CHAPTER XII

THE COST OF INCREASING EFFORT

(i)

'Hardship Our Garment'[1]

THE disasters of 1940 had revealed the immensity of the effort the British people would have to make if they were to mobilise and equip Forces strong enough to fend off their enemies and finally defeat them. In economic terms, this effort meant broadly two things: first, an intense concentration of resources in the immediate war zone, and secondly, a simultaneous constriction of civilian claims upon resources. But there would be no virtue in applying the second principle indiscriminately, in a mood, as it were, of national atonement. The principle had above all to be applied in relation to the two specific emergencies that have been described in the two preceding chapters—the nation's shrinking capacity to import, and its expanding claims upon manpower. Not that it would be possible to classify and label the people's hardships in two quite separable categories; sometimes the pressure against civilian standards would come at the same time both from stringencies of overseas supply and from the domestic famine of manpower—not to mention all the things, materials and tools and factory space, for which the British war machine was hungry.

Throughout most of the months between Dunkirk and Pearl Harbour, the greatest pressure against civilian standards came from the need for shipping economies. Food standards were among the first to fall. A food supply sufficient to maintain health and strength was among the very highest shipping priorities. But the people had also to be fed economically. This meant a less palatable diet and programmes for domestic agriculture that would save as much shipping space as possible. Moreover, it was important that any temporary easement of food supplies, whether from home harvests or imports, should go to build up stocks and not to current consumption.

[1] The Prime Minister, H. of C. Deb. Vol. 365, Col. 303 (8th October 1940): 'Long dark months of trial and tribulation lie before us . . . Death and sorrow will be the companions of our journey; hardship our garment; constancy and valour our only shield.'

In the atmosphere of impending siege in the summer of 1940, a committee of scientists was appointed to advise on the scientific aspects of food policy. They calculated that the basic food requirements of the nation, expressed in calories, proteins, fats, minerals and vitamins, could theoretically be provided by a diet of wholemeal bread, oatmeal, fats, milk, potatoes and vegetables. Wheat and fats would have to be imported; but all the other foods in this list, the scientists thought, could be produced at home in sufficient quantities to meet the needs of the whole population.

Such a diet was not really practicable—oat-milling capacity for example would have been quite inadequate—and Britain never came within measurable distance of it. In the summer of 1940, when shipping prospects were still far from clear, the scientists' programme seemed far too drastic. Indeed, for some months there were no great changes in food consumption. There was some tightening up, notably the rationing of tea and margarine in July; but, as was seen in Chapter X, considerable quantities of animal feeding-stuffs and other unessential items were still being imported up to the late autumn. In November, when it had become clear, even to obstinate optimists, that the sharp decline in food imports was due not to remediable mismanagement by the Ministry of Shipping but to a severe shipping shortage, the food programme was adjusted to include only essential foods. Fresh and canned fruits were cut out and hopes of increases in the tea and sugar rations disappeared. The meat ration, which had risen to 2s. 2d. during a temporary autumn glut of home slaughtering, slumped to 1s. 2d. in January 1941 and went down to 1s. at the end of March. There were in addition shortages of cheese, eggs, fish, milk and of the extras that add variety to diet such as onions, jam and sweets.

In the spring of 1941 the Ministry of Food believed that food supplies were definitely inadequate and that there were already signs of malnutrition. No evidence has so far been produced sufficient to prove or disprove the allegation. It is certain that the nation's food was not yet down to the point where further economies either in quantity or quality were impossible. In particular, everyone could buy and eat as much white bread as he wished. But the Minister of Food's declared policy was not simply to see that the nation was adequately fed but that the diet was as near normal as possible. The Prime Minister himself was alarmed at any tendency of the diet to move towards the 'basal' standards propagated by the scientists.[1]

The food difficulties in the spring of 1941 were not all due to shipping. Although the main cause of the sharp reduction in the meat ration was a shortage of refrigerator ships, the reduction would have

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[1] See above, p. 267.

been less startling if stocks had not been allowed to fall dangerously low in supporting a 2s. 2d. ration. While there could not be much variety of diet until the Lend-Lease Act opened up American supplies, inadequate distribution arrangements made the shortages of extras more noticeable and less tolerable. But, in so far as the scarcity of food was due to the shipping shortage, the possibilities of feeding the nation with a smaller volume of imports had not yet been explored very far.

In the first place, was not white bread a luxury? By March 1941, rising consumption of flour had combined with the fall in imports to reduce wheat and flour stocks from thirteen weeks' supply—the recognised safety level—to 11½ weeks' supply. Moreover, continued air attack had reduced flour-milling capacity. If the extraction rate of flour were raised to eighty-five per cent., increased shipments of flour could be avoided and eight weeks' supply of wheat would suffice for nine weeks. But a battery of arguments assailed the proposal for a compulsory wheatmeal loaf. It was argued that there would be greater waste through staling, that wheat and flour would be illicitly fed to livestock to replace wheat offal, that more bread would be eaten to make up for the reduction in livestock products, and that if the supply of feeding-stuffs declined, pigs and poultry might be fed at the expense of cows. In addition, the millers and the public had no liking for the national wheatmeal loaf.[1] The chief reason, however, for continuing white bread was that it was felt to be psychologically a bad moment to change. Other shortages were at their worst and there was hope that these might be eased before long. The Ministry of Food therefore chose to increase flour imports and to raise the extraction rate only very slightly—from seventy-three per cent. to seventy-six per cent.

The rearrangement of home agricultural output offered the other main hope of managing with fewer imports. In the summer of 1940, the scientists had set forth the governing principles of food production in a besieged island. The immediate need, they had said, was for a great increase in the output of potatoes, sugar beet, cereals (especially wheat and pulse, mainly for human consumption) vegetables and milk. In such an economy there was not much place for meat-producing livestock; some small variety in a monotonous diet might be contributed by a remnant of animals maintained by the by-products of food crops and the grazing of land unsuitable for ploughing up. The scientists urged a great and immediate reduction in the number of pigs and poultry, as large consumers of cereals, and a planned reduction of lowland sheep and beef cattle, in the interests of a greatly increased area of crops for human food and fodder for dairy

[1] The Ministry of Food was at this time trying to popularise wheatmeal bread by advertising.

cows. But the scientists were too impulsive and doctrinaire. If real siege conditions had ever developed, or if shipping had grown so scarce that it barely sufficed to bring the raw materials without which the nation could not work and fight, the most drastic slaughter of livestock would have been necessary[1] to release food such as oats for human consumption and to release more land for growing those crops the scientists favoured. But, unless and until the country was face to face with hunger, with little prospect of early relief, the Government was quite rightly unwilling to contemplate such extreme measures.

Instead, a campaign was launched to plough up an additional 2½ million acres for crops and prices were manipulated to encourage farmers to produce according to the order of priority for different foods.[2] Animal feeding-stuffs were rationed from February 1941. After the end of 1940 practically no feeding-stuffs were imported. In making these adjustments, there was sometimes hesitation and a consequent waste of valuable shipping space. The rationing scheme for feeding-stuffs was delayed too long and not until March 1941 was the feeding of wheat to livestock prohibited. The control of home-grown cereals was not strong enough to secure sufficient oats off farms in the summer of 1941 for porridge, town horses and pit ponies; this meant that rolled oats and maize had to be imported. At the end of 1940, alarm was being expressed about the possibility of a further source of waste. Might not farmers tend to hold on to their animals in spite of the shortage of feeding-stuffs and at the expense of a heavy fall in the average milk or meat output from each animal? Might it not become necessary after all, as the scientists had forecast, to enforce a drastic slaughtering of animals other than those in the dairy herds?

For the first six months of 1941, a special Livestock Conference discussed the 'slaughter policy'. The Conference agreed that emergency slaughter to meet a temporary shortage of meat was fundamentally unsound because the beasts might only be skin and bone. However, it recommended positive measures to reduce the numbers of pigs and poultry. It thought that exhortation and the rationing schemes would sufficiently reduce the beef cattle herds. When, however, the Conference considered the third year of war, it found that estimated supplies of feeding-stuffs would be so small even on the most favourable assumptions that they would only support a vastly reduced pig and poultry population and considerably fewer sheep and beef cattle. Beef cattle were the most difficult problem; a reduction of their numbers on the scale suggested would be impossible

[1] Sudden, heavy slaughterings were very wasteful owing to the limited cold storage space. Heavy slaughterings in the autumn of 1940 had meant that the meat ration had to be raised temporarily to 2s. 2d.

