. But it is impossible to measure from this the real rise in national output from year to year because the figures do not allow for the rise in prices. It must also be remembered in using the figures that the estimates of domestic non-war capital formation lack the firm basis of direct investigations of investment: they are no more than a 'residual' item obtained by subtracting all the other elements of national expenditure from an independent estimate of the total.[2]

However, it is clear that in the early months of the war much of the Government's increase in expenditure could be met from higher output—the absorption of the unemployed and an increase in the hours of work. As we saw,[3] disinvestment abroad also made a considerable contribution, and at home, privately-owned stocks and capital equipment were already being run down. While there existed these other untapped sources of war finance, the pressure to reduce personal consumption was not yet very great. And since the demands of war could at this early stage be met with such small inroads upon personal consumption, the dangers of inflation were only slight; very little seems in fact to have been let loose upon the country.[4]

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[1] See p. 75, above.

[2] See explanation in Cmd. 6784, p. 7.

[3] Chapter IV.

[4] One early sign of inflation is depletion of stocks. Over the whole of 1940, total disinvestment at home was estimated at only £145 millions (Table 1 (a) on p. 75), i.e. running down privately owned stocks plus under-maintenance of capital equipment. This is very small when it is remembered that Britain started the war with stocks of goods in process, in transit or awaiting sale estimated at £1,800 millions.

In the light of our fuller statistical knowledge, we may in retrospect feel some surprise at finding the Government and informed public opinion in those early months perpetually preoccupied with inflationary dangers, and with erecting barriers against their insidious approach. This anxiety, however, arose in part from a general awareness that the war effort was bound to grow at an increasing speed and that it would, sooner or later, drain the stagnant pools of unemployment. Even before full employment had been achieved, the Government's policies towards finance and the civilian economy were of great importance. Incomes were rising, if not very steeply, and imports were falling. 'Cash' and 'carry' were scarce commodities and the stock position in many foodstuffs and raw materials was causing acute concern. It was important to keep civilian demand in check. Negligence and mistakes in this early period would have vastly complicated the task of controlling inflation when in later months it became a very real menace.

On the outbreak of war, the Government was confronted with a large initial rise in prices, and the threat, so it believed, of a vicious spiral. The dimensions of this rise in prices are shown in Table I(e) on page 77. The figures also show that the main cause was the increase in import prices. On the outbreak of war, the value of the pound in terms of dollars fell by about fourteen per cent., which meant that nearly sixteen per cent. more in terms of sterling had to be paid for imports from the 'hard' currency countries—not, of course, for those from countries in the sterling area. Moreover, world prices were very low at the outbreak of war and under its impact they turned upwards. The rise was at first largely speculative and the hard facts of a world shipping shortage and a blockade were for some time obscured. Some prices leapt alarmingly—wild speculation in Calcutta, for example, almost doubled the price of jute there in the last two months of 1939. Other prices reflected more truly a real increase in demand—crude oil prices rose by twenty-five per cent. in the first month of war. Britain suffered further because normal sources of supply such as the Baltic were cut off and shipping difficulties forced the Government to buy in the dearer markets.

Faced with a world rise in prices, government departments often proved their skill as buyers. Sometimes they reaped benefits from pre-war purchases: in the spring of 1939, for example, the Food (Defence Plans) Department had secured the Norwegian whale oil catch at a favourable price even though it was bidding against the Germans. But such enterprise had been all too rare, and stocks of some important commodities were low. Nevertheless, once war broke out, government departments refused to be stampeded into paying panic prices, firmly insisting that the supplies for which they were bargaining were only marginal. A large contract for Canadian wheat, settled on the eve of war at the market price, enabled the Government to abstain from buying any Canadian wheat at all for some weeks after the outbreak of war, when it considered the new Canadian quotations were too high. Not until the summer of 1940, when the market was weaker, did the Government enter into the first of a series of bulk contracts at a price well below that previously suggested by the Canadian Government in the autumn.[1] In general, however, long-term bulk purchase arrangements for Empire crops such as wool, cocoa and sugar were successfully made at the beginning of the war at prices fair to both sides.

While commodity prices in the country of origin rose, their prices to British importers rose still higher. For shipping costs rose immediately. Marine insurance was more expensive, war-risks insurance was introduced, convoys involved delays, and merchant seamen merited higher wages. The Mercantile Marine Department had thought, before the war, that in spite of such increased costs 'the general surplus of shipping might tend to lower pre-emergency freight rates'; but, in fact, shipping became scarce and freight rates rose by more than costs. The Mercantile Marine Department had not doubted that tramp freights at least would have to be controlled if, contrary to expectation, they showed a tendency to rise. Control of tramp freights was, therefore, soon introduced. The controlled rates had to be flat rates,[2] and were based on peace-time rates in the various trades, adjusted for increased war costs. But increased war-time expenses varied enormously, and if all the ships were to be kept in commission, the controlled rates had to be fixed high. Government control of the much more complicated liner rates was not even attempted, and an unofficial scheme run by the Liner Conferences came up against the same difficulty of fixing rates to cover marginal cases. Meanwhile, rates for neutral shipping were not controlled at all, and the shipowners charged what the traffic would bear.[3]

The relative importance of the causes of the rise in import prices varied from time to time. In the first half of 1940, as it became clear that the shortage of shipping and the blockade were carving a gulf between countries of demand and countries of supply, world wholesale prices rose much less rapidly than in 1939, or actually fell. Shipping costs continued to rise in 1940 but the initial leap was not, of course, repeated; with the introduction of general requisitioning in January 1940 rates of hire were fixed by direct

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[1] See R. J. Hammond's *Food*, Vol. I, in this series (H.M.S.O., 1951).

[2] This accentuated the difficulties of partial shipping control. Flat rates offered no incentive to undertake unpleasant jobs such as shipping ore from Narvik in winter.

[3] e.g. the official Danish freight index rose by 174 per cent. between August and October 1939. The neutral ships were therefore employed as little as possible.

negotiation between the Government and the shipowners.[1] The causes of the rise in import prices also varied in importance from commodity to commodity. To cite some food items: higher f.o.b. prices were largely responsible for the increases in Canadian bacon and Canadian and New Zealand cheese: freights and insurance were far more important for meat and rice: as for wheat, the increases of price in this period must be assigned in fairly equal proportions to each of the main causes.

On top of the heavy increases in import prices, domestic prices were also being pushed up. There were A.R.P. measures to be paid for and increased insurance charges. In some industries, overhead costs were covered by higher prices on a decreased turnover.

The Government had not wholly foreseen this large initial price rise. Indeed, as late as July 1939, representatives of the Board of Trade had informed the Stamp Survey that it would be unwise to assume that there would necessarily be a sharp increase of prices of uncontrolled materials on the outbreak of war. Action or inaction by the Government made the increases sometimes greater than they need have been—for example, the tax on sugar was increased in the first war budget and the price of jute was left uncontrolled—but, in general, the Government was powerless to prevent this first upward leap of the price level. Upon its shoulders fell the responsibility for preventing the rise from perpetuating itself.

