CHAPTER XVII

THE CIVILIAN ECONOMY

(i)

The Lean Years

BY the time Pearl Harbour was attacked, civilian claims upon the war economy had been severely reduced. The national store of capital equipment employed in purposes other than those directly concerned with the war was diminishing through under-maintenance and lack of replacements.[1] The civilian standard of living had fallen considerably. After 1941 there was no scope for further dramatic reductions in the civilian share of the national output. Although it was still necessary further to constrict civilian demands whenever possible, it was no less necessary to make sure that the standard of living and the maintenance of capital equipment did not fall below the minimum compatible with efficiency and high morale.

There was of course no simple definition of this minimum; policy was necessarily built up by a long-continuing series of particular decisions. As regards capital equipment, every application for a licence for machinery or building could be judged on its merits. It was much more difficult to decide where the minimum standard of living lay. As the Prime Minister once reminded his colleagues, Great Britain was 'a modern community at war, and not Hottentots or Esquimaux'. There was no certainty even in calculating the number of calories needed for bodily strength, let alone the indispensable minimum quantity of clothing or the quantity of fuel needed for minimum warmth. Still less could the Government decide in advance how low the production of essential consumer goods—cups, for example, or needles or saucepans—should be allowed to fall. For a time, production could be cut drastically without serious results. But, as the war dragged on year after year, household and trade stocks were used up and the search for crockery or something to cook in—both indispensable needs in modern life—consumed more time and temper than the economies in labour or raw materials justified. It was important to keep supplies of such essentials at an

[1] i.e. the total store of capital equipment: there were a few 'civilian' industries which ended the war with improved equipment; agriculture was the outstanding example, though the number of livestock—an important part of agricultural capital—fell.

adequate, even if a modest level. Nor was it possible to eliminate ruthlessly all those goods which, by the strictest standards of austerity, might be called unessential in a war economy. Long wars are full of anxiety, tedium and exhaustion and workers cannot give their best over a stretch of years if they have no relaxations. Opinions could indeed differ widely about the desirable level of the supply of 'unessentials'. The zealots of efficiency and sacrifice could always make a strong case for decisions that would free some extra shipping space or release some extra labour for the munitions industries. But might not the war effort be better served by maintaining the supply of tobacco, horse-racing, cinemas, ice-cream or flowers—things which would strengthen the will to work or brighten dreary lives? To such a question it could be answered that this was a hard war, that victory was still in doubt and since the major economies had already been made, it was only by a series of small economies that additional resources could be released for direct war purposes.

The reduction in the standard of living was throughout determined largely by a process of trial and error and by the prevailing balance of opinion about public psychology. After the disasters in the early months of 1942, for example, the mood was a strong desire for sacrifice. In March, the Lord President's Committee called for a more drastic curtailment of activities not essential to the war effort. But the 'civilian' purposes which used scarce resources such as shipping in the greatest quantities were not deemed to come within this category. Food was the outstanding example: in essentials, food standards did not suffer from the shipping vicissitudes of 1942 and 1943.[1] Significant reductions in the quantity or the variety of diet—even temporary reductions—were strenuously resisted on the grounds that they would impair health and the ability to work. Rations had their ups and downs, but in general they remained adequate and reasonably palatable and varied. Civilians could, moreover, not only eat rations at home but also unrationed meals in canteens or restaurants. Early in 1942, the Government reconsidered the rationing of restaurant meals—a proposal hitherto rejected because the economy in food would be small in relation to the administrative difficulties. Once more it was dropped, mainly because canteen meals could not be excepted. All that emerged from much anxious thought was some new regulations for restaurant meals—in particular, the restriction of courses and a 5s. maximum charge.[2] This was a response to public uneasiness about luxury feeding in war time.

The Government had concluded that it would harm the war effort to impose further cuts on food supplies. They came to the same

[1] Chapter XIV has discussed food policy in the context of the shipping shortage.

[2] Except in the case of establishments with high overheads, where an extra 'house charge' was permitted.

conclusion about tobacco. In March 1942, the President of the Board of Trade informed the Lord President's Committee that in order to meet current consumption and prevent stocks from falling below the danger level 112,000 tons of tobacco must be imported during the year. Tobacco imports, it was clear, could be increased only at the expense of other cargoes, but the Government felt that in the interests of efficiency and morale, tobacco supplies should be maintained at the level of demand. On the other hand, the abolition of the basic civilian petrol ration, which had been strongly opposed in 1941 for social and political reasons, was accepted in March 1942.

The most significant changes affecting civilian standards during the last years of war were those in the range of goods covered by the Board of Trade. Before Pearl Harbour, supplies of all goods had already been steadily reduced in order to release shipping and labour; in the opinion of the President of the Board of Trade, some of the restrictions had gone almost too far. Nevertheless, the screw could still be turned tighter. In the spring of 1942, for example, it was decided to cut the general clothing ration for the year 1942–43 by about a quarter. This brought the volume of adults' clothing purchases down to something like half of pre-war; the volume of children's clothing was down to about sixty per cent.[1] Wherever possible, the Board of Trade was still zealous in cutting its demands. It was always anxious to eliminate unessential production. But it was also increasingly concerned with maintaining supplies of essential consumer goods to meet minimum requirements.