[2] For prices discussion see below, pp. 341–2.

without requisitioning for slaughter. Nor would fair distribution of the limited feeding-stuffs be possible without requisitioning cereals from some farms for sale to others. While the Food Policy Committee was considering whether such drastic measures would be worth the outcry they would cause among the farmers, the Ministry of Agriculture, which had never really believed in the slaughter policy, conveniently reversed its previous conclusions by saying that an overall shortage of feeding-stuffs was unlikely in the next winter. Intensified slaughtering was therefore unnecessary. This turned out to be the right conclusion. Indeed, the statistical data in the original calculations had been too uncertain to form a basis for such drastic measures of policy. Moreover, had compulsory slaughtering on a grand scale begun, shortage of cold storage, once meat imports began to improve, would have brought it to a derisory end.

This rather involved discussion has been necessary because livestock policy was in its day a burning issue. There was a widespread conviction in government circles that the nation's food resources were being dissipated by keeping animals that were inadequately fed. The zeal with which the argument was pursued was perhaps disproportionate; for there were other ways in which shipping space was wasted and other economies not yet made. In general, food policy and home food production were being adapted fairly efficiently and smoothly to the prospects of a long, exhausting war in an island whose sea communications were under constant attack.

The shipping shortage, combined with some exchange and supply difficulties, demanded economy not only in the civilian's food but also in the raw materials for civilian industries, which moreover were bound to be curtailed to meet the growing demands of the munitions industries. At the time of France's collapse, ministers were painfully aware that civilian raw material supplies had been far too liberal.[1] Between that time and Pearl Harbour raw material control was greatly tightened. The supply and distribution of nearly all the important materials were brought under control[2] and the controls themselves were operated more efficiently. Distribution methods were notably stiffened. For some major materials such as iron and steel and timber, allocations were made to government departments which became responsible for distributing their own limited supplies between many competing claims. Where distribution was still operated by the licensing machinery of the raw materials controls, applications for licences were examined with increasing severity. By these means civilian claims were constantly cut down and many unessential uses eliminated. There was, for example, an embargo on the use of timber

[1] See above, p. 177.

[2] At the time of Pearl Harbour, rubber and tin were the only important commodities whose markets had not been closed down.

for many purposes. Some articles were permitted only if they were made from waste material. Aluminium virtually disappeared from all civilian uses except the replacement of machinery parts. The Board of Trade refused to release steel for a long list of goods ranging from sports equipment to springs for bedding. In 1941, less than twenty-five per cent. of the total supplies of steel went to exports and 'civilian uses'—a generic term which included such essential purposes as civil defence, the fuel and power industries and the post office.

There persisted throughout the war some grave imperfections in the organisation of raw material control.[1] Even if the organisation had been stronger, the difficulties with which it had to cope would have been sometimes intractable. Private stocks of materials existed and eluded control. It was always extremely troublesome to detect and plug leakages and to ensure that materials were in fact used for the purposes for which they were licensed. For these and other reasons, the control of raw materials could not by itself achieve the necessary diversion of resources from civilian industry to war production. This diversion was in the end achieved by a complicated, interlocking system of controls—not only over materials but also over labour, over the use of premises and over the quantities of specific civilian goods which might be produced or supplied to the home market.

The direct labour controls have been sufficiently discussed in the previous chapter. Nothing has yet been said, however, about the controls over the use of premises. In the autumn of 1940, the general increase in war production, the dispersal of industry beyond the target areas and the building up of stocks all combined to create a great demand for factory and storage premises. The scramble for space among a crowd of government departments and private firms rapidly degenerated into chaos. From the end of 1940, therefore, there were intensive discussions about bringing the demand and supply under control. In May 1941, a Control of Factory and Storage Premises was at length established within the Board of Trade. One of the Control's first moves was to survey the possible supply of space. It compiled a register of all factories employing ten or more workers which were likely to have spare capacity owing to war conditions: detailed particulars about their production and their factory buildings were collected. Similarly, a register was made of all premises over 3,000 sq. ft. which were, or had been used for any kind of storage. This information provided an indispensable basis for the function of allocating space, which the War Cabinet had vested in the Control. Every government department was bound to obtain the

[1] See generally J. Hurstfield's *The Control of Raw Materials*, in this series (H.M.S.O., 1953).

Control's authority before requisitioning any premises for manufacture or storage. And, in July 1941, the movements of private firms were brought under control by an Order[1] which made it necessary to obtain a licence before changing the use of any factory or warehouse of more than 3,000 sq. ft., or before making any premises of this size into a factory or warehouse.

Resources were, then, transferred directly from civilian industry to war production by cutting down raw materials, by withdrawing labour and by requisitioning factory space. These positive methods of transfer were buttressed by the controls over civilian supplies. The first statutory limitations on the supplies of goods to the home market had been introduced in the spring of 1940 in the interests of the export trade. They had been followed by a system of machinery licensing to reduce civilian pressure on the engineering industry.[2] After Dunkirk, the restrictions were drawn progressively tighter in order to reduce civilian demands for materials, labour and space and in order to conserve stocks. Machinery licensing was extended to more and more types of machinery and the exemption limits were narrowed until a large proportion of the engineering field was covered.[3] To match this increasingly severe control over the acquisition of capital goods, building for civilian purposes was for the first time effectively restricted. From October 1940 a licence on the authority of a government department was necessary for any civil building costing more than £500.[4] This admittedly generous limit was lowered in April 1941 to £100.[5]

Civilian capital equipment was thus being deliberately reduced to a minimum. Restrictions were applied equally steadily to the supply of consumer goods. For the six months from September 1940, the quantity of home market sales of cotton and linen goods taken together was reduced to 37½ per cent. of the sales in the six months from October 1939; rayon sales were reduced to 66⅔ per cent. and sales of silk goods to twenty-five per cent.[6] In the spring of 1941 these textile quotas were reduced still further—cotton, linen and silk to

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[1] S.R. & O. 1941, No. 1100.

[2] See above, Chapter VI, Section (iii).

[3] S.R. & O. 1940. No. 1363 (this raised the number of controlled classes from sixteen to forty). S.R. & O. 1940, No. 2179; S.R. & O. 1941, Nos. 1063 and 1610. From June 1940 to the end of December 1941 licences for machinery valued at £3¾ millions had been refused. This amount would be equal to about 17,000 tons of iron and steel, and work for 10,000 men (two-thirds of them skilled) for one year. This does not make allowance for the machinery for which no applications were sent in in the belief that they would be turned down.

[4] S.R. & O. 1940, No. 1678.

[5] S.R. & O. 1941, No. 437; S.R. & O. 1941, No. 1596 tightened the control further. £100 became the limit for building work of all kinds that might be done on any property in any period of twelve months.

[6] S.R. & O. 1940, No. 1760 and No. 1829. Sales of linen goods taken alone were not to exceed twenty-five per cent. of the standard period.

twenty per cent. and rayon to forty per cent.—while sales of woollen goods were limited for the first time at a quota of thirty per cent.[1] Supplies of miscellaneous goods were cut from December 1940, with the quotas varying according to essentiality—twenty-five per cent. for, say, furs, fifty per cent. for pottery and a quota as high as 66⅔ per cent. for mattresses.[2] Concessions were sometimes necessary. Some traders concentrated their quotas on the least essential part of their trade, hoping to blackmail the Government into licensing additional supplies for any purpose that might be considered remotely essential. And it was found necessary to withdraw from control some highly essential goods such as blackout material and to grant quota-free supplies to consumers such as hospitals and the police.[3] But in spite of such easements the restrictions were decidedly drastic.