## (ii)

## Financial and Price Policies

The first upward swing of prices was not a cause for alarm provided it could be stayed; for it was one way of restricting demand at a time when supplies from abroad were falling. The danger lay in the inevitable and vain attempts of incomes to frustrate a reduction in the standard of life by keeping pace with price increases: since supplies could not be increased, these attempts would drive prices continuously higher. The consequences would be social injustice, discontent and an immense complication of the budget problem.

These were the dangers that had been foreseen in the Treasury's pre-war memorandum on *The Course of Prices in a Great War.* Little of the admirable theory of that paper, however, had been worked out into policies. The problem was, broadly, to curtail demand. The Government's desire was to keep spendable incomes

[1] See *Memorandum on War Time Financial Arrangements between H.M.G. and British Shipowners* (Cmd. 6218).

down. But policies designed for this purpose might contradict each other; for example, a rise in the cost of living would occasion wage demands; but artificially low prices would encourage consumption. Rationing was part of the answer to this contradiction; throughout this early period of the war, however, it was considered only in relation to the stocks of various vital commodities and not to the economic problem as a whole. Not until the summer of 1940 was the problem clarified by a firm policy of subsidising rationed goods within the cost-of-living index and taxing goods outside it. During the first months of war, the Government moved forward only tentatively.

While the Government and persons with some knowledge of economics approached the inflationary problem in terms of control of income, many people confused the disease with one of its more spectacular symptoms. 'No profiteering', they thought, meant 'no inflation'. From the natural repugnance that war should bring windfall gains and from the bitter memories of 1914–1920 there had developed an obsession about profiteering. The Government was impressed by the depth of this feeling and much influenced by it when preparing the first measures of price control. This was certainly true in what may be broadly called the field of distribution—the sale of raw materials, foodstuffs and retail goods.

It had long been realised that in war time the supply and distribution of scarce and vital materials and foodstuffs could not be left unregulated. Control over supplies by government purchase or licensing, control over distribution and control over prices must all be established. The Ministry of Food and the Raw Materials Department both had plans ready for controlling strictly essential materials when shortages of them were inevitable. They had also forearmed themselves against an initial bout of profiteering, by preparing orders to freeze maximum prices at the levels current at the outbreak of war, or by negotiating agreements in which trade associations pledged themselves not to raise prices without consulting the minister concerned. However, it was not long before this policy of maintaining pre-war prices as long as possible was challenged. It threatened, said the Treasury, to reduce supplies and stimulate demand—dangers which should not be incurred merely for a vague desire to allay public sensitiveness about profiteering. Following this warning, the Economic Policy Committee formulated in October 1939 new principles to guide departments in fixing controlled prices. Maximum prices should henceforward be advanced to cover replacement costs. Government trading, moreover, must avoid loss except in exceptional cases: it must in appropriate cases aim at a substantial profit.

All the same, the initial price freezing orders had, so far as they went, been useful; they had prevented an undesirable outbreak of profiteering while the Government was assuming control of materials and before it had adopted a general price policy. However, the price freezing orders did not cover all raw materials and foods: prices were sometimes allowed to rise uncontrolled—for example, those of home grown oats and barley—and later it proved very difficult to drag them down again. Moreover, no plans had been made for controlling the prices of retail goods and checkmating profiteering retailers. Here, the Government at first put its faith in publicity and the voluntary co-operation of traders; but the continually soaring prices of such new necessities as sandbags, torches and blackout cloth soon convinced ministers that they would have to take special measures to fend off the danger of public resentment and protest.

Their special measures emerged as the Prices of Goods Act. This, unlike the 1919 Profiteering Act, did not tackle profits directly but aimed at them through control of prices. For a specified list of manufactured goods,[1] no increases in prices were allowed above those ruling on 21st August 1939 unless justified by proved increases in cost; alternatively, the Board of Trade might specify 'permitted' prices. Enforcement of the Act was entrusted to a Central Price Regulation Committee and local committees which investigated complaints from the public. The Act came into force on 1st January 1940, with a very limited list of price-regulated goods;[2] the list was, however, greatly widened in May. The defects of the Act were obvious from the outset. Since a reduced turnover was admitted to be a cause of increased costs, and, in consequence, valid ground for claiming price increases, the effect of the Act was not so much to keep prices down as to keep profits stable. Then there was the difficulty of proving the basic price and the possibility of evading it by changing quality; moreover, enforcement beyond the retail stage was almost impossible. The Act was not wholly a failure: supported by the good sense of retailers and the conditions of trading at that time, it did prevent undue price rises at the retail stage; but as a control over manufacturers it was largely ineffectual.

The principles underlying these attempts to curb profiteering at the distribution stage were on the whole simple. In these early months, the Government was concerned not with the actual level of profits but with excesses over pre-war earnings and with the fear that high prices charged to consumers might become a cause for complaint.

When, however, the Government came to fix prices and profit margins for the production of vital materials, foodstuffs, and munitions, quite different problems arose. High profits in war time were distasteful; but since the Government could not itself undertake

[1] Powers under the Act were only given to the Board of Trade. The Ministries of Food and Supply controlled prices under the Defence Regulations.

[2] At first only goods within low price ranges were included.

direct responsibility for all the necessary increases in production, the profit motive had to be respected because of the incentive it provided. But, in fixing prices to allow reasonable profits and incentive to the many, it was difficult to avoid giving excessive profits to the few. In peace time, one of the traditional arguments in defence of the profit system—weakened though the argument may be by the growing imperfection of competition—is that profits are the lot of the progressive and losses of the backward. In war time, this argument may become altogether invalid; for the poor land, the seams of low grade ore, the backward coal-mine must now be positively encouraged. Unfortunately, the Government never treated this dilemma as a problem of general economic policy. Departments dealt with each case as it arose; such cases as came before ministerial committees were dealt with, each on its individual merits. The invariable tendency of policy was to approve prices that would cover the high-cost men and to leave the profits of the low-cost men to the small mercies of the Inland Revenue.

This problem has already been briefly discussed in relation to shipping freights. It arose also in the raw material industries—steel, for example, and home-produced iron-ore. It made itself most acutely felt in the discussions about prices and profit-margins for domestic agriculture. Even on the pre-war assumptions about shipping, there had never been any doubt that additional land must be brought into cultivation. The first step of encouragement had already been taken in June 1939, with grants of £2 per acre from the Ministry of Agriculture for ploughing up grassland. After that, the Government looked mainly to general price increases to provide incentive. Its theory of agricultural price policy was that 'the price paid for home supplies will be the best price obtainable having regard to the necessity to provide farmers with adequate incentive to increase production'.