The old methods of control by Limitation of Supplies Orders were not suitable for the new times.[2] Although a certain flexibility had been introduced into the Orders, they still covered broad classes of goods and could not discriminate sufficiently between the essential and unessential products in any class. Moreover, they controlled the disposal of supplies and not actual production. More direct methods of control were therefore necessary. They were not possible, however, without a certain change of heart in the Board of Trade. When the Board had first discussed utility clothing in the summer of 1941, there had been a strong feeling that the Government could not hope to force large numbers of firms to make something they did not want to make. Policy, therefore, had been based at that time on the provision of incentives rather than on control and directions.

The first departure from this general policy occurred in the autumn of 1941 with hollow-ware production. An acute shortage of pans, kettles, buckets, etc. had developed. In order to ensure that the

[1] This rate was maintained until February 1945 when pressure of demand for clothing for demobilised men, combined with a lower textile labour force, reduced the ration still further.

[2] See pp. 321–325 above for earlier Board of Trade policies in limiting consumer goods.

limited supplies of labour and material remaining to the industry were used to the best advantage, production was permitted henceforward only under licence; licences were granted for nothing except essential articles made to approved specifications.[1]

It soon became clear that some such direct control was needed also for clothing. Hitherto, the policy of inducements had regulated the proportions of utility and non-utility production. It had failed to secure a balanced production of different garments. Clothing is, after all, interchangeable only within narrow limits; an abundance of stockings is no compensation for a lack of shoes and it is useless to offer stock-size garments to outsize people or adult clothing to children. Producers faced with artificial market conditions and with demand muffled and distorted by price control, could neglect essential goods in favour of others that were more profitable or for other reasons more attractive to them. The Board of Trade, therefore, realised that it must take new measures to ensure real economy and a fair deal to the majority of consumers. In the early summer of 1942 the control of textile and clothing by quotas was dropped and a new Apparel and Textiles Order[2] required manufacturers to comply with any directions regulating or prohibiting manufacture or supply. With this Order behind it, the Board of Trade could do much more to equate the demand and supply for particular types of clothing. It collected estimates of demand through consumer surveys and by watching statistics of stocks and sales. Production was then organised to meet demand. These planned budgets, moreover, proved themselves to be a much more authentic basis for assessing claims upon raw materials and labour.[3]

These new methods of control spread further. Towards the end of April 1942, the President of the Board of Trade submitted to the Lord President's Committee proposals to control production in a much wider range of consumer goods, in some cases to prohibit manufacture altogether and in others to limit production as far as possible to price-controlled utility goods in quantities sufficient for essential civilian needs. The President made it clear that widespread prohibition of manufacture would be involved. It might prove impossible to absorb some of the elderly workers thus released and in many small industries, businesses might be closed down completely. The Lord President's Committee was now in a less drastic mood and was inclined to think that the price of the Board's proposals would be too high; nevertheless discussions were begun with the industries concerned and the new policy was launched in the summer of 1942.

[1] S.R. & O. 1941, No. 1345.

[2] S.R. & O. 1942, No. 1000.

[3] Minor measures to secure economy in production were the austerity restrictions on clothing styles which, among other things, abolished turn-ups on men's trousers, limited the length of men's socks, the number of trimmings, pleats, pockets, etc.

In June of the same year, the manufacture of pottery[1] and of pencils[2] was controlled, and in August control of manufacture and supply was extended to a long list of consumer goods[3]—floor coverings, metal furniture, domestic electric appliances, sports gear, mechanical lighters, fountain pens, umbrellas, musical instruments and furniture. There was no uniform control. The purpose and the detailed method varied from product to product. With pottery, as with hollow-ware, the aim was to produce as many essential articles as possible with a labour force that had already been depleted quite enough, or even perhaps too far; only specified articles made in plain, undecorated ware were licensed. With musical instruments, on the other hand, the aim of control was rather to squeeze still more resources out of the industry. Under the Limitation of Supplies Orders a small general quota had been allowed; but under the new controls manufacture of musical instruments was licensed only for supply to organised bodies connected with the Forces, schools and so on; the one exception was a small supply of gramophone records and needles for the ordinary civilian. In some of the controlled industries, the products—for example, pencils and cigarette lighters—were standardised; in others they were not. In some cases, licences to manufacture clearly specified the people to whom the goods were to be supplied; this principle applied to musical instruments and also to sports gear, metal furniture and some kinds of electrical appliances. In other cases, however—umbrellas, or cigarette lighters or fountain pens—the supply had obviously to be an open one.

One of the most interesting and comprehensive controls was that over furniture.[4] For most people, new furniture in war time was quite unnecessary. But the severe shortage of cheap furniture hit certain classes, such as newly married couples and bombed out people, very hard. The furniture control was designed to meet these special needs. An advisory committee drew up, for the essential pieces of furniture, specifications which combined good, simple design with the maximum economy of materials and labour. Manufacture was restricted to these models and a distribution scheme confined purchases to those whose needs were greatest.

It is clear that since the orders controlling manufacture and supply licensed only essential types of production, they involved prohibitions on all the rest in the same class. Some classes of goods, however, still remained under control by limitation of supplies. Others had never been effectively controlled. In its efforts to eliminate unessential

[1] S.R. & O. 1942. Nos. 1038 and 1039. The definition of 'essential' crockery was perhaps a little wide: it included, for example, sauceboats.