The restrictions on civilian industry and on supplies for the home market kept well in step with the needs of war. The Board of Trade, which was the department mainly concerned, was anxious to free as much labour, materials and premises as possible for war production. Indeed, towards the middle of 1941 it was becoming clear that the policy of wholesale restriction had its limits and that these limits, even if they still lay ahead, were already coming into sight. At the end of May 1941, the President of the Board of Trade was warning his colleagues that there was little room for further restrictions on textiles. The Board was by now seriously concerned lest the restrictions already imposed might lead to severe hardships for the civilian population. Again, the outcry that arose in the summer, when the Ministry of Labour started general withdrawals of women workers from civilian industries, was a warning signal.[4] And the instruction sent out in September 1941 to withdraw from the clothing industry all women aged twenty to twenty-five caused an acute crisis in the supply of essential clothing. The clothing ration[5] was only saved by the expedient of the 'designation policy'—by which the Ministry of Labour agreed to make no more withdrawals, without prior substitution, from firms with seventy-five per cent. or more of their capacity engaged on utility clothing.

Since the fall of France, the hand of restriction had fallen heavily on practically all civilian supplies. It had fallen too impartially. Although the manufacture of some patently unessential goods had sometimes been stopped by denial of raw materials, there existed up

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[1] S.R. & O. 1941, No. 322 and No. 323.

[2] S.R. & O. 1940, No. 2031. The restrictions on these goods were by value instead of by quantity.

[3] From the beginning of the Limitation of Supplies Orders, supplies (1) to other persons registered under the Order, (2) for government contracts, (3) for export, had been quota free.

[4] See above, p. 308.

[5] See below, p. 332–3.

to the end of 1941 no direct prohibitions on the manufacture of any goods, however dispensable they might be. On the other hand, the manufacture of some indispensable goods, as has been seen, was severely penalised. To some extent, different degrees of essentiality in civilian production were recognised by variations in the quotas issued under the Limitation of Supplies Orders. But no serious attempt was made to recognise some goods—saucepans, for example, or perambulators or cups—as essential to the life of the community and to protect from excessive contraction the industries engaged in making them. When, by 1942, supplies of these necessities had fallen below the danger mark and the trouble caused by the extreme shortages was out of all proportion to the labour and materials saved, it proved extremely difficult to expand these industries once more.

It is here that the policy of concentration of industry comes again into the story. As was shown in the previous chapter, that policy was initiated as the Board of Trade's major contribution towards combating the shortages of manpower and premises.[1] No considered verdict on the success achieved can be offered in this book.[2] But it is relevant in the present context to point out that the policy of concentration, however sound it was in principle as a remedy against the uneconomic dispersion of under-employed resources, had serious flaws in its application. In one or two indispensable industries, most notably cotton spinning, it was carried too far. On the other hand, much time and effort were wasted in concentrating some dispensable industries—carpet and piano production, for example—that were already very short of raw materials and were doomed to be prohibited almost completely within the following year.[3] The manner in which concentration policy was linked to the Schedule of Reserved Occupations was also unfortunate. Apart from establishments with eighty per cent. of their capacity employed on government and export work, nucleus firms under the concentration schemes were the only 'Board of Trade' civilian firms to be entered on the Register of Protected Establishments; this meant that their employees in scheduled occupations were reserved at especially low ages.[4] At a time when labour for civilian production was very scarce, it was wasteful to give the benefit of favourable deferment ages to unessential production merely because it was concentrated. Here, once again, the restrictions imposed on civilian production and supplies between Dunkirk and Pearl Harbour invite criticism not because

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[1] See above, p. 310.

[2] The subject is treated at some length in *Civil Industry and Trade*, Chapter X.

[3] See below, pp. 495–496.

[4] These reservation arrangements were in force from April 1941 until December 1941, when they were superseded. See above, pp. 305–6 and 313.

they were too few or too small, but rather because they did not sufficiently discriminate between the luxuries and the necessities of war-time civilian life.

Throughout this crucial period of the war, many controls were busy weaving the garment of hardship which was to fall upon the nation's shoulders. Can we now sum up the degree of hardship which the nation endured in 1941 and assess its significance in the war effort? We naturally look to the official calculations of national income, but as we have already seen, the technique of these estimates is not yet sufficiently precise to give us the answers we are seeking.[1] Any attempt to say how much of the increased war effort was secured through a rise in the national income, how much through living on capital and how much through a reduction in current consumption must necessarily rest in large measure on guesswork. All three processes were, however, happening.

The rise in the real national income (as distinct from the inflated money figures) cannot be precisely stated; but its main causes are clear. It was due to longer hours of work and an increase in the labour force. Where the unemployed were absorbed it was wholly to the good, but for the rest the increase meant less leisure, more fatigue, interrupted careers and broken retirement, while home life became more difficult as women went into the factories.

No statistical uncertainties can hide the immense proportions of the nation's disinvestment in 1941.[2] In the current prices of that year the United Kingdom was running down its capital equipment and stocks at home by over £350 millions; disinvestment and borrowing abroad came to nearly £820 millions. These large sums accounted for practically one-third of the total cost of the war in 1941. They involved war-time, and still more severe post-war, hardships. Britain would face the peace with an alarming balance of payments problem, with an acute housing shortage and with the machinery of her civilian industries in bad repair.

The country was not mortgaging its future in order to preserve an unjustifiably high standard of war-time life. According to the national income estimates, personal expenditure on consumers' goods and services (at pre-war prices) fell by fourteen per cent. between 1938 and 1941; thereafter the statistical changes were slight, for in 1943, at the peak of mobilisation, personal expenditure at pre-war prices was sixteen per cent. less than in 1938. The reductions fell, of course, unequally upon different groups of goods and services.[3] In 1941, personal expenditure on food, for example, was nearly twenty per cent. less than in 1938, for household goods it was forty-three per cent.

[1] See above, p. 153.

[2] See Table I (a), on p. 199.

[3] See Table I (b) on p. 200.

lower, for clothing thirty-eight per cent.[1] and for private motoring seventy-six per cent. On the other hand, expenditure on beer, tobacco and entertainments had risen. Statistics do not, however, tell the whole story. They do not allow for restrictions on choice, for decline in quality, for the crowded conditions on railway trains and all the other stresses and dilapidations of war-time life. The reduction in the standard of living should be considered in its real historical context—black-out and bombardment, overwork at home as well as in offices and factories, and above all the heartache and anxiety of families scattered far and wide.

(ii)

The Inflationary Gap

Civilian standards were falling sharply. The fall itself was a wholly inevitable evil but it contained within itself the seeds of more and greater evils, seeds which the Government must prevent from taking root. In particular, it was important that the Government should scotch the acute inflationary dangers of the day. For while the supplies of consumer goods and services were being drastically cut, personal incomes were rising, quite apart from any increase in wage rates. Unemployed and unoccupied men and women were being absorbed into employment and this, together with the transfer of labour to the munitions industries where money earnings were high, more than offset the movement of men into the armed forces where pay was relatively low. Various attempts were made to measure the problem. In March 1941, for example, the Economic Section of the War Cabinet Offices estimated the probable increase in incomes in the coming financial year as £100 million and the probable reduction in consumer goods and services at current prices as £400 million. About the same time Mr. J. M. Keynes in the Treasury was calculating that the increase in incomes would be at least £150 million and the reduction in goods and services at least £350 million. Precision in the calculations was impossible, but the rough estimates at least indicated the dimensions of the task. The Government was faced during 1941 with an 'inflationary gap' of about £500 million.

In a war on the vast modern scale, it is impossible to avoid inflation completely. During the 1939–45 war, if increases in the Government's war expenditure had been exactly matched by decreases in private expenditure, or if all the private incomes in excess

[1] This over-estimates the fall in standards, for the figure does not include the clothes of the armed forces, Civil Defence, etc.

of the quantity of consumer goods being produced had been drawn away, there would have been no depletion of stocks of consumer goods, no shop shortages or queues, no black markets or other haunts of profiteering, and no need for much of the elaborate price control administration. Such a state of perfection was inconceivable. Forward estimates of inflationary gaps and of the efficiency of the various methods of narrowing them were necessarily approximate. It was impossible, for example, to calculate the precise rate of transfer of men, materials and factories to war production, or the power of propaganda to encourage National Savings. Moreover, the time-lag in tax collection meant that increases in the Government's revenue could only take full effect some time after the increases in the Government's expenditure. The temporary gap must be filled by borrowing, some of which was almost certain to be inflationary.[1] Finally, some inflation was inevitable, because even in war-time money remained a powerful incentive which could not be ignored in the efforts to increase output and to transfer labour or, say, agricultural output to the most urgent tasks.