During the autumn and winter of 1939, therefore, the main object of agricultural price policy was to cover farmers' increased costs and to stimulate production by allowing them a general increase in their incomes. There was almost no sign of the principle that later became so important—that the incentives should be discriminating and encourage crops according to an order of priority dictated by food policy. Even after the comfortable anticipations of an easy shipping situation had been shattered in the winter months of 1939-40, it was still for some time supposed that the cuts in the food import programme would be made on animal feeding-stuffs only. More of everything and particularly of animal feeding-stuffs became, accordingly, the watchword of agricultural policy. This meant incentives all round, with the size of the incentive determined largely by the bargaining power of the different farming sections.

Discussions on farm prices in the early months of war centred therefore upon the level of profits for various products considered individually. Discussion bred controversy. The first difficulty arose in December 1939 in fixing new prices for fat cattle.[1] Should the original November prices simply be adjusted for increased costs or should they be raised further as an additional incentive? Whereas the Agricultural Departments[2] wanted to go a considerable distance towards meeting the claims of the National Farmers' Union, the Ministry of Food and the Treasury thought that the guaranteed market and other advantages of the government livestock scheme provided incentive enough: besides, the proposed price increases might encourage farmers to favour beef instead of milk. In the end, it was agreed that the Agricultural Departments' claims for the farmers should be met in part.

A variety of unco-ordinated decisions on individual products produced a price structure which was, in the view of its official critics, 'haphazard and largely irrational'. In the dangerous summer of 1940 it was assuredly an unfortunate legacy; for the urgent need then was not merely to stimulate the farmers to do their utmost but also to establish a definite order of priority for crops. In June, an increase of the minimum agricultural wage to 48s. per week reopened the whole question of prices. Between officials and between ministers, opinions diverged widely both over the total size of the incentive to be paid and also over its division between the various crops. The Inter-Departmental Committee on Food Prices[3] concluded, after an elaborate investigation of the facts, that the increased return per annum already obtained by farmers would cover by more than £12 millions their increased costs to date, *plus* the new increases in wages: nevertheless, the pledges to increase prices so as to match increased costs would have to be fulfilled and the £14·9 millions represented by the new wages bill would have to be covered. The Committee went on to recommend that the opportunity should now be taken of adjusting prices to the order of priority in food policy: since it was impracticable to grant some commodities no price increase at all, an effective rearrangement of incentives would mean giving farmers an increase, not of £14·9 millions, but of £20 millions.

The Agricultural Departments found these conclusions not wrong but quite irrelevant. 'We cannot afford', they said, 'under present conditions to run any risk at all of recrimination, uneasiness and

[1] A schedule had been drawn up in November on the assumption that the Ministry of Food's Livestock Control Scheme would be introduced. Delay in authorising meat rationing postponed the introduction of the scheme until mid-January. Prices were temporarily decontrolled and new prices had to be fixed.

[2] i.e. The Ministry of Agriculture and the two Departments of Agriculture for Scotland and N. Ireland.

[3] This Committee was formed during the autumn of 1939 and was composed of representatives of the Treasury, Ministry of Food and Agricultural Departments.

discomfort on the home food front.' They presented a scale of prices which involved a total increase to farmers of £34·5 millions instead of the £20 millions that had been proposed. Moreover, their scale maintained existing prices ratios and thus perpetuated an order of priority—oats, eggs, pigs, fat cattle, wheat, sheep, milk, sugar beet and potatoes—that was largely opposed to the accepted food policy.

In June the whole question was referred to the Lord President's Committee and a compromise was reached. The Agricultural Departments' figures were accepted for the 1939–40 season but the 1940–41 schedules were to conform to the order of priority of foods laid down by ministers. The Government publicly reserved to itself the right to vary prices up *and* down, and in future farmers whose profits exceeded a stated amount were no longer to have the option of being assessed for income tax under Schedule B.

It is true that the farmers responded to all their financial incentives. By the middle of 1941 there were nearly four million more acres under crops in the United Kingdom than there had been in mid-1939. Although the crops that had been sown were not always the ones that the nation most needed, the total achievement was a great one.

All the same, if the policy of financial incentives had been applied with similar generosity to all the other sections of the population who were vital to the war effort, the war economy might well have become unmanageable. The Minister of Food had stated the Government's policy quite frankly in the House of Commons in February 1940 when he said: 'In dealing with home produce we have not proceeded upon the basis of paying the home producer the very minimum that is payable. We have sought to give such a price as will encourage his further efforts.' Whereupon he was asked whether the same argument about inducement to production applied to munitions?[1] The answer was that it did not. Indeed, the problem was very different. Munition contracts had to be placed for new weapons so that there was little experience about costs. Except for some general stores which, though numerically preponderant, were small in value relatively to armaments, prices had to be fixed with individual firms. Moreover, while the public were never very interested in farmers' profits—they had so often been conspicuously absent—they maintained the keenest watch over armaments profits. The problem was to devise a form of contract that would both exercise the rigid control over profits that public opinion demanded and also give the contractor a sufficient incentive to efficiency and economy.

No such form of contract had been found when war broke out, and departments went on in their pre-war ways. The Air Ministry and the Admiralty upheld as far as possible 'fixed price' contracts. At

[1] H. of C. Deb., Vol. 357, Col. 538 (8th February 1940).

the earliest practicable stage of production they negotiated firm prices which were usually based either on technical costing or on comparison with the previously ascertained costs or tendered prices of the most nearly similar stores. Theoretically, these prices would provide the maximum incentive to keep costs low: but in reality fixed prices frequently had to be settled when production was well advanced. Then they did not differ greatly from the methods of the War Office and the Ministry of Supply, which clung to various forms of contracts based on post-costing plus profit, usually with a maximum price as a nominal safeguard but with little other financial incentive to efficiency. Efforts to extend the number of effective fixed price contracts through all the supply departments were hampered by the general uncertainty about the future trends of costs during the war. This was partly offset by special clauses by which contract prices would vary in accordance with changes in wage rates and in the price of certain materials. A more serious obstacle was the shortage of accountants. This delayed the estimation of overhead rates and often deprived departments of knowledge of very recent costs of production which they could have used as a basis for the negotiation of fixed prices. There was a similar shortage of technical costings staff. The traditional fear of parliamentary criticism of excessive profit died hard even with the introduction of E.P.T. It was a long time before this fear was replaced by the recognition that, of two contractors working in exactly similar conditions, the one who made the greater profit served the country best since he produced the same results with less expenditure of national resources.

This same conflict between incentives to efficiency and the prevention of profiteering was resolved quite differently in the Government's financial agreement with the railways. The negotiations had been started before the war on the assumption that, as in the 1914–18 war, there would be a government guarantee of net revenue. From long discussions between the Treasury, the Ministry of Transport and the railway companies there emerged the agreement which was published as a white paper in February 1940.[1] The railways were guaranteed a minimum annual revenue of £40 millions (the average net revenue of 1935, 1936 and 1937) and, in order to provide the incentive to efficiency that had been absent in the First World War, they were permitted to keep any further revenue up to £43½ millions, and half of any further excess up to £56 millions. These provisions were severely criticised at the time[2] as over-generous to the railways, which were, it was said, benefiting from special war

[1] *Railways (Government Control): Outline of Financial Arrangements*, Cmd. 6168 (February 1940).