[2] S.R. & O. 1942, Nos. 984, 985, 1256.

[3] S.R. & O. 1942, Nos. 1452–61, 1620.

[4] S.R. & O. 1942, Nos. 2214, 2580, 2581, 2589, 2641, 2650.

production and transfer material and—more particularly—labour to war purposes, the Board of Trade made an Order[1] in the summer of 1942 prohibiting the manufacture of a long list of fripperies ranging through jewellery, metal toys, ornamental glassware, fancy goods, bird cages and a miscellany of household gadgets. For some time, no materials had been issued for the manufacture of these goods; but the prohibitions were needed to buttress raw material control by making it impossible—for example—to use existing stocks of material. To avoid harshness towards elderly or disabled workers, licences to manufacture goods on the prohibited lists were granted if materials were not scarce and if the Ministry of Labour testified that the workers could not be absorbed into some useful alternative employment.

As the war went on, the distinction between essential and unessential civilian goods became more and more marked. As repeated calls were made upon the civilian industries to release still more labour, the unessential industries declined still further; on the other hand, the Board of Trade fought to maintain and sometimes to increase the labour necessary for producing essential civilian goods. Its efforts were not always successful. It proved almost as difficult to expand the over-contracted textile industries as to resuscitate the coal industry. And many essential goods remained too scarce throughout the war. The shortage of necessities for children—perambulators, rubber teats and footwear for example—was particularly acute, for the war-time rise in the birth rate had taken the Government unawares. Another example was the laundry services; there was anxiety that they might break down under the combined pressure of civilian and Forces' work. Bus services were also inadequate. Trouble had begun in 1941 with a shortage of buses and, in spite of the allocation of new buses to civilian transport, the difficulties persisted throughout the war. The Prime Minister himself was emphatic about the need to improve bus services and so lessen general fatigue.

Housing was perhaps the most serious of all the civilian shortages in the last years of the war. By the end of 1942 conditions were already very bad. About 300,000 families were living in houses that had been or would in ordinary times have been condemned as slums; 2½ million families were living a spartan existence in bombed houses which had only received first-aid repairs; another vast number was living in over-crowded conditions. Air raid damage and destruction, military requisitioning, the evacuation of coastal areas and, most of all, the virtual cessation of new house-building since 1939, had all played their part. The Minister of Health insisted that morale would

[1] S.R. & O. 1942, No. 1451.

suffer if housing conditions were not improved. Early in 1943, therefore, the War Cabinet agreed that repairs should begin on some of the 97,000 houses made uninhabitable by bombs and that 3,000 cottages should if possible be built in rural areas. But the work went very slowly and by mid-1943 housing conditions were worse than ever. The Lord President's Committee agreed therefore that, after the demands for war building had been met, housing should have first call on any immobile building labour. A few months later the Government authorised some conversion of large houses into flats and the completion of partly finished houses. In the spring of 1944, the Government was anticipating that all repairable bomb-damaged houses would be repaired by the end of the year; but the flying-bombs and rockets extinguished such hopes. Bad housing was left as one of the worst of the social and economic legacies of the war.[1]

Measures to reduce the nation's domestic capital and standard of living were frequently accompanied by controversy; some people thought successive cuts went too far, others that they could go considerably further. It is important to understand the basis of this controversy. The arguments for or against these sacrifices scarcely ever hinged upon the question whether the United Kingdom could, in the long run, afford them; nobody doubted that the full price of victory must be paid, whatever might be its final cost to the national economy. Opinions differed, not on the aim but on the means of achieving it. Would the indirect ill effects of any individual cut outweigh the direct benefit to the war effort? Would efficiency and morale suffer? Would the administrative costs be too heavy? Even in retrospect, it is not easy to find the right balance. As far as the standard of living is concerned, it is probable that the degree of austerity achieved was about right—a great contribution was made to the country's war needs and the morale of the population remained high right to the end of six hard years of war. On the other hand, since the war lasted six, not three years,[2] some of the cuts in capital formation proved to have gone too deep.

The great transfer of resources from civilian to direct war purposes would have been impossible without the country's approval. People were ready for lower standards of life and most industries accepted reduced standards of capital equipment. There were however some instances in which the surrender of resources was limited by the unwillingness to co-operate of the people adversely affected. This was a contributory reason for the Government's decision in the summer of 1942 to drop the proposals for fuel rationing.[3] Opposition also

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[1] The same was true even in countries which fought a shorter war and did not suffer great destruction of house property by bombing.

[2] For the concept of a three years' war as held in 1939 see p. 95 above.

[3] See p. 472 above.

deterred the Government from enforcing drastic economies in many of the distribution services. This was true of some of the schemes for transport economy through 'zoning'.[1] The same was to some extent true of local retail deliveries. For example, whereas milk deliveries were drastically reorganised in order to save labour, the only restriction on bread distribution was a limitation of deliveries to three a week: as many bakers as wished to could still deliver in the same street. Similarly, coal distribution was never rationalised. The Government was not ready to force the 20,000 or so coal merchants even to pool their orders to collieries in order to save transport;[2] much less would it compel the pooling of supplies, stocks, labour and vehicles at the merchants' depots.