The Government could not then hope to escape inflation. But it was firmly convinced of the need to fend off the incalculable harm to morale and to the war economy that wild, uncontrolled inflation would bring. It was determined to keep the inflationary gap as near as might be within the limits indicated by the other need to smooth the mobilisation of the economy with money incentives. In the period under review, this was a difficult task. The policies that had been devised during the first six months of war were quite inadequate to withstand serious inflationary pressure. The Prices of Goods Act had been introduced as a simple and somewhat crude anti-profiteering measure and food subsidies as a very temporary expedient. Rationing had been considered only in relation to the stocks of a few staple commodities and the budget of April 1940 had proposed to raise less than half of the forthcoming year's expenditure from revenue. After France had fallen the pace of the war effort grew rapidly and more resolute measures became necessary. From the end of 1940, it became one of the chief functions of the Lord President's Committee to see that they were devised.[2]

In order to narrow the inflationary gap it was necessary both to limit personal expenditure and at the same time to hold the level of incomes reasonably steady, keeping a particularly close watch upon the notoriously vicious wages-prices spiral. We shall consider first the ways and means of restricting expenditure. However much money was spent, more goods and services for the civilian population could

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[1] See L. Robbins: *The Economic Problem in Peace and War* (Macmillan, 1947) Lecture II.

[2] See above, Chapter VIII.

not be produced. Excess expenditure would simply ensure the depletion of stocks[1] and cause unfair distribution either through high prices or, if prices were controlled, through shop shortages which would favour people with leisure to stand in queues. Personal spending could be limited by three methods. Income could be taxed away, or it could be saved, or it could be frozen by rationing schemes. The Government relied upon a combination of all three.

Increases in taxation followed hard upon the change of government in 1940. The rate of war expenditure, indeed, was by now rising rapidly—from a weekly average of £33 millions in April to £52 millions in June. When the Chancellor of the Exchequer introduced a new budget in July[2], he calculated that war expenditure would be not the £2,000 million postulated in the April budget but £2,800 millions. He accordingly proposed to increase the standard rate of income tax by 1s.,[3] and the reduced rate by 9d.,[4] and to increase surtax, estate duty and duties on beer, wine, tobacco and entertainments. The time had also come to introduce the purchase tax already put forward in the April budget. The Chancellor hoped to meet the Labour Party's opposition to it by exempting children's clothing and by adopting two rates of tax—the lower for essential articles and the higher for luxuries and superfluities.[5] Moreover since May, the Excess Profits Tax had been increased to 100 per cent.[6] All these impositions seemed severe indeed to the taxpayer, but they were not yet heroic enough in relation to the country's economic need.[7] Even in a full year, the increased taxes would only raise £279 millions,[8] that is, thirty-five per cent. of the £800 millions increase in war expenditure. The Stamp Survey pointed out that inflationary borrowing to meet a deficit of these proportions was unavoidable. Yet the July estimates for expenditure would have meant virtually no increase above the rate of expenditure reached in September 1940; war expenditure turned out to be over £400 millions greater than these estimates.[9]

But the July budget was only an interim one and its figures were necessarily provisional. It had scarcely been delivered before the

[1] Where goods were covered by the Board of Trade's Limitation of Supplies Orders, supplies of goods from wholesalers to retailers were controlled and only retail stocks could be freely and quickly depleted.

[2] H. of C. Deb., Vol. 363, 23rd July 1940.

[3] i.e. to 8s. 6d.

[4] i.e. to 5s. od. The reduced rate was chargeable on the first £165 of taxable income.

[5] The lower rate was one-sixth of the wholesale price and the higher rate one-third.

[6] See above, p. 163.

[7] For contemporary comment, see H. of C. Deb. Vol. 363, July 23rd, 24th; Vol. 364, 6th August; *The Times* (24th July 1940); the *Economist* (27th July 1940).

[8] In the current financial year, 1940–41, they would raise only £126 millions.

[9] This increase was slightly offset by a reduction of £20 million on other expenditure and revenue was £49 million higher than the estimates.

minds of the Treasury were at work considering the more drastic measures the situation demanded. Suggestions for novel taxes abounded, but all were beset by some difficulty, whether administrative, political or economic. And after all, if income tax was not exhausting taxable capacity as thoroughly as financial needs required, why not simply stiffen it? This was what the Chancellor decided to do in his budget for April 1941.[1] The 'standard' rate of income tax was increased from 8s. 6d. to 10s. and the 'reduced' rate from 5s. to 6s. 6d. while the earned income relief and personal allowances were reduced. The principle of deferred pay, which Mr. J. M. Keynes had been urging since November 1939,[2] was in effect accepted; for the extra sums paid by taxpayers through the reduction of allowances were to be treated as post-war credits. These proposals would create 3¼ million new taxpayers.

The increases in taxation would contribute about £250 millions to the revenue.[3] But £500 millions was the estimated gap between Government domestic expenditure on the one hand and on the other hand revenue at 1940 rates of taxation, plus institutional savings, plus capital funds released through disinvestment, plus personal savings at the current level. The proposal to fill just half this gap by taxation was accepted as a valiant effort to keep the national economy steady.[4] But could not taxation be imposed to close the whole of this gap? The difficulties would, unfortunately, be immense. Indirect taxation could not be increased to levels sufficiently penal without falling heavily on semi-necessities, and this would be socially inexpedient. If direct taxation were raised beyond a certain point, people with heavy standing obligations—such as rents, insurance, school fees or contributions to cultural enterprises—would supplement their income by selling capital assets.[5] Moreover, even in wartime, such taxation might reduce the will to work.[6] Succeeding war-time budgets did not in fact attempt to raise income tax above the 1941 level.

The budgetary and the inflationary gaps could not therefore be closed by taxation alone. The Chancellor must still rely quite heavily

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[1] H. of C. Deb., Vol. 370 (7th April 1941).

[2] In *How to Pay for the War*, see footnote on p. 165.

[3] Taxes were still collected on the previous year's, not current, income. The yield in 1941–42 from the increased taxes would therefore be only £150 million, but it might be assumed that taxpayers would save the additional £100 million against their tax liability. An additional £250 million of revenue would bring total revenue in 1941–42 to slightly over fifty per cent. of the Government's estimated domestic expenditure. For figures of the proportions of government expenditure met by revenue see Table I (d), p. 200.

[4] For contemporary comment see H. of C. Deb., Vol. 370, debates of 7th, 8th, 9th April 1941; *The Times* (8th April 1941); the *Economist* (12th April 1941).

[5] It was felt that this point might have been passed in the 1941 Budget. For example, a married man with two children and a gross income of £1,000 paid £167 direct tax after the last pre-war budget and £351 after the 1941 Budget.

[6] See L. Robbins, *op. cit.*

on voluntary saving. Saving could act as a buffer between the national financial need and the infinite variety of personal circumstances and commitments. Saving for post-war days would be a war-time incentive. At the time of the April 1941 budget, new personal savings of from £200 millions to £300 millions were needed. Opinions differed about the possibility of encouraging new 'genuine' savings on this scale in the face of the steep increases in taxation. Certainly, the powers of the National Savings Movement in organisation and propaganda were severely tested. Although the outward show of the savings campaign was sometimes misleading,[1] there lay behind it a great drive in homes, offices, factories and schools to increase the saving habit.

Taxation and savings together were, then, curtailing personal spending. The third method of cutting down expenditure was by rationing and other restrictions on buying. The purchase of capital goods was directly limited by the machinery licensing and building licensing systems which have already been discussed. The rationing of personal expenditure on consumer goods and services was a much more complex process. Sometimes, enthusiasts expounded ideas for a siege economy where the State would feed and clothe not only its armed forces but its citizens.[2] This principle, with the supersession of money payments by administrative action which it would involve was clearly unthinkable in a war that was to drag on for five more years. Certainly, it was never even considered within government circles.

The attempt to find some universal form of rationing met with failure. The possibility of a total value ration for expenditure was mentioned, but it never developed into a practical issue. For how was 'expenditure' to be defined? If it embraced less than all goods and all services, excess money incomes would spill over into the unrationed field. But how could it embrace them all? The needs of a population of forty odd millions vary so widely that an average expenditure ration for all goods and services must be grossly inadequate for some and over-generous for others. Again, would the ration be a flat one or graded according to income? A flat ration would give no reward for effort. Rationing according to income would simply be compulsory savings disguised in immense administrative complexities.