[2] H. of C. Deb., Vol. 357. See generally Cols. 621-728.

traffic and the handicaps imposed on their road competitors. There were also administrative and economic objections to the agreement; for unlike its 1914–18 predecessor, it provided that government traffic would be paid for and railway charges raised to match increased costs. From 1st May 1940, rail charges were raised by ten per cent.

To reinforce all the specific measures for dispelling public suspicion about profiteering there was always the excess profits tax. The desirability of some tax analogous to the E.P.D. of the earlier war was not seriously disputed; argument centred rather on its most effective height. At the outbreak of war, a 60 per cent. E.P.T. was imposed, but did not unduly impress public opinion. In May 1940, the spirit of the day was reflected in general welcome to the announcement that the tax would be increased to 100 per cent.; in such grave times it was thought that it would not encourage extravagance and wasteful production.[1]

All these profit problems had considerable economic importance. Since profits could in the main be mopped up by taxation, inflation of profits was unlikely to lead directly to any serious inflation of spendable income; but the profits allowed to farmers influenced food prices, subsidies and cropping programmes, and the degree of profit incentive permitted by methods of contracting or E.P.T. produced effects upon the efficiency of production. Most important of all, however, was the psychological effect; for public suspicion that private firms and individuals were harvesting rich profits would have nurtured demands for increased wages.

Wages and salaries were, after all, a more important part of costs. They also formed the largest proportion of the national income (over sixty per cent. in 1938). Moreover, wages were more likely to be spent; whereas profits were more likely to be saved. For these and similar reasons the pre-war planners had always underlined the special importance in anti-inflation policy of holding wage rates steady. Their early enthusiasm for direct and central control of wages had been overpowered by the formidable political difficulties: all the more need, therefore, to get the best possible value from indirect impediments to wage advances. Keeping profits down would help to keep wages steady. The best help of all would be to keep the cost of living down.

Unfortunately, the pre-war plans for food and raw materials control proved powerless to prevent a rapid initial rise in the cost of living. The inevitable pressure for increased wage rates quickly followed. First (and most important) came the coalminers in

[1] H. of C. Deb., Vol. 361, Cols. 564–565 (29th May 1940). 100 per cent. E.P.T. was part of the property *quid* for the labour *quo* in the Emergency Powers Act, 1940. See Chapter XII, p. 340, below, for criticisms of 100 per cent. E.P.T.

October 1939. Their wages were normally regulated not by the cost of living but by the owners' profits from the sale of the coal: despite this, the question of a wage increase came up suddenly at a meeting of owners and miners' leaders. The owners, without consulting any government department, offered an immediate wage increase, related in the main to the rise in the cost of living, on condition that they in their turn received the Government's permission to raise the price of coal. Here indeed was a nightmare of the vicious spiral; the cost of living had risen; therefore coalminers would get more wages; therefore the price of coal would rise; therefore—since coal was a noticeable item in the cost of living—the index would rise still further. But even more frightening to the War Cabinet was the prospect of having to fight a battle against a strong trade union. The War Cabinet had, moreover, been advised that the present miners' leaders were 'a relatively reasonable set of men' who should be helped to preserve their authority. It decided to authorise negotiations for an increase of wages, provided the increase was kept as low as possible, that it was merged in any subsequent increase which should become due under the normal wage arrangements, and that it was granted, ostensibly, on grounds other than the rise in the cost of living. Industrial peace and a level economy were apparently two masters whose service was incompatible. The Government had chosen industrial peace.

Coalmining wages were only a beginning. Early in November the Stamp Survey noted with alarm how many wage increases had been made and how many more were being demanded. These attempts of wage-earners to safeguard their standard of living might for the moment be justifiable; but they could not long be reconciled with the vast war effort that lay ahead. The Survey returned to the principle of direct wage control; it urged the Economic Policy Committee to promote a system of centralised review and authorisation of wage changes. But the objections to this policy were still just as strong as they had been in the later days of pre-war planning. Ministers, and in particular the Minister of Labour, were impressed by the practical difficulties, and possessed by the fear of creating industrial discontent through disturbance of the delicate industrial negotiating machinery built up over so many years. They believed that a central tribunal set up to control wages would soon lose its authority. Would it not, in any case, produce that very result which it was so desirable to avoid—the regular review of wages on a cost-of-living basis? Ministers agreed that they must, instead, or anyway at first, try to educate the trade union leaders and remove from their minds the expectation that rises in the cost of living would be met by money increases to preserve real wages. Meanwhile, the problem was becoming one of more than national importance. In conversations with the Chancellor of the Exchequer, M. Reynaud had referred pointedly to the very different French policies over wages and hours of work and had suggested that the British ought to show a similar readiness for sacrifice.

At the next meeting of the National Joint Advisory Council, on 6th December, the Chancellor initiated the process of education. He enunciated what later became familiar doctrine—the immensity of the problem of war finance, the need to do without things, the impossibility of relieving shortages by giving people more money, and of course the principle of the vicious spiral. But in December 1939 this was strong, unpalatable doctrine. The Chancellor diluted it. It would be going too far, he said, to imply that a change in prices was no ground at all for reconsidering salaries and wages. There was need for some standard of the reasonableness of demands that 'would do justice without setting a spiral in motion. Just what it is I could not at the moment say, but there ought to be a slowing down of the *tempo*.' Even thus qualified, the words of wisdom fell on stony ground. The General Secretary of the T.U.C. said that the workers would repudiate leaders who asked them to accept a decline in their standard of living. All he could offer was that the trade union movement would, provided it received certain assurances, encourage with all its power the voluntary savings movement. Ministers were disappointed; but they did not despair. The good will of the trade union movement was essential to industrial peace, and since the T.U.C. would accept no general principle governing wage increases, the Government must put its trust in intensive popular education. The T.U.C. had already agreed to discuss the problem with some economists.

So delicate, however, was the ground on which the Government was treading that even its campaign of popular education was never launched. Meanwhile wages continued to rise until a second wage cycle seemed to be revolving. What might have been can rarely be statistically measured and it is therefore impossible to assess precisely the importance of two forces which helped to keep wages down. In December 1939, the Keynes plan for compulsory savings appeared[1] and became a focus for economic discussion by all classes. The Ministry of Labour rated its educative value high and felt that though the T.U.C. leaders could not imperil their own authority by admitting there should be no wage increases, they were hanging back in making demands. Still more important in restraining wage demands was the decision to subsidise the cost of living.