Other failures or disappointments must be recorded. There had been discussion about the concentration of the non-food retail trades ever since the concentration of industry proposals were formulated.[3] A policy was needed which would extract from these trades as much labour and storage space as possible while maintaining essential shopping facilities. It was desirable to reduce the number of retail outlets without causing unnecessary hardship amongst shopkeepers. In the hope of finding some such policy, the Board of Trade had set up a Retail Trade Committee in May 1941. The extreme inadequacy of statistics about retail trade, the acute differences between different sections such as the co-operative societies, big department stores, multiple stores and small traders, and the vagueness of the Committee's terms of reference were some of the main reasons for its delay in producing any concentration proposals.[4] At length, in June 1942, the Committee recommended voluntary withdrawals from the trade, to be compensated by a compulsory levy on continuing traders. These proposals were not very helpful—voluntary withdrawals would not yield sufficient labour—and a storm of opposition in the press, the trades and the House of Commons[5] greeted the suggestion of a levy. Small retailers, after all, constituted only one example of a very large category of people equally valuable to society, equally hit by war conditions and with an equal claim to assistance. The Government turned down the proposals of the Retail Trade Committee. Henceforward, the Board of Trade in its retail trade policy was increasingly concerned with the survival of the small traders. Supplies to them

[1] See p. 485 above.

[2] See above, p. 486.

[3] e.g. speech of President of the Board of Trade, H. of C. Deb., Vol. 370, Cols. 740–742.

[4] The Committee produced two interim reports. The first recommended the restriction of new entrants; this principle was adopted in the Location of Retail Businesses Order, S.R. & O. 1941, Nos. 1784 and 1933. The second surveyed—with undue gloom—the restrictions affecting retail trade. The third report was the one on concentration. All three were published by H.M. Stationery Office.

[5] H. of C. Deb., Vol. 382, debate of 23rd July 1942.

were to be safeguarded and the demands for labour and storage space were to be met as far as possible from the big shops.

Is it possible to measure the changes in the civilian economy during the last years of the war? Some of the tables in the statistical summary give a broad guide. Even though the figures in Table 1 (a) on p. 347 do not allow for changes in prices, it is quite clear that 'civilian' capital equipment continued to diminish at an uncomfortably high rate through 1942, 1943 and 1944. On the other hand, Table 1 (b) shows that the total volume of purchases of consumers' goods and services did not change significantly after 1941. In 1942 and 1943 purchases were a little lower than in 1941 and in 1944 a little higher. The figure for total purchases, however, conceals important fluctuations between individual categories of goods and services. For example, the nation had more travel, more entertainment, more smoking—though some of this increase was due to the large numbers of Allied Servicemen stationed in the United Kingdom. On the other hand, far fewer household goods were bought and private motoring dwindled to almost nothing. These figures do not pretend to be more than the very crudest guide to changes in the standard of living. They cannot take full account of changes in quality and they make no allowance for restrictions in consumers' choice nor for the general conditions of war-time life. Moreover, the figures show total national consumption, and at a time when the size and composition of the population is changing there are bound to be great variations of individual experience. But in spite of all their inadequacies these figures help to give some idea of the contribution that the war effort exacted from civilian standards in Britain.

The experience of the United States and Canada was very different. In these countries, too, additions to the stock of 'non-war' buildings and capital equipment ceased, many capital goods were not replaced as they wore out and stocks of civilian goods were run down. But when peace-time uses of war property (munitions plant, army trucks, merchant ships, etc.) are taken into account, the United Kingdom alone suffered a net reduction in national capital.[1] As for consumer goods and services, the Table on p. 500 shows the differences of expenditure in the three countries. In part, this Table underlines the conclusions drawn from the international study of manpower figures:[2] increase in total output in the United States and Canada was much greater than in the United Kingdom; the diversion of production from civilian purposes was much less. The Table also reflects the effects of the shipping shortage upon the United Kingdom with its dependence upon imported food and materials. In all three countries, consumer goods using materials for which there were

[1] *The Impact of the War on Civilian Consumption*, pp. 15–20.

[2] See above pp. 370–373.

directly competing demands from the munitions industries became scarce—metal household goods, for example. In the United Kingdom in addition, all goods depending on imports became scarce. Finally, because civilian production was cut two years earlier in the United Kingdom than in Canada and the United States, the United Kingdom ran down its stocks much sooner. In Canada and the United States this unused reserve helped, even in 1944, to maintain the level of consumer purchases.

All Consumer Goods and Services
Percentage Changes in Per Capita Purchases by Groups
(valued as far as possible at pre-war prices)