Comprehensive rationing of expenditure was therefore impracticable. Instead, the Government could only hope to extend the rationing of food and essential consumer goods and guard these commodities from the impact of excess money incomes. The money

[1] e.g. the emphasis laid in 'War Weapons' and 'Warships' weeks on the total sum raised, irrespective of the source of the savings.

[2] See e.g. H. of C. Deb., Vol. 364 (7th August 1940); *Economics* by F. Benham, 3rd Edition (London 1943), Chapter XXXI.

incomes would not be sterilised, but they would be diverted to other outlets where high prices or shop shortages did not greatly matter. Moreover, even this limited rationing might help to solve the fundamental financial problem. For people whose basic needs were being met might well prefer to save their surplus income, rather than to spend their scanty leisure hours in queues or pay patently absurd prices for uncontrolled goods.[1]

As shortages grew during the winter of 1940–41, the extension of consumer rationing became increasingly urgent. There were, however, many goods that could not easily be included in a rationing scheme. Some, such as beer, were excluded for reasons of revenue; others—for example second-hand articles—presented too many administrative difficulties; for others, especially durable household goods, consumers' needs were too irregular; luxuries there was no need to ration. But there still remained a large field of expenditure where rationing was needed to prevent unfair distribution. The need for action was greatest in food and clothing.

The deterioration of food supplies in the winter and spring of 1940–41 has already been described. Conditions became worse when there was large scale evacuation and when the Ministry of Food, in response to public clamour, departed from its principle that price control must be accompanied by control of supplies and distribution. Housewives in the towns were bewildered when onions, rabbits, turkeys and home-produced eggs disappeared out of the shops or under the counter. When in January 1941 the Ministry of Food made a price standstill order for a score or so of groceries, these too became very elusive.[2] The housewives insisted that something should be done.

The Treasury and the economists in the War Cabinet Offices felt that something comprehensive was needed. They urged that rationing of individual foods or groups of foodstuffs would not go far enough and that all food consumption should be rationed by value or by the German 'points' system. In the Ministry of Food, however, a new committee, set up to undertake a study of the distribution of unrationed foodstuffs, busied itself with hatching schemes for dealing with specific foods. Only two of these schemes were actually put into practice—a straight ration for cheese and a loose scheme for improving the allocation of preserves.[3] In its final report in June 1941, the committee in effect rejected any system for rationing food consumption as a whole either by value or by points. By then, however, the Lord President's Committee was growing restive. It had agreed in

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[1] These tendencies would vary with the pre-war history of various groups; for example, the population of pre-war depressed areas now employed in shipyards or government factories would want to replenish their houses before they began to save.

[2] See below, p. 334.

[3] This was a failure and had to be replaced by a straight ration.

March that a wide extension of rationing was necessary. In April, the Economic Section had expounded the desirability of a value or points scheme for food. When, therefore, the Minister of Food presented the advice of his committee on unrationed foodstuffs, it was roughly handled. The Lord President's Committee disliked the principle of piecemeal rationing and the proposals to deal with particular foods only as difficulties arose. These methods would leave purchasing power to spill over on to unrationed foods, thus causing maldistribution, rising prices and increasing public discontent. The Minister of Food was asked to reconsider his rationing plans.

At the Ministry of Food the economists from the War Cabinet Offices urged the merits of points rationing upon administrators and trade experts, who in turn preached the advantages of group rationing. Points rationing was a system that would limit total demand for the foods covered by it and also roughly equalise the supply and demand for a large number of foods by a points price system. No registration would be required and consumers would be given no entitlement to any particular commodity. Group rationing would mean registration with retailers for groups of foodstuffs (for example, 'canned meats' or 'oatmeal and breakfast foods') with an understanding that the ration would be honoured, even though the shopper would be entitled not to a particular food but to one of a number. Arguments were marshalled on both sides. It was alleged against the points scheme that points values could not be varied rapidly and accurately, that there would be no certain basis of allocating supplies, that there were not enough stocks to cushion demand, that shopping delays would be intolerable, that the difficulties of producing, distributing, cutting out and counting the points coupons would be appalling. But the very great merit of the scheme was its flexibility. This was in marked contrast with the group rationing scheme which would favour the larger shops and would necessitate six new registrations by consumers, far more regimentation of retailers and consumers and stringent control over a large number of miscellaneous manufactured foods.

The Minister of Food, guided by the opinions of almost all his advisers, proposed nevertheless to adopt the group system. The controversy was then carried to the Lord President's Committee. Feeling there ran strongly the other way and after reconsideration the Minister of Food agreed to experiment with points rationing of canned meat, fish and beans; if the experiment proved successful he would extend it. The practical difficulties of launching the scheme were indeed great. A fresh ration book must be made and distributed, the mechanism for passing the coupons back must be settled, there was the initial schedule of points prices to be drawn up, and stocks had to be built up in the shops. But the arrangements were made ith only minor hitches, and when points rationing began on 1st ecember the public's approval was instantaneous. The Government ıd achieved one of its big home front successes of the war.

By the time the points scheme for food was ready, a points system ' clothes rationing was already working well. Preparations for it had ›ne much more smoothly than for food. By November 1940, the oard of Trade's Limitation of Supplies policy had created distribu- on problems which threatened to become still more serious. The ›untry as a whole was living on stocks in the shops and the stocks ıemselves were badly distributed. For, in spite of an unprecedented ıternal migration of population, manufacturers and wholesalers ill tended to allocate their quotas according to pre-war sales. ombing inevitably brought many local shortages to the surface— 'inter clothing, for example, in Southampton, suitcases in Cardiff. 'he Board of Trade hoped to keep a firmer hand on distribution by ›tablishing a market research organisation; at the same time, how- ›er, its thoughts were turning to consumer rationing.

The discussions about rationing that began in November 1940 'ere fertile in suggestions. Value rationing for goods that were par- cularly scarce—hosiery, kettles and pottery for example—was one roposal, a value ration of £13 a year to cover everything except food, rink, tobacco and fuel was another, while the economists in the War 'abinet Offices suggested a points system. Value rationing would ıake the passing back of coupons to suppliers almost impossible and 'ould kill higher grade trade. In the end, therefore, the points ›stem was adopted. But the difficulties of bringing household goods ıto an annual points ration were so great that the scheme had to be onfined to clothing and footwear.

In February 1941, the Lord President's Committee authorised the oard of Trade to go ahead with its scheme. Administrative pre- arations were complete by May and the President of the Board of 'rade was anxious to launch the scheme on 4th June. For the textile osition was getting worse; supplies of wool and cotton for the ivilian trade were now down to twenty per cent. of the normal mount. It would still be possible under the proposed allocation of oints for people in the lower income groups to buy as much as or ven more than they usually bought in a year; but without points ationing there was danger that at the first signs of shortage—and ıey could not be long delayed—panic buying would begin and the icher people would clear the shops. Despite the gravity of this anger, doubts remained almost to the end whether or not the ationing scheme and the date for launching it would be finally uthorised by the War Cabinet. The President of the Board of Trade 'as invited to consider the possibility of increasing supplies of clothing n a scale sufficient to make rationing unnecessary. But this was scarcely the moment for diverting an extra 200,000 tons of raw material and 350,000 workers from the war effort in order to save the civilian some inconvenience. The War Cabinet's approval was finally given and on Whit Sunday morning the scheme was broadcast to the nation.[1] To have launched such a new and complicated plan in so short a time without technical advice[2] was indeed a remarkable feat of administration.

So far we have been considering methods for mopping up excess money incomes, and for restricting expenditure on food and clothing, the two main essentials of life. But attempts to narrow the inflationary gap by such means were doomed to frustration if wages were increasing all the time and if wages and prices were chasing each other. The gap would then grow progressively wider. Even amidst the disasters of 1940 the newly formed coalition Government was very conscious of these dangers. When Mr. Bevin became Minister of Labour he proposed to the National Joint Advisory Council that wages should be stabilised at existing levels, with four-monthly reviews by a national arbitration tribunal. But neither the T.U.C. nor the Employers' Confederation was ready for such a policy and the Government would not press it for fear of provoking industrial discontent. One important change was accepted: unsettled disputes were to be referred henceforward to a new National Arbitration Tribunal whose settlements would be binding. Strikes and lock-outs became illegal[3] unless the difference had been reported to the Minister and he had not referred it to settlement within twenty-one days. Apart from this, the existing machinery of negotiation over wages and conditions of employment continued.