Changes in the cost of living had long been measured by the official cost-of-living index which, imperfect as it was, could not have

[1] J. M. Keynes, *How to Pay for the War* (Macmillan, 1940). The plan was originally put forward in three articles by the author in *The Times* during November 1939.

been abandoned without raising deep suspicion. As the Stamp Survey emphasised in November 1939, anything that could be done to keep down the prices of the goods and services covered by the index would both ease the strain of administering a consistent wages policy and directly safeguard the lower income classes. What were these goods and services? There were in fact five groups—rent (seventeen per cent. weight), food (fifty-three per cent.), fuel and light (nine per cent.), clothing (sixteen per cent.) and miscellaneous (five per cent,).[1] The prices of the four main groups moved as follows:

*Cost-of-Living Index*

1st September 1939=100

| | Food | Clothing | Fuel & Light | Rent | All Items |
|---|---|---|---|---|---|
| 1939 September | 100 | 100 | 100 | 100 | 100 |
| October | 109 | 107 | 101 | 100 | 106 |
| November | 112 | 113 | 103 | 100 | 109 |
| December | 114 | 118 | 107 | 100 | 112 |
| 1940 January | 114 | 120 | 110 | 100 | 112 |
| February | 117 | 125 | 111 | 100 | 114 |
| March | 117 | 128 | 113 | 100 | 115 |
| April | 114 | 131 | 113 | 100 | 115 |
| May | 115 | 135 | 114 | 101 | 116 |
| June | 114 | 137 | 116 | 101 | 117 |

The Government's success in controlling the groups clearly varied. Rent control was extended immediately after the outbreak of war[2] and covered about ninety per cent. of the unfurnished houses in Great Britain. Increases of coal prices were mainly governed by wage increases and had to be agreed by the Government.

Food, with such a heavy weight in the index, had a special importance. The initial rise in price for imported and home-grown food has already been explained. In November 1939, food prices seemed about to rise still further. If the Ministry of Food were to cover its costs, prices of bread, flour, meat, milk, butter and cheese must be raised, and the milk industry was asking for higher prices. These prospective increases would add another 12·2 points to the food index and 7·4 points to the general cost-of-living index; government losses in the absence of these increases were estimated at £60 millions a year. This discovery could hardly have come at a more unfortunate moment. For the trade union leaders were pondering the Chancellor's words about stabilising wages and a sharp rise in food prices would heavily prejudice their conclusions. Ministers agreed, therefore, that Exchequer subsidies should temporarily prevent appreciable rises

[1] These are the weights appropriate to the use of 1st September 1939 and not 1914 as the base year.

[2] The Rent and Mortgage Interest Restrictions Act 1939 came into force on 9th September 1939.

in the price of controlled foods. The Treasury emphasised 'temporary'. It was strongly opposed to any permanent food subsidies, such as that for bread in the earlier war, and considered 'that at the end of (say) six weeks, a series of upward changes in prices should be begun'.

The Treasury was not quite sure whether subsidies were a defence against inflation or one of its attacking forces. There was even talk that subsidies would be the last straw upon the Exchequer's back and that they might start an uncontrollable inflation. But the subsidies could not be lightly revoked. January 1940 found the Economic Policy Committee submitting a report to the War Cabinet on the possibility of stabilising the prices of staple commodities. Stabilisation of the prices of staple foodstuffs, the report said, must go on: but it would be unwise to attempt to secure in return an undertaking that wages would not be increased, since the trade union leaders could not guarantee fulfilment of the bargain. The War Cabinet accepted this advice. It agreed that the Chancellor should publicly announce the Government's subsidy policy, and, without formally linking prices and wages, make it clear that wage claims based on the cost of living would not be justified. However, the policy would need to be reviewed after four months; for, said the Chancellor, 'if the Government were so ill-advised as to enter into a commitment on this subject without a limit of time, there would be nothing to prevent the cost mounting until it reached figures completely outside our power to finance'. The Chancellor made his statement in the House of Commons on 31st January.[1] It created a deep impression. The Government had made its most significant contribution towards a level economy.

When the War Cabinet agreed to extend food subsidies, it also directed that the provision of standard clothing should be studied. For clothing prices, with their weight of twelve per cent. in the cost-of-living index, were still rising steeply. They were controlled only by the Prices of Goods Act which, in spite of higher pretensions, never rose above an anti-profiteering measure: indeed, while only the cheaper types of essential articles were covered by orders under the Act,[2] manufacturers were encouraged to turn increasingly to the production of uncontrolled unessential clothing. Yet, on the eve of war, officials of the Board of Trade and the Treasury had understood the methods of effective price control. They had agreed then that the production of standard articles was the only way of ensuring reasonable supplies of necessities at prices not unduly above the pre-war level. In October 1939, Lord Woolton[3] made much the

[1] H. of C. Deb., Vol. 356, Cols. 1154–1159.

[2] Price limits were abolished in May 1940.

[3] Then a private person; shortly afterwards he became director of Army Clothing Supplies.

same suggestion to the President of the Board of Trade. It was, however, only in the case of clothing that the scheme reached serious discussion.

Several variations of a standard clothing scheme were considered. After a good deal of discussion, the Economic Policy Committee recommended to the War Cabinet in March 1940 that the Government should buy standard cloth for men's suits and sell it to makers-up, and that there should also be standard boots and shoes; price margins would be fixed at each stage. These recommendations were made without enthusiasm—the scheme would interfere with traders, it would encourage consumption, it might lead to rationing and its effect on the cost of living would be small. But the fear that the poor would suffer in competition with the rich for reduced supplies of clothing overcame these objections. The War Cabinet approved the scheme in principle and wanted it to be in operation by October; responsibility for it was to be with the Ministry of Supply. No more was then heard of the scheme—apart from a brief disinterment of it in July and August 1940, when the Ministry of Supply and Board of Trade competed with each other in disclaiming responsibility for it. After that brief encounter, it remained buried until 1941.[1] Meanwhile, the clothing index still soared and food subsidies were left to support alone the beginnings of a stabilisation policy.

Taken as a whole, the Government's policy achieved some success in slowing down the rise in the cost of living. To that extent, it damped down claims for increased wage rates. But, before the war, another danger over wage rates had been foreseen—that wage increases might be given to particular sections of workers 'for motives of immediate expediency' and subsequently be given, under pressure, to other sections of workers. Chapter V has already shown that this danger, in the munitions industries at least, was very real. With controls over labour virtually non-existent, the skilled workers who were so badly needed by munitions firms had to be enticed thither mainly by higher wages. It was not simply that wage rates in the engineering industry rose; standard rates were exceeded and total earnings were pushed up by competitive bidding and poaching, particularly on the part of contractors working for the Government under different forms of 'cost plus'—a form of contract which encouraged such malpractices.[2] At first, it was only skilled workers who were much affected; but from the early summer of 1940, when the reserves of unemployed were dwindling, high wages were beginning to draw into the war factories unskilled labour as well. So long as workers were drawn from unessential industries, high wages were

[1] See E. L. Hargreaves' and M. M. Gowing's *Civil Industry and Trade*, in this series (H.M.S.O., 1952); Chapter IV.