	U.K.	U.S.A.		Canada	
	1938–1944	1939–1944	1941–1944	1939–1944	1941–1944
1. Food (a)	−11	+ 8	+ 4	+13	+ 6
2. Alcoholic beverages and tobacco	+ 8	+33	+19	+24	+ 6
3. Clothing and footwear	−34	+23[1]	+ 9[1]	+222	+ 3
4. Housing (b)	+ 9	+14	+ 9	(c)	(c)
5. Fuel and power	+ 2	+32	+18	+28	+15
6. Household goods (mainly electrical and metal (d))	−82(e)	−23	−51	−13	−24
7. Household goods (other) (d)	−51	+26[1]	+ 3[1]	+15	+ 2
8. Other personal effects (d)	−37	+43[1]	+18[1]	(c)	(c)
9. Reading matter (d)	+ 1	+24[1]	+ 7[1]	+22	+15
10. Amusements (d)	+10	+10[1]	+ 6[1]	+53	+29
11. Motor vehicles and their operation	−95	−52[1]	−61[1]	−52	−56
12. Public transport (d)	+13	+87[1]	+59[1]	+95	+41
13. Postal, telephone and telegraph services (d)	+ 8	+33[1]	+17[1]	(c)	(c)
14. Miscellaneous services	−33	+19[1]	+ 8[1]	+11[1]	+ 5[1]
15. Total consumption	−16	+16[1]	+ 4[1]	+16[1]	+ 5[1]

Source: The Impact of the War on Civilian Consumption in the United Kingdom, the United States and Canada; this book and its appendices give a detailed analysis of the table. It also reconciles the U.K. figures with those appearing in the white papers on National Income and Expenditure.

NOTES: The population base used for calculating per capita expenditure in total and for most individual categories is the total civilian population. In groups 9, 10, 12, 13, the population base is the total civilian population plus the armed forces stationed in the country; in group 2 it is civilians aged fourteen and over plus the armed forces stationed in the country.

(a) Including non-alcoholic beverages. The changes shown represent changes in the value of food consumption rather than of purchases.

(b) Rent, rates (in the U.K.) and water charges.

(c) These items are included in miscellaneous services; so are some household goods, some amusements and the value of room and board furnished to commercial employees. The percentage change is to 1943.

(d) The change is to 1943.

(e) The pre-war year is 1935.

[1] Provisional.

(ii)
Financial Policy

Thus the country's standard of living fell heavily. It was a chief aim of financial policy to distribute the burden of this fall as fairly as possible. Another chief aim was so to arrange financial incentives that the transfer of resources to war purposes would be eased and encouraged.

Intensive study of these ends and of the means to fulfil them had occupied much time and thought within the Government since the first days of war. The rearrangement of incentives involved no single decision of policy but was rather a general aim to be remembered in a whole range of discussions at ministerial and administrative levels. To spread the cost of the war fairly, and to control the inflation that was inherent in such an immense war effort, demanded more specific action. A network of firm policies was needed.

By the time Pearl Harbour was attacked, all the main threads of this network were woven.[1] The gap between spendable incomes and available goods had been narrowed not merely by a great campaign for voluntary savings but by resolute taxation. Direct taxation had been increased up to the limits beyond which incentives to all-out production might be stifled, or hardship in individual cases become intolerable; indirect taxation on all but the minimum essentials of life had mopped up more purchasing power. On the other hand, the cost-of-living index was stabilised. The index was pegged mainly by manipulating food subsidies, although a beginning had also been made with the production to strict specification of essential goods whose prices could be strictly controlled. Stabilisation was designed both to prevent claims for increased wage rates and to ensure that essential goods that were scarce did not go simply to those who could pay the highest price. Price control by itself was not of course enough; it had to be buttressed by rationing over as wide a field as possible.

By the beginning of 1942, all these principles were accepted and in practice. Apart from a brief resurrection of the problem of wages policy in the late summer of 1942,[2] all the main elements of financial policy remained settled. For the rest of the war they were not called in question.

The ever-increasing strain on the civilian economy meant of course that taxation needed to become even more drastic and strict price control and rationing more extensive. Direct taxation was thought to have reached its practical limit; but in 1942 and again in 1943

[1] See Chapter XII.
[2] *Ibid.*

indirect taxation on tobacco, alcohol, entertainments and luxury goods was raised. The percentage of expenditure borne out of revenue increased, in fact, throughout the war—from thirty-nine per cent. in 1940 to fifty-five per cent. in 1944. This steady rise, and the actual height of the percentage, were indeed notable landmarks in the financial history of modern wars; in 1918 a percentage of twenty-nine had been thought a fair performance. Moreover, control of the loan markets made it possible for the Government to borrow at low and steady rates of interest the sums still necessary after taxation to finance its immense expenditures.

As for prices, stabilisation of the cost-of-living index continued. Rising costs at home and abroad made it increasingly expensive; Government subsidies rose from £72 millions in 1940 to £215 millions in 1944. The stabilisation policy was undoubtedly of the greatest value in keeping the economy steady. But, although it put a brake on increases in wage rates, it did not fulfil its purpose of keeping the wages-level somewhere near the level of the spring of 1941. When the stabilisation policy was first introduced, wage rates had risen six per cent. less than the cost of living; but by the spring of 1944 they had risen eleven per cent. more than the cost of living. Some of the increases were indeed necessary to remedy anomalies in particular industries, and others were justified by increases in productivity; others however had been granted for much less satisfactory reasons. In these circumstances, the Chancellor of the Exchequer, in his 1944 budget speech, contemplated a range for the cost-of-living index of 30–35 per cent. over pre-war, instead of the 25–30 per cent. laid down in 1941.[1]

The cost-of-living index was stabilised largely through subsidies; most of them were on food but some of them were on raw materials and a few on manufactured articles—for example, woollen and cotton utility cloth. From 1942 onwards, means were increasingly found for keeping the cost of living steady without subsidies. Closer control over the production of many consumer goods made it possible to fix their prices more strictly and in some cases actually to reduce costs by longer production runs and so forth.[2] The price control legislation of 1941[3] had opened the way to fixing precise ceiling prices at every stage of production and distribution. This was by far the best method of price control since it alone could be properly enforced. But these maximum prices could only be fixed for articles that were clearly defined and identifiable. For these reasons, the Government had launched the utility clothing scheme and the arrival in 1942 of good

[1] H. of C. Deb., Vol. 399, Col. 663 (25th April 1944).