After this unsuccessful attempt at radical change, the Government built up a wages policy upon twin foundations—first, the trade unions' moderation and sense of responsibility; secondly, control of the cost of living. The first was a question of faith; the second required Government action. Control of the cost of living had really begun when food subsidies were introduced in December 1939.[4] But these subsidies had been regarded as a temporary expedient to tide over an awkward moment. Not until August 1940 did the Government recognise that subsidies were 'here for the duration'. At the end of July 1940, an increase in home agricultural prices and a rise in shipping freights threatened to add 4·2 points to the cost-of-living index or to double the food subsidies, which then stood at £53 millions.

[1] The legal order was S.R. & O. 1941, No. 701.

[2] Secrecy had been essential to the scheme's success. A good deal of subsequent revision was therefore necessary on technical points following advice from trade sources. There was also much work to be done in issuing supplements, e.g., for children, industrial workers, uniform wearers, etc.

[3] S.R. & O., 1940, No. 1217.

[4] See above, p. 166.

If the index rose, many more cheap food schemes for the poorest classes would be necessary. Logically, this might be the most sensible course—inflation is intensified if subsidies benefit those who do not need them—but the close tie between wages and the index made it highly impolitic. The War Cabinet therefore agreed in August to the Ministry of Food's proposal that prices of essential foods should be kept down by subsidy 'in order to secure cheap food and to restrain a rise in the cost-of-living index figure and to prevent wages rising'. Luxury foods were to be allowed to find their own price level.

This decision left problems of definition. What of prices in the no-man's land between essential foods and luxuries, inhabited by such foods as coffee, sardines and custard powder? What of nutritious foods like oatmeal which did not enter the cost-of-living index? Was the index to rise gently or to be completely stabilised? Public opinion gave the answer to the first two questions—that the Ministry of Food's prestige was inseparable from the application of price control to all foodstuffs in common use. Maximum price orders were imposed on such foods as onions and rabbits and the Ministry of Food contemplated the perplexing task of controlling some at least of the 2,000 articles forming the wholesale grocer's stock in trade. A standstill order[1] was temporarily issued, freezing the prices of some twenty foods at the December 1940 level, and during 1941 these and many other foods were included in specific maximum price orders. As for the future course of the index, the Inter-departmental Committee on Food Prices urged that it should be pegged. They thought this would be worth while even though subsidies rose much higher. Some of the expenditure moreover might be recouped from profits on luxury foodstuffs and the subsides could be rearranged to save the Exchequer money. These views at length prevailed upon the Treasury and they were put into effect for food from December 1940 onwards. The food index rose from 114 in June 1940 to 125 in December; it fell to 122 by March 1941.[2]

But food did not comprise the whole cost-of-living index. The fuel index rose from 116 in June 1940 to 119 in March 1941; this was partly through wage increases and partly through measures to help the coalfields that were suffering an exceptional loss of trade. Most alarming of all, however, were the clothing prices, which leapt from 137 in June 1940 to 155 in December and to 168 in March 1941. The Prices of Goods Act was a quite inadequate check upon the scarcity prices which clothing manufacturers, wholesalers and retailers were charging. And price policy had not been sufficiently advanced in the autumn of 1940 to prevent a purchase tax on clothing which was equivalent to a three per cent. rise in the cost-of-living index.

[1] S.R. & O., 1941, No. 23.

[2] For the indices in this and the next paragraph, 1st September 1939 = 100.

Clearly then, food subsidies alone were not enough to control the cost of living. In February 1941, the Lord President's Committee directed that it must be consulted before any change was permitted in the prices of a wide range of essential goods and services. But a general price policy was not really defined until April 1941, when the Chancellor announced in his budget speech[1] the stabilisation policy. His statement is worth quoting fairly fully:

> There is [the] prospect [he said] of a continuing further rise in the cost of living unless the Exchequer is prepared to undertake a much greater burden. If this rise were to occur it might lead to further rises in wages and other repercussions . . . I am prepared to carry a considerably increased burden on the Exchequer in order to prevent or minimise the impact of increased costs, particularly of imports and of transport, on the prices of essential goods and services, apart from any increases in their prices rendered inevitable by further increases in wage rates.

The Chancellor hoped to prevent any further rise in the cost-of-living index itself above the current range of 125–30. He proposed to subsidise shipping charges, to review railway rates and to keep close watch on coal, gas and electricity charges. Attempts would also be made to prevent substantial increases in the prices of other articles in common use. This stabilisation policy was put forward in the hope that wages could be held at about their present position. It would have to be abandoned if wage rates persistently tended to rise.

The immediate onus of keeping the cost-of-living index stable fell upon the Ministry of Food. There were still wayward items in the food index not yet under control—notably fish and eggs;[2] but the stabilisation policy would have been impossible if control over food supplies and distribution had been less thorough. As it was, the total index could only be kept stable by manipulating food prices while other departments strengthened their price controls. The price of clothing was the worst offender; the clothing index rose from 175 in May 1941 to 191 in December 1941; the price of sugar then had to be reduced by 1d. a pound to keep the total index stable. By then, however, schemes for controlling clothing prices were at last in hand.

Before the stabilisation policy was announced, the Lord President's Committee had agreed that new price control legislation was necessary to supplement the increasingly apparent deficiencies of the Prices of Goods Act.[3] The Board of Trade was to be given power to fix basic prices and maximum prices and margins, to deal more rationally with the effects of decreased turnover on prices and to appoint inspectors. Powers were also added to fix charges for services, to regulate trade in second-hand goods by the registration of dealers

[1] H. of C. Deb., Vol. 370, Cols. 1321–1322 (7th April 1941).

[2] Prices of eggs and fish were controlled in July 1941.

[3] See above, p. 158.

and to restrict transactions between intermediaries which resulted in increased prices. At the end of July the Goods and Services (Price Control) Act embodying these powers became law.[1] The new Act opened up wholly new possibilities of checking the rise in the prices of non-food goods and services; but the old Prices of Goods Act still applied to all price-regulated goods which were not brought under the new Act.[2] The new Act was an enabling Act, so that its contribution to the control of prices could only be judged in the light of the price orders made under it. The Act's most important feature was the power to fix maximum prices and margins. This was impossible without clear specifications of the goods concerned and this in turn meant control over production. Price policy and production policy had become closely intertwined.

This was quickly made clear by the example of clothing, the first testing ground for the new Act. In May 1941, the President of the Board of Trade had regarded cheap standardised clothing and clothes rationing as alternatives, of which rationing was infinitely the preferable one. But in spite of rationing, cheap clothing of reliable quality remained scarce and the clothing index still mounted. Various schemes were considered. The Government might buy civilian clothes for distribution through trade channels, or buy cloth and resell it to clothing manufacturers who would make it into prescribed clothing. Or clothing manufacturers might be directed what to produce, or raw material allocations might be used to ensure the production of prescribed cloth for prescribed clothing. The first three schemes were rejected on administrative grounds and raw material control because it was too remote. Instead, a plan emerged to encourage manufacturers to produce particular garments from particular cloths at prices to be clearly specified at each stage of production and distribution.

This was the birth of the 'Utility' policy. It was introduced by an Order which instituted a double system of supply quotas—a very small general quota and a much higher 'special' quota for utility cloth and clothing.[3] This method of control was abandoned later in favour of direct control of production. But certain principles of utility clothing policy remained unchanged through the war. Utility clothing in the sense of coats, suits, dresses and underwear was never standardised. The specifications were drawn up for cloth; they were concerned with size, weight and weave of material and left much scope for variety in colour and finish. The Board of Trade specified the garments into which utility cloth was to be made and the garments

[1] 4 and 5 Geo. 6, c. 31. The Bill passed through Parliament with remarkably little discussion of the general principles or consequences of price control.