[2] The Stamp Survey reported in November 1939 that this was already happening.

helping to redistribute labour properly; but some of the workers were drawn from the mines, the railways and the fields. Part of the answer was to introduce manpower controls worthy of the name; but attempts were also made to narrow glaring disparities in wages by pushing up the lower rates.[1]

At the beginning of June 1940, wage rates, with their ten per cent. average rise over September 1939, had not yet caught up with the cost-of-living index with its seventeen per cent. rise. A big rise in weekly earnings had helped to keep within moderate compass the demands for higher rates. According to a Ministry of Labour survey, average earnings were thirty per cent. higher in July 1940 than in October 1938.[2] Money earned from overtime and hard work inflated demand just as much as higher wages rates; but it was the price of a larger war effort and by no means to be discouraged.

Averages are notoriously deceptive and the big increases in earnings did not mean that the strain of rising prices lay lightly on all families or all wage-earners. It fell hardly on those groups of the population whose standards of living were conspicuously low before the war—the large families, the people in badly paid industries and those dependent on social security payments.[3] No further reduction in consumption should have been allowed to fall upon them. But, in the early months of the war, the rising cost of living, mitigated though it was by subsidies, made the struggle to live harder for the majority of them—harder, too, for some classes of the newly poor, such as the wives and children of men in the fighting services.

These problems and the various solutions sought for them are touched upon in a companion volume:[4] here they can only be mentioned. Little was done at this time to ease the financial anxieties imposed on many families whose breadwinners were in the Forces.[5] Nor was there much easement of the real difficulties of some other classes. In January 1940 it was decided that the Exchequer should supplement old age pensions on a household needs basis; but the Stamp Survey's scheme for family allowances was vetoed because of its cost to the Exchequer; so also was a suggestion for issuing cash vouchers for food on behalf of children whose parents were outside the income tax ranges. Nor would the Treasury contemplate differential food prices. It was not until the more generous mood of the

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[1] e.g. the national minimum wage of farm workers was fixed in June 1940 at 48s. *The Economist* (15th June 1940) called it 'startlingly high'.

[2] *Ministry of Labour Gazette*, November 1940.

[3] J. Hilton, *Rich Man, Poor Man* (Allen & Unwin, 1944), J. Boyd Orr, *Food, Health and Income* (Macmillan, 1936) and S. Rowntree, *Poverty and Progress* (Longman, 1941).

[4] R. M. Titmuss, *Problems of Social Policy*, in this series (H.M.S.O., 1950), *passim*.

[5] e.g. counting family allowances, children's allowances and allotment, the income of a private soldier's wife with one child increased from 29s. in September 1939 to 30s. in August 1940. The existence of War Service Grants was not at this time widely known.

summer of 1940 that the whole problem was tackled with real urgency. One of the most promising methods approved at that time was a big extension of communal feeding, especially school meals. Of more immediate importance was the National Milk Scheme launched on 1st July 1940 to provide all expectant and nursing mothers and children under five with milk at twopence a pint, or, if necessary, free.

Many tales could be told of skirmishes fought in the name of anti-inflation over the social services.[1] In fighting them, the Treasury had an eye to the expenditure side of the Budget. The times did indeed demand economy in the national finances, but economy above all in the sense of securing best value for money and speeding the release of labour and raw materials for war production. There surely was some lack of proportion in the anxious thought taken lest the Exchequer be overburdened and excessive income be generated through social security payments. After all, they represented only a small proportion of the national income: in 1939, rents, interest and profits, together with wages and salaries accounted for well over ninety per cent. of total personal incomes. The really urgent financial task was to draw on these groups to meet the demands of the Exchequer and drain off the surplus spendable income which accrued to some of them in spite of the Government's attempts to keep down profits and wages.

Once more we must remember the lesson of the First World War, as it had been expounded in the Treasury memorandum of 1929.[2] That memorandum had emphasised the need for great sacrifices in order to fend off the disastrous consequences of financing government expenditure by the creation of bank credits. Taxation must be increased 'greatly, and above all rapidly to the maximum point which [could] in practice be maintained': the balance of expenditure must so far as possible be met from the 'genuine savings' of the people.

Taxation was certainly increased rapidly. In the first war budget in September 1939, the standard rate of income tax was raised from 5s. 6d. to 7s. 6d.[3] and the reduced rate[4] was raised; an excess profits tax of sixty per cent. was introduced; rates of surtax and estate duty and indirect taxes on beer, spirits, tobacco and sugar were all raised. But were these increases great enough? Total revenue in the financial year would still be only fifty-one per cent. of the total expenditure that was anticipated, leaving a gap of £938 millions to be bridged by borrowing. Could 'genuine savings' bridge this gap and provide the

[1] Some of them are told in *Problems of Social Policy*.

[2] See above, p. 47.

[3] The rate was 5s. 6d. for the first quarter of the financial year and 7s. 6d. for the last three quarters, making the rate 7s. for the year as a whole.

[4] Payable on the first £130 of taxable earned income.

sums still necessary for private capital investment—most of it for war purposes—and repair of capital equipment? The nation's savings in 1938 had been no more than £700 millions.[1] Would not the gap have to be filled by inflation of incomes? At the end of the financial year, the deficit, though large, proved smaller than expectations: revenue was larger than had been estimated and expenditure was as much as £116 millions less. Here was cause for uneasiness of a different kind. Was not so low a level of public expenditure the proof of an inadequate war effort?

The Chancellor and his officials, when preparing the second war budget, were not unmindful of these anxious questionings; but, although there was no suggestion of setting a financial limit to British war expenditure, the Treasury could not conceal its feeling that an effort on the German scale would be beyond the financial capacity of this country. With some misgiving, the estimate for war expenditure was fixed at £2,000 millions. It was denounced as a miserably inadequate figure.[2] But even so, the Chancellor confessed himself unable to see clearly how he could ward off the inflation against which he had preached so fervently. He had no firm confidence that voluntary lending would fill the gap between expenditure and the proceeds of taxation. For, of the total government expenditure of £2,667 millions, only forty-six per cent. was to come from revenue. There were to be decreased income tax allowances, higher postal charges and higher duties on beer, spirits and tobacco, and a bill to limit dividends. A purchase tax was to be introduced in order to restrict spending.[3] But all this left £1,433 millions to be found by borrowing. The Keynes plan for compulsory saving had been turned down; the gap would have to be filled—if it could be filled—by the schemes for voluntary saving.

What were these schemes? A drive to encourage 'small' savings had been planned before the war and a campaign for National Savings and Defence Bonds was launched in November 1939. The Government's main loan, however, was not announced until March 1940. It had been much discussed between the Treasury and the Bank of England; but revenue was keeping up well with expenditure, and the gilt-edged market did not recover from its war paralysis until February. It was important to wait until prices rose near par once more, for the Government was determined from the outset that the money for the war should be borrowed cheaply. The 1914–18 war had become a five per cent. war; this time a long-term rate

[1] Cmd. 7371.

[2] See e.g. *The Economist* (27th April 1940); H. of C. Deb., Vol. 360. See generally budget debate, 24th and 25th April 1940.