[2] The reduction of advertising costs and the austerity style restrictions also helped to reduce costs.

[3] See above, p. 336.

quantities of utility clothes on the market, together with the remission of purchase tax on them, at last sent the clothing items in the cost-of-living index down.[1] The Board of Trade was anxious to control not only the significant items in the official cost-of-living index but also the actual war-time cost of living. From 1942, therefore, the utility principle spread over a much wider field.

For the purposes of price control, it may be noted, the existence of a formal utility scheme was not the essential condition; what mattered was that there should be some workable identification. In general, the closer the specification the more effective was the price control.

The arrangements for producing utility goods very seldom achieved anything approaching complete standardisation. Nor were the specifications often close enough to guard against deterioration in quality. A bigger obstacle to rigid price control was the difference between manufacturers' costs. The accounting systems of many firms were indeed so imperfect that it was difficult to determine their costs, and even when accounts were satisfactory, different firms used many different methods of costing. When costs were ascertained, the Board of Trade was faced with the familiar quandary. Ceiling prices had to be fixed at a level that would cover high-cost manufacturers without whose production demand could not be met. But without some additional restraint, these ceiling prices would tend to become minima, or quality would deteriorate; the low-cost manufacturer would then reap excessive profits. The Board of Trade usually stipulated, therefore, that manufacturers should charge either the fixed ceiling price or their cost plus a percentage, whichever was the lower. This arrangement, however, was difficult to police among a host of manufacturers and it also bore the usual disadvantages of the cost plus system.

Price control under the 1941 legislation was, with all its imperfections, a great improvement on what had gone before. But it must be remembered that it never covered the whole field. Except in a very few industries such as furniture and hosiery it was not considered practicable to achieve anywhere near 100 per cent. utility production. Goods outside utility and 'near-utility' schemes were covered only by ineffective price controls—the old Prices of Goods Act or later 'standstill' orders. The inefficiency of price control over non-utility or unessential goods, the imperfections even of the ceiling price methods and the tendency of distributors to deal in more expensive goods—all these reinforced the need for strong production controls to ensure that firms did not divert their efforts away from cheap or essential goods.[2]

[1] The remission of purchase tax was in August 1942. This threatened actually to reduce the cost-of-living index. Since a fall in the index would be almost as embarrassing as a rise, food prices were increased.

[2] On price control generally see *Civil Industry and Trade*, Chapters IV, XXI and XXII.

Price control, on the whole, kept scarce essential goods within the reach of the general public. Unless it was combined with rationing, however, shop shortages and queues were substituted for high prices as a method of distribution. Unfortunately, there were all kinds of limitations on the extension of rationing. Food did not cause much difficulty; more and more foods were brought within the points scheme, other foods were reserved for priority classes such as children and expectant mothers, sweets and chocolates were rationed from the middle of 1942. Soap was rationed—at first in a mild way—from the beginning of 1942. But there were other essential goods and services which proved more troublesome. As we have seen, administrative difficulties were too great to permit the rationing of travel; difficult problems of administration and enforcement were a main reason for abandoning fuel rationing. Tobacco could probably have been combined with sweets in a personal points scheme, but, in the interests of morale, it had been decided instead to maintain imports at the level of demand.

There was increasing concern over the distribution of household goods—the pans, crockery, brushes, bed clothes and so forth—which were so elusive in the shops. From time to time in 1942 and 1943, various points schemes for these goods were discussed. The difficulties, however, always proved too great. Problems of equity would be particularly acute because of the infrequent intervals at which most household goods were bought, the great importance of a household's initial stocks, and the different sizes of households. Special cases and businesses and institutional users would produce administrative nightmares, to say nothing of the technical difficulties of drawing up a pointing list and collecting coupons. And, after all, the ration could only be minute. If rationing covered bed linen, bedding, hollow-ware, crockery, glassware, and cutlery, the total retail value of the goods available for domestic users would only be about £20 millions a year—less than half the value of the sweets ration. After allowing for the special claims of new households, the general ration might be about 1¾d. a head a week.[1] The idea was inevitably turned down as impracticable. For some goods, however, special distribution schemes were worked out. Permits to buy utility furniture, for example, were granted only to priority classes such as newly married couples, bombed-out people, parents setting up house because they were expecting children, or parents needing beds for growing children. A system of priority dockets ensured that the same people had first call on the limited supplies of bed clothes and floor coverings. Or again, specific clothes in very short supply such as rubber boots were reserved by the device of buying permits for the people who needed them most. Many goods, too, were confined to special classes

[1] For example, the annual output of sheets per person in 1943 was ·025.

of users by the controls over manufacture and supply—metal beds for hospitals or sports goods for schools and the Forces.