[2] The Lord President's Committee was informed that the new powers would be used as sparingly as possible.

[3] S.R. & O., 1941, No. 1281.

had to be clearly marked with the utility mark; but the Board did not regulate the cut or style or finish of, say, women's dresses or girls' coats. The austerity restrictions on style—a maximum number of pockets, pleats and so on—were introduced later quite independently of the utility policy. For certain special kinds of clothing—knitted goods and hosiery, corsets and handkerchiefs, for example—specifications were drawn up for the garments themselves. The important point about utility clothes of all kinds was that their prices had to be kept within certain defined price limits. In 1941, the first specifications and their maximum prices were compiled somewhat hastily. This haste meant that the specifications were too wide for a really rigid price control and that prices had to be fixed on rather slender evidence. The desire to encourage utility production, moreover, counselled generosity in fixing margins. But time and experience would make these faults remediable.

Utility schemes and especially the provision of good, attractive clothes at prices the public could afford were to prove a great success. But utility clothing did not appear in appreciable quantities until the spring of 1942. Meanwhile a short-term policy was needed to keep clothing prices in hand until the effects of rationing and the utility scheme made themselves felt. The President of the Board of Trade would not contemplate a general price standstill order since this would drive production to expensive clothing. A partial remission of purchase tax on cheap clothes distinguished only by their prices was impossible and the Chancellor would not remove the tax from all clothing. In the end, the Board of Trade simply freed for a few months from quota control the cheaper kinds of cloth and clothing; this did not have time to influence production, but it helped by releasing stocks.

Throughout 1941 the Government had struggled to keep the cost of living down. One minor aim of the policy was to help the poorer classes; but the main purpose was to keep wage-rates steady. Surely, therefore, contemporary critics were rather wild in their persistent cry that the Government had no wages policy.[1] The policy certainly existed. But was it successful?

Claims for increases in wage rates were normally advanced for three different reasons—that the industry concerned could support an increase, that comparable work in other industries received higher rates, or that the cost of living had risen. Until the stabilisation policy was announced, the rising cost of living had been by far the greatest stimulus to wage rate increases. In 1939 the wage rates of about 1½ million workers were tied to cost-of-living sliding scales, and the adoption of this system during the war by important industries such

[1] See e.g. the *Economist* article, 'No Policy for Wages' (26th July 1941). Also H. of C. Deb., Vol. 368, Col. 221; Vol. 371, Col. 1630, Vol. 374, Cols. 1064–1066.

as iron and steel and cotton brought the number up to about 2½ millions. Moreover, in other industries where wages were fixed by negotiation, applications for increases had been almost wholly based on the rise in the cost of living. After the adoption of stabilisation, the cost of living virtually disappeared as a reason for increases in wage rates. And until at least the end of 1941, the Government's faith in the moderation of the trade unions certainly seemed justified.[1]

Let it not be thought, however, that the Government bore its wages policy lightly. Ministers often re-examined it critically and anxiously. The Lord President's Committee reviewed it soon after the announcement of stabilisation. In these discussions, the Minister of Labour argued that any attempt to reach an agreement to stabilise wage rates would be unwise; for good industrial relations depended upon the unions' authority in the day-to-day adjustment of wages and conditions. Freedom of opportunity to make claims and to have them discussed, said Mr. Bevin, was essential to industrial peace; it would, moreover, be a dangerous thing if the Government made the independence of statutory wage-fixing and arbitration bodies suspect by offering them 'guidance'. The Lord President's Committee found these arguments sound but wished to publish some statement which might dispel some of the fog of misunderstanding about the Government's wages policy. The statement should be in wide terms, covering not only wages and price stabilisation but general economic policy and the fair distribution of goods. The Minister of Labour's misgivings about publishing such a statement proved justified. When a draft was submitted to the T.U.C. their reaction was that they had heard all this before from Lord Simon in December 1939. The statement was therefore mutilated to avoid the least suspicion of direct government control of wages, and when it was published it seemed unfortunately lame.[2]

In June 1941, then, the Government had reaffirmed its wages policy. By December there were deeper heart-searchings about it. So far the increases in wage rates were indeed reasonable; but the War Cabinet was anxious about new substantial claims that were being made. Firm and direct methods of wage control were earnestly considered. There seemed to be two possibilities. One was to prohibit wage increases completely. But wages had risen very unevenly and there would be irresistible demands to raise the very low wages and to adjust rates in individual industries. It would be impossible to keep rates completely static and debates on individual wages in the House of Commons would lead to undesirable political competition. A wage stop would, moreover, raise strong political feeling and might stir up

[1] See Table 1 (f), p. 201, for comparison of wage rates and cost-of-living index.

[2] *Price Stabilisation and Industrial Policy. Statement by His Majesty's Government.* Cmd. 6294 (July 1941). A critical examination of the T.U.C. attitude would be a large historical task.

e issue of nationalisation. The alternative to a wage stop was to strict collective bargaining through a periodical general review of ages by an independent tribunal. But why should this make the equency or range of wage increases less than under the existing stem? Such a change would undermine responsible trade union adership. Worst of all, the destruction of voluntary negotiating achinery might bring industry into direct conflict with the State.

The catalogue of these dangers seemed a fearsome recital. If a omplete breakdown of stabilisation and an income inflation beyond ope of control by rationing or taxation appeared imminent, the angers might have to be risked. But at the end of 1941 the situation as nowhere near that point, and the Government preferred to ccept a mild degree of inflation rather than plunge into very deep nd dangerous waters. Admittedly, it was illogical to continue to eat the determination of wages as a private affair between employer nd employed with which the Government had no concern so long s there was no stoppage of work; the Chancellor found reassurance n the thought that Britain was a country where illogical arrange-ients were often justified by their results.

The Government was generally preoccupied, in its financial policy, ith keeping inflation to a minimum; but, as 'the Dunkirk spirit' had y no means wholly superseded the power of money as an incentive, also recognised that an increase in incomes was in many cases ecessary to ease mobilisation and to secure an all-out effort and fficiency in production. This was clearly true of wages. Wage arnings were more important than wage rates in augmenting the olume of spendable income that threatened inflation. In July 1941 arnings were forty-three per cent. above the October 1938 level hile wage rates were only eighteen per cent. higher.[1] To control arnings, however, would have been both administratively impossible nd also most undesirable. Mr. Bevin stated flatly that he did not iind a bit how much a man drew, provided it did not come on the rate ut on earnings. Apart from some anomalies such as high Sunday pay, igher earnings meant harder work. In some industries, the Minister of abour did his best to guarantee maximum production by challenging ianagements and workers to turn over to payment by results.

It was also important that earnings should reflect the varying nportance of industries to the war effort. The transfer of labour, specially while directions were used sparingly, would be hindered if ssential industries did not offer higher earnings than unessential ıdustries and a level of wages sufficient to attract women from home. 'he Government, having decided to leave wage negotiations to the ormal industrial machinery, could not manipulate wage rates; it ould only exercise remote control—and then only in a few cases—by

[1] Ministry of Labour earnings inquiry, 1941: *Ministry of Labour Gazette*, November 1941.

using its price-fixing powers. The stabilisation policy, however, helped to bring relative wage rates more in line with war-time needs. For until then, the increases in wage rates tied to the cost of living had generally been greater than the increases in the rates that were settled by direct negotiation. And the industries which had cost-of-living sliding scales were mainly those which must contract. By the end of 1941, the structure of earnings was on the whole well adapted to encourage men and women to enter the industries where they were most needed.[1] It had also been necessary to improve the wages in some industries which, though essential to the war economy, were notorious for their low pay; the most important cases were coal-mining[2] and agriculture.[3]

While industrial earnings were thus being adjusted to favour the 'war' industries, there was no similar improvement in the relative advantages of pay in the Services. The storm of feeling on this subject broke later in the war. In the last half of 1940 and in 1941 only small changes were made.[4]

Service pay, however, was primarily a social and political question, not an economic one. Military mobilisation was the one sphere of national effort where the money incentive was, by and large, irrelevant. In its controls over prices and profits, the Government had to make careful allowance for money incentives. The need to encourage efficiency and high output had somehow to be reconciled with the stabilisation policy and public suspicion of high war profits. The reconciliation was not always easy. There was for example the 100 per cent. excess profits tax. This had a strong popular appeal but its disadvantages swiftly became apparent. Even in June 1940 the Stamp Survey had found 'patriotism and peril curiously transient as complete substitutes for the old incentives,' and there was evidence of serious waste in production. Finally in January 1941 the War Cabinet agreed to maintain the 100 per cent. tax but to make twenty per cent. of it a post-war credit.