[3] Since this was not to operate until October 1940, its effects will be mentioned later in Chapter XII.

of interest higher than three per cent. was considered economically undesirable and politically impossible. Once the market had recovered, the Government, with its exchange control preventing investment abroad, and with restrictions on capital outlay at home,[1] could practically dictate the rate of interest. When, however, a £300 million three per cent. loan was launched in March, it fell lamentably short of expectations.[2] The sums subscribed by the public did not even reach £200 millions.

In the spring of 1940, then, the Government was finding difficulty in carrying out the 1929 precepts of financing war expenditure. Taxation was unprecedently high; but it met less than half of a war expenditure which many competent people considered too low: the politically-possible rate of interest did not seem adequate attraction for 'genuine savings'. Indeed, if the dangers of inflation during these early months of war had been as great as they were sometimes painted, the Government's defences would have been easily overcome. The defences had been built piecemeal and in some parts were extremely flimsy. For example, in the early summer of 1940, foodstuffs whose retail prices were controlled numbered less than twenty while the Prices of Goods Act was a wholly inadequate control over other goods. Nor was the key importance of rationing understood.

Nevertheless, in pursuing the general principle of keeping down monetary demand, the Government had come to grips with some of the most important practical problems. The foundation of a stabilisation policy had been laid with the decision—however temporary it seemed at the time—to subsidise the cost of living. And the Government had met the full force of the political and psychological objections to any direct control of wages. Experience had been gathered which was to stand the Government in good stead now that the real testing time for maintaining a level economy was approaching.

## (iii)

## The Civilian Economy

We have spent much space on these financial problems because they, with the shortage of foreign exchange, held chief place in the economic deliberations of the Government during the first months of the war. Their importance, though great, was perhaps overweighted. Their handling would largely determine the distribution of the

[1] See below, p. 173.

[2] There were various reasons—e.g. old commitments could not be shed at a moment's notice.

financial burden of war; but far more urgent was the mobilisation of the civilian economy for war purposes. Sometimes, indeed, it was suggested that financial methods of limiting civilian expenditure would produce this mobilisation.[1] Abstention from buying luxuries, it was said, would save shipping and foreign exchange. So to some small extent it might; but it could not possibly solve the crises of 'cash' and 'carry'. Nor could it play the chief part in building up the munitions industries. Direct government spending upon war purposes certainly needed to be supported by the restriction of civilian spending on private purposes; but both needed to be reinforced by direct government control. An effective and comprehensive system of control, however, developed but slowly.

The needs of the first nine months of war must not, of course, be judged by those of the later years. We do not find that insatiable manpower hunger, compelling the reduction of all civilian standards to the minimum compatible with efficiency and morale. And there was, after all, no inherent virtue in throwing people out of their jobs to swell the numbers of unemployed. The demands of war upon the civilian economy in the early months were much less comprehensive than they became later. What were they? There were, first, heavy demands on particular industries—especially engineering and building—and consequently labour shortages in them. Secondly, there was the pressure of 'cash' and 'carry'; imports must be cut down and exports encouraged. Thirdly, there was the need to use the peaceful days of grace to the full, to build up stocks against the day when the bombers and possibly the U-boat would dangerously strain ports and shipping. What measures did the Government take to regulate civilian demand for these purposes?

In the engineering and building industries, the actual outbreak of war with its economic dislocation and fears for the future had a depressing effect on current private demand. At the same time new large-scale projects—though not by any means the predominant method of capital expansion—were prevented by the swift introduction of control of capital issues.[2] Meanwhile, central government departments drastically cut their programmes of civilian capital expenditure and local authorities were instructed by the Treasury to do likewise.[3] Private demand revived before long but faced increasing impediments.

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[1] See e.g. H. of C. Deb., Vol. 356, Cols. 805, 806 (25th January 1940); article 'Guidance Wanted' in *The Times* (16th January 1940).

[2] No. 6 of Defence (Finance) Regulations. See S.R. & O. 950, 1067, and following Orders and the Exemption Order S.R. & O. 1007. Applications for issues of more than £5,000 had to be submitted to a Capital Issues Control Committee which would generally approve issues only for defence purposes or the maintenance of food supplies.

[3] In a circular of 13th September 1939.

The capacity of engineering firms was increasingly absorbed by munitions work. Production of industrial machinery fell, and such goods as motor cars,[1] vacuum cleaners and refrigerators were among the first consumer goods to disappear. In fact, during the first nine months of war, the expansion of munitions work took place largely at the expense of the home and export trades of the engineering industry;[2] by June 1940 most sections of the engineering industry had only about twenty per cent. of their workers employed on the home trade. But even this was too much. Moreover, according to the President of the Board of Trade, manufacturers, with their profits limited, were tending to put their assets into capital goods. In April 1940, a stricter and more efficient system of licensing iron and steel was adopted;[3] but it was not working properly until the end of 1940. However, in June, raw material control was reinforced by machinery licensing. Anyone wishing to buy certain classes of machinery had henceforward first to get a licence from the Board of Trade, which would grant one only for some purpose of national importance.[4]

War also made heavy demands from the beginning upon the building industry. The Government's building programme for the first twelve months was more than double the 1938 programme and could only be met by cutting civilian building to the bone and organising the industry effectively. No government department then existed to do this and to co-ordinate all the different programmes; the proposal to establish one was, at that time, strongly resisted, then defeated. No single authority therefore was directly responsible for reducing civilian building. In the first week of war, the Ministry of Health instructed local authorities to stop their house-building and slum clearance schemes. Private building however was restricted only through the raw material controls. Effective steel licensing did not begin until the spring of 1940; but as early as 12th September 1939 the Timber Control had told its area officers to refuse timber for civilian buildings unless they were very near completion. By these means a large volume of private building was stopped.[5] But raw material controls alone have rarely been proof against evasion, especially when private stocks have been high, and as late as July

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[1] In January 1940, domestic motor cars were considered to be the chief form of consumption which had been restricted.

[2] Between June 1939 and June 1940, the numbers engaged on government work in the engineering, motor vehicle and aircraft industries almost doubled, while the increase in the total size of the engineering and allied trades was relatively small.

[3] Each department was now to receive a total allocation and issue authorisations to the industries for which it was responsible.

[4] S.R. & O. 1940, No. 875. At first only sixteen classes of machinery were covered. By December 1942 ninety classes were listed.

[5] *The Economist* (20th January 1940) p. 115, estimated that £200 million of work (pre-war prices) in the hands of private architects had been stopped.

1940 ministers were told that though no steel or timber licences had been issued for several months a substantial amount of private building was still going on. Not until October 1940 was there a proper system of building licences and a department to operate it.[1]

Thus, even where there was strong and obvious direct competition between war and civilian demand, effective control did not come before the dangerous summer days of 1940. Nor was the hesitation much less when the competition for limited resources originated in the shortages of foreign exchange and shipping space and the need to build up stocks. Much of this story has already been told in Chapter IV—the continued importation of unessential and even luxury goods and, in April 1940, the first limitation of supplies to the home market in the interests of the export trade.