All these measures supported price control and were also the extension of a well-grounded social policy. There was little dispute about them. The difficult questions of financial policy in these last years of the war arose rather over particular discrepancies in standards of life or particular industrial problems. One of the sharpest issues raised in the press and Parliament was over differences of pay between civilians and the fighting services. It was this public criticism which spurred the Government to action. A debate in the House of Commons at the end of 1941, the prospect of a debate in the autumn of 1942 and again in the spring of 1944[1] set ministerial discussions afoot and produced revisions of pay. The subject was difficult and the habit of comparing civilian and Service rates of pay could be misleading, since the systems of pay differed so fundamentally. Payments in kind, dependents' allowances, relief from income tax and the chances of proficiency pay, tradesmen's pay and promotion had all to be taken into account.[2] But although when all this was taken into account the total pay and allowances of a private seemed near the average industrial earnings, many privates had been earning more than the average in civilian life, and there were innumerable cases of servicemen's families living near the families of workers earning much more than the industrial average.

Before the 1942 revisions, the Government admitted that there was a general discrepancy between civilians' and servicemen's families. For example, the allowance for the wife and two children of a private, including his own compulsory allotment of pay for their support, was only 38s. a week. War Service Grants could be made to prevent excessive hardship, but they did not prevent the smaller continual hardships of life nor exclusion from the minor luxuries of war-time existence—entertainments, the more expensive points foods and so forth. The pay revisions of 1942 concentrated on improving children's allowances; at the same time compulsory allotments of pay to families were reduced and post-war credits introduced in the first review of that year, and in the second review there was a basic increase in pay for other ranks and improved promotion prospects for officers. The 1942 revisions were intended as final. But civilian wages went upwards and by 1944 the gap between Service and civilian pay seemed even wider than before. Again there was Parliamentary criticism and again a Government review. Large increases in allowances were made[3]—a

[1] H. of C. Deb., Vol. 374 (16th October 1941); Vol. 376 (17th December 1941); Vol. 383 (10th September 1942).

[2] The Government set forth these considerations in Cmd. 6385 (August 1942): *Pay and Allowances of the Armed Forces.*

[3] Cmd. 6521; *Increased Financial Provision for Members of His Majesty's Forces and their Families with certain Changes in War Pensions.*

private's wife with two children would now receive 60s. instead of 43s. By this stage in the war the Serviceman was pretty well off compared with his civilian counterpart.

Among civilians, too, there were considerable differences in the standard of living. Across the gulf which separated them, workers of the badly paid industries eyed with resentment neighbours and relations with higher wages earned, probably, in less dirty and less arduous occupations. The bitterness was greatest among the coal-miners. The wages and finances of coal-mining were the most difficult individual problem of financial policy in the last years of the war. We have seen how total coal production and productivity were both falling rapidly in the first half of 1942. Not least among the causes was the fierce discontent in the coalfields and the awakening of the old antagonisms which had been sleeping fitfully during the first two years of war.[1] The causes of this ill-feeling were complex and many of them were immovably rooted in the memories of the years between the wars. But early in 1942 the most important single and immediate grievance was undoubtedly wages. On a list of the earnings of some hundred industries, coal-miners then stood about fifty-ninth.[2] Tied by the Essential Work Order to a risky, dirty and exhausting occupation which they have always regarded with a strange mixture of pride and disgust, the miners saw neighbours from their villages and towns earning higher wages in the nearby munitions factories. In the first half of 1942, moreover, more than 36,000 ex-miners were brought back to the mines from other industries at a great loss of wages to themselves.[3] At the same time, coal earnings threatened an actual fall. For an important part of mining wages was settled by the division of the disposable proceeds of the industry (that is, total proceeds less all costs other than wages) between profits and wages in settled proportions: and now, since industrial costs other than timber were rising, disposable proceeds tended to fall and wages with them.

The Mineworkers' Federation presented a claim for a wage improvement which would be more than a mere adjustment to the cost of living —a national minimum wage for adults of 85s. a week and considerable increases in shift payments. The owners' counter-proposal was that any wage increase should be partly a bonus on attendance and partly a bonus on output. At the beginning of June 1942, the Government submitted these proposals and counter-proposals to a Board of Investigation, generally known as the Greene Board. The recommendations were ready in a fortnight[4] and were accepted. The miners' claim for a

[1] 685,000 working days were lost by dispute in the first half of 1942 against 336,700 days in the whole of 1941.

[2] In 1938 they were eighty-first.

[3] H. of C. Deb., Vol. 380, Col. 785 (4th June 1942).

[4] Report of the Board of Investigation into the Immediate Wages Issue in the Coal-mining Industry, June 1942.

national minimum wage was agreed and the figure was put at 85s. for all adult underground workers. The claim for an unconditional wages increase was also approved, but the increase was put at 2s. 6d. a shift for adult workers, instead of the 4s. which the miners asked. The Greene Award aimed primarily at improving the conditions of the adult mine-worker. It was indeed the first major instalment of a general revision of mining wages and raised the miner from fifty-ninth to twenty-third on the list of industrial earnings. The miners accepted the solution and the industrial troubles died away.