In management of the railways, on the other hand, the 1940 financial agreement provided considerable incentives to efficiency.[5] Yet its implied promise of increased charges to match increased costs was clearly inimical to stabilisation. The Chancellor's stabilisation pronouncement, added to new proposals for war damage compensation

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[1] See *Ministry of Labour Gazette*, November 1941.

[2] In May 1941, coalminers had pressed for a minimum wage first of 70s., and then 80s. (some workers were getting as little as 55s. a week). In order to discourage absenteeism, an extra bonus of 1s. a shift for full attendance was granted instead.

[3] The national minimum agricultural wage was raised from 48s. to 60s. in November, 1941.

[4] An increase in pay of 6d. a day from 1st September 1940, small increased family allowances from November 1940, improved war service grants and a post-war credit of 6d. a day from January 1942.

[5] See above, p. 162.

for public utility companies, made revision of the agreement essential. The only practicable alternative to the sliding scale of profits was a State guarantee of a fixed remuneration.[1] The Government hoped to replace the lost financial incentive to efficiency by reorganising the control of the railways.[2]

Through 1941 there persisted the problem of incentives for the marginal producer. As costs rose and the emphasis on stabilisation grew, the difficulty of fixing a single selling price for low and high cost producers became acute. Various arrangements embodying pooling schemes were devised. One example was in the iron and steel industry. In November 1940 it was decided to stabilise iron and steel prices, which had risen substantially since the outbreak of war. To keep all firms in production, a Prices Fund was established fed by credits from the Central Fund into which iron and steel levies were paid.[3] A notional price increase was fixed quarterly on the basis of average costs in the industry, and heavy steel makers received this increase in respect of their sales to the extent that their profits fell below their pre-war standard. Additional discretionary payments could also be made to help firms which were in difficulties even after receiving these price increases. All steel firms could therefore be kept going without increasing the prices charged for iron and steel. But as the Select Committee on National Expenditure pointed out,[4] apart from those firms which could earn more than their standard profits, there was a wide range within which it made no difference to a manufacturer's profit whether he worked at full efficiency or not.

The financial problems of raw material production were in the main settled between the Ministry of Supply and the Treasury. Agricultural prices, which raised similar questions of incentive, always caused much more difficulty and went for settlement to the highest levels, often to the War Cabinet itself. Chapter VI related[5] how battle had been joined in June 1940 over the Minister of Agriculture's proposals for compensating farmers for wage increases and for providing incentives for increased food production. Interim prices had been agreed and the prices for the 1940–41 harvest had been left open for discussion on the understanding that they were to accord with national food priorities. But when the discussion began, this basic assumption was attacked by the Ministry of Agriculture, which

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[1] Settling the appropriate figure caused some trouble. £39·4 millions per annum was a favourable pre-war average of railway earnings, but in 1940, increases in charges had lagged behind increases in costs and the new War Damage agreement was much less favourable to the railways. A fixed annual payment of £43 millions was therefore agreed.

[2] See above, p. 279.

[3] The levies had operated before the war to equalise the cost of imported and home-produced raw materials. In November 1940 the Central Fund was turned over to public account.

[4] Fourteenth Report of S.C.N.E. Session 1942–43.

[5] See above, p. 160.

asserted that differential price inducements were unnecessary, unfair, provocative and futile; production of particular crops should be secured by administrative measures. In particular, the Ministry would not hear of a reduction in the price of fat cattle, which was being urged as necessary to stimulate milk output. But the War Cabinet, to whom the issue ascended, felt that farmers could not be insulated from all financial sacrifice. The new prices of August 1940 did not completely rearrange incentives but they did tilt the balance less in favour of oats, feeding barley and fat stock and less unfavourably to milk and potatoes. Moreover, the Government asserted its power to adjust prices downwards as well as upwards.

This settlement, apart from minor adjustments, remained until the winter of 1941 when the minimum agricultural wage rose to 60s. The Government then found itself in difficulties. For in November 1940 an announcement of the intensification of the food production campaign had been accompanied by a public pledge that prices 'would be subject to adjustment to the extent of any substantial changes in costs of production'. The Lord President's Committee had agreed that if the increase in wages were granted it would bring the pledge into operation. But how was the pledge to be construed? The Lord President's Committee did not agree with the Minister of Agriculture's view that all increases in costs must automatically be reimbursed to farmers, irrespective of the level of farmers' profits. And the level of profits proved considerably higher than the guesses of 1940; farmers' net incomes from controlled commodities had increased by some £38 to £44 millions in 1940–41 compared with 1939–40. The War Cabinet agreed with the Lord President's Committee that farmers' returns should be increased only by £20 millions, the estimate of the increased costs of wages; other cost increases were to be met out of the higher profits. At the same time, the Lord President's Committee called for more detailed inquiry into methods of inducing marginal production which might be less embarrassing than continually rising prices. When it came to distributing the increased returns between commodities, the old dispute was rekindled. The Ministry of Food wanted big price increases on milk and potatoes, the Ministry of Agriculture wanted them on pigs, fat cattle and sheep. A compromise agreed by the War Cabinet was rejected by the farmers, and by the time concessions had been made to them and the Ministry of Food's insistence on high milk prices was satisfied, the total sum which farmers might expect from price increases had reached nearly £24 millions. It seemed indeed that in any rearrangement of price incentives it was impossible to grant some commodities no price increase at all.

Money incentives, then, were a power to be reckoned with in wages and prices and profits policy. In some cases there were forces working in another direction; fear of loss impeded the desire of individuals and businesses to fit in with the needs of a war economy. From time to time, the Government felt that the transfer of resources from peace to war would be aided if there was some form of government compensation for individuals and businesses suffering financial war losses. It seemed harsh doctrine to leave these losses to fall haphazardly upon their victims. The Government's policy was, broadly, to confine compensation to the direct effects of enemy fire. Practice, however, was not wholly consistent with this principle. An increase in the price of coal was authorised, for example, to cover compensation for mines suffering from loss of trade, and the Ministry of Food, in trying to preserve the pre-war structure of food importing and distribution, had sometimes fixed its payments in order to maintain pre-war levels of profit. But a suggestion of indirect government compensation for firms closed under concentration schemes was turned down; nucleus and closed firms were left to make their own arrangements. However desirable compensation for war losses might be in principle, the Government reluctantly felt that any attempt to meet the myriad claims would land them in difficulties beyond their powers to unravel.[1]

To conclude: it is clear that as Britain's war effort rose steeply between Dunkirk and Pearl Harbour, financial policy had an important part to play. It had a heavy responsibility for keeping public morale sweet. And although the transfer of resources to war purposes was effected in large measure by direct controls, such as those over labour, materials and civilian production, financial policy could either ease or hamper it. The Government had a difficult course to steer. It must encourage an all-out effort with appropriate incentives, but it must restrict the volume of incomes chasing a small and dwindling supply of civilian goods. Sometimes the Government went too far to one side or the other; the financial incentives to the farmer, for example, were over-generous. But on the whole a good balance was struck. The nation put forth incredible efforts. And while there was certainly some inflation, it was confined within fairly harmless limits.[2] By the time Pearl Harbour was attacked, the British Government could claim to have learnt many of the arts of managing a war economy.

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[1] H. of C. Deb., Vol. 367, Col. 24 (21st Nov. 1940). Statement by the Prime Minister.

[2] It is of course impossible to say just how much there was. But see the white papers on National Income and Expenditure, and Table I(a), p. 199. The increase of the national income during 1941 was probably larger than the increase in physical output, the value of personal expenditure had risen while consumption fell, tax revenue rose by more than the increase in tax rates. There was also some running down of private stocks—estimated by Mr. J. M. Keynes at about £150 millions in 1941; this was not immoderately large. The rise in prices and wage-rates was not extreme. Queues and the black market were by no means alarming.