The doubts and hesitations of the period can perhaps be best exemplified from the history of rationing. Pre-war plans had been made for rationing petrol, fuel and essential food. Rationing of petrol and fuel—to conserve stocks—was in fact announced on the first day of war.[2] The scheme for petrol was efficient and began on 23rd September; that for gas, coal and electricity was very loose and operated only in name.[3] The real tussle came over food. Long before the war, the Food (Defence Plans) Department had assumed that immediate rationing would be essential and Cabinet sanction a formality; had not ministers authorised the printing of ration books in peace time? The Department had felt that even to delay rationing by basing the issue of books on the National Register would be dangerous and on the 4th September 1939 it got the War Cabinet to agree, only to discover an unsuspected gap in its own arrangements; this would itself delay rationing by several weeks. Hastily War Cabinet sanction was sought to reverse engines; National Registration was now to precede and assist rationing. But the link between the two, though discussed, had not been properly forged and there followed a series of postponements of the time when rationing could begin.[4]

Meanwhile, ministers debated whether it should begin. In the discussions of the Home Policy Committee and the War Cabinet, economic expediency was opposed to the psychological niceties involved in the maintenance of morale at home and in denying to the enemy material for propaganda. Psychology won when a decision was deferred until public opinion had been surveyed to find out

[1] In addition, in July 1940 an Order (S.R. & O. 1940, No. 1138) prohibited the use of steel in building (no matter when or how it had been obtained) without a licence.

[2] *The Times* (4th September 1939).

[3] See Professor W. H. B. Court's *Coal*, in this series (H.M.S.O., 1951); p. 155.

[4] See *Food*, Vol. I, Chapter VIII.

whether the public wanted rationing and whether they would regard it as a relief or a burden. The survey was completed within three days and the War Cabinet was told that if there was any risk of shortage, the public would definitely favour immediate rationing. But the War Cabinet still hesitated to authorise action which would trammel the customary liberties of selling and buying food. Not until nearly two months after the outbreak of war did it agree at last to the rationing of butter and bacon, of which there were already spot shortages; and it still remained unconvinced that meat and sugar rationing were necessary.

Ironically enough, the Ministry of Food's case for sugar rationing had been compromised in ministers' eyes by its claim to have bought the whole Empire sugar crop. Sugar bought, however, was not sugar delivered; stocks in hand were being steadily dissipated: as unpleasant proof, the Ministry applied in November for authority to negotiate the purchase of 300,000 tons of foreign sugar at an estimated cost of £3 millions worth of dollars. Sugar rationing was once more recommended and this time—on 6th December—it was approved by the War Cabinet.[1] A worsening of the prospective supply of meat induced the War Cabinet to agree at the same time to meat rationing. As has been said, the mechanism of ration book delivery and food registration worked more slowly than had been expected so that in the end rationing came in for sugar at the same time as for butter and bacon:[2] for meat it came a little later.

If these falterings over rationing seem to have been emphasised more than their actual effect warrants, it should be remembered that they are important evidence of the Government's attitude at that time to economic problems[3] and of its lack of conviction when the time came for executing pre-war plans.

Even bigger than the claims of food on importing capacity were those of raw materials. Here too civilian demand needed to be restricted in the interests of war production, exports and stock piles. When, however, the Chancellor of the Exchequer informed the House of Commons in the spring of 1940[4] that the system of raw material control was carefully allocating available supplies of these essential goods, he was rather overstating his case. For raw material control was as yet extremely incomplete. In the first place, the purchase of the majority of raw materials remained in the hands of the

[1] One member of the War Cabinet objected that the Minister of Food's argument that to cut down the consumption of sugar would save shipping and foreign exchange, was 'a matter not of food but of financial policy'.

[2] From 8th January 1940.

[3] The reluctance to contemplate clothes rationing was noted in Section ii (p. 168).

[4] H. of C. Deb., Vol. 360, Col. 85 (23rd April 1940).

trades, often virtually uncontrolled by the Ministry of Supply which had correspondingly little influence over distribution.[1] But in any case, the Raw Materials Department of the Ministry of Supply was as yet a very undeveloped administrative machine. Pre-war plans had provided only a rough outline—an interdepartmental materials committee would issue general directions to controllers who would retain considerable powers of discretion. Allocation systems, most of them rudimentary, were devised for only a few materials, and although the schemes for crucial materials such as steel were strengthened, the real burden of responsibility for distribution rested throughout the first nine months of war upon the individual controllers. The powers which should have been exercised by some central organisation passed in practice to the executive officers of the Ministry of Supply. And the definition of priorities to which these officers were supposed to work was unhelpfully wide. War production, exports and essential civilian needs came first; but what was the order of precedence between them? What marks of identification enabled raw material controllers to distinguish between essential and unessential civilian demands? Such questions had received as yet only the sketchiest of answers, if any at all. Moreover, no reliable or comprehensive statistics existed on which to base distribution.

In this confusion civilian industries inevitably did far too well. There were, indeed, some exceptions: the controllers of timber[2] and paper cut civilian supplies heavily. But steel cuts did not begin until the spring of 1940 and most controllers found it difficult to harden their hearts even when there was obvious shortage. They were reluctant to cause unemployment and very respectful towards the argument that a prosperous home trade was a necessary base for flourishing exports. In any case, their enforcement machinery was much too loose to prevent leakages into the home trade of material allocated for export or war purposes. This was the position even where shortages already existed and serious attempts at control were made; in June 1940 ministers noted ruefully that controllers had frequently overlooked the need to impose drastic economies over raw materials which were not yet scarce. Heavy government demands on the textile industries had not as yet reduced civilian supplies. Wool stocks, for example, fell; but a reduction in civilian allocations from March 1940 did not prove very effective. There were many other examples. In June, copper was still used in substantial amounts in jewellery, curtain rails and bedsteads; half the total lead supplies were going to the home market; licences for jute cloth for unessential purposes seemed to exceed those for direct and indirect

[1] Even such important materials as tin, hides, cotton, were left in the hands of the trade.

[2] Not only was civil building cut but, e.g. by May 1940, the furniture industry was getting only fifteen per cent. of its pre-war timber supplies.

government use. Altogether, it was a story of slow and hesitant beginnings.

Such reluctance to observe and profit by the omens meant that the general standard of living was maintained only too well. The cost of the war was paid socially rather than economically—in the numbers of children going without education, the numbers of sick people ejected from their hospitals to make room for the expected casualties, the heartache of families widely scattered from each other. Few people as yet had any real conception of the great contribution that civilian sacrifice could make to economic mobilisation. Ministers, high officials and trade union leaders alike found it difficult to believe that sufficient manpower and raw materials would be forthcoming to work the new factories that were going up. In April 1940, scepticism was expressed in more than one quarter about the possibility of reducing the civilian allocation of steel. However, different times breed different habits of mind. By the time this period ends with France prostrated, the first steps had been taken towards the drastic contraction of civilian production, tighter control over manufacture and supply, wider and more stringent rationing. The British no longer boasted in their propaganda that they were living better than the Germans. The Government no longer muffled with excuses its call for sacrifice.