This Award did not attempt to relate wages directly to production. But to encourage increased production, the Committee also recommended a bonus for any increase in output beyond a certain standard. Should the bonus be based on output of the pit or of the district? A pit scheme would relate the bonus most nearly to efforts of individuals. Output at individual pits, however, often varied through underground conditions outside the workers' control, and a bonus influenced by these variations might be fruitful in disputes. The choice went, therefore, to the district bonus. It began to operate in September 1942. When the Greene Board reviewed it after a year's working, they could but pronounce it a failure.[1] In the later months of 1942 a fair number of districts had earned the bonus, but during 1943 only two or three districts out of the twenty-five had qualified. Though a failure, the output bonus could not be abolished without difficulty. Negotiations for a new kind of bonus, therefore, began and dragged on into 1944, when they were caught up into new national wage settlements.

In 1942, the Greene Board had been asked to consider not only the immediate wages issues but also the establishment of some permanent machinery in the coal industry for national conciliation over wages and conditions of work. The discontent of 1942 had shown the existing loose methods to be wholly inadequate. By the spring of 1943, a new scheme had been devised with proper machinery at the three stages of negotiation—nationally, in the districts and in the pits. Above the national negotiating committee of both sides of the industry was established a national tribunal whose three members were drawn from outside the industry; this tribunal was to be the final arbiter when agreement in the industry proved impossible.[2]

The new machinery was soon tested. For, by the autumn of 1943, the coal-fields were once more turbulent. Again the reasons were many and involved. Again, wages were prominent among the immediate grievances.[3] The miners claimed a new minimum wage of

[1] Fourth and Final Report of the Board of Investigation into Wages and Machinery for Determining Wages and Conditions of Employment in the Coal-mining Industry.

[2] Third Report of the Board of Investigation into Wages and Machinery for Determining Wages and Conditions of Employment in the Coal-mining Industry.

[3] The miners had slipped back to about fortieth on the list of industrial earnings.

£6 for adult workers underground, with appropriate revisions for other workers, and an adjustment of piece-work rates throughout the industry to preserve the conventional wage relations between one worker and another. In due course the claim went to the National Tribunal,[1] which awarded a minimum rate of £5 for adult workers underground with revisions for other workers; the claim for increased piece rates was refused. This award of January 1944 made arguments and passions still stormier. For in the worst paid fields, minimum rates were now raised to the point where they overlapped those of some of the better paid mine-workers; men whose rates were previously different now found themselves receiving the same rates, sometimes for entirely different work. Miners and owners began negotiations for the removal of the 'anomalies' caused by the award. These negotiations portended that general raising of wage rates which the Tribunal had tried to avoid, unaccompanied by the overhaul of the whole wage structure which it had declared to be necessary. Moreover, the negotiations went ahead on the assumption that the cost of these new rates would be met by an increase in the price of coal, despite categoric refusals by the Ministry of Fuel and Power to give any such assurance.

The situation was made more difficult by the hesitancy of the Ministry of Fuel and Power. Under the 1942 scheme of control, the Ministry was not intended to interfere with wages. However, as district settlement of wage increases proceeded apace, some more precise statement was needed from the Government about price increases to cover the rise in wages. The Lord President's Committee approved an announcement that the price of coal would be raised only to meet the Tribunal's various awards and the most obvious anomalies arising from them. This announcement, if left by itself, would merely have prolonged the trouble in the coal-fields just as D-Day preparations were growing feverish. There was only one thing to do—the Ministry of Fuel had to step boldly into the wages field and take the lead in the long-overdue radical overhaul of the structure of mine wages.

The Minister of Fuel and Power's proposals were approved by the War Cabinet and six weeks later the final agreement between owners and miners was signed. The main object of the agreement was to simplify the composition of the total wage and restore some clear line of connection between earnings and output. The main trouble arose from the war-time flat-rate advances, now amounting to some 7s. 2d. a shift, payable to all workers in and around the pit. These flat-rate additions reduced that proportion of the piece-worker's wage which depended on his personal efforts and lessened the

[1] National Conciliation Board for the Coal-mining Industry, National Reference Tribunal Fourth Award (22nd January 1944).

ratio of his wage to that of the day-wage men, although his work was the real key to coal output. The new agreement therefore abolished all the flat-rates payable to piece-workers, except the war-time cost-of-living bonus, and merged them into the piece-work rates; the output bonuses also disappeared. While the day-wage men continued to receive the flat-rate additions, the piece-worker now depended for his earnings upon his efforts. The agreement, moreover, gave some security to the miners, for it was to last four years. This reform of mining wages was of great importance in the history of coal-mining. It was not, however, a complete overhaul of wages; it did not seek, for example, to alter classifications. It had, after all, been designed mainly for war-time ends—to check the prevalent unrest and to stop output from falling below essential war-time requirements. In these immediate aims it was successful.

The war had brought great changes in the miners' earnings—the average rose from £2 15s. 9d. in 1935 to £5 9s. 4d. in 1944. By the autumn of 1944 the mine-workers' earnings were inferior only to those in some highly paid munitions trades where earnings were increased by extensive overtime. Coal was never subsidised and the wage increases were fully reflected in the rise in coal prices. A typical household coal cost 77s. 9d. a ton in April 1945 against 51s. 6d. in 1938.

Increases in the price of coal, however, by no means solved all the financial problems of the industry. For within the coal industry there were the widest variations in cost from pit to pit and from district to district—variations which had been petrified by the pre-war system of minimum prices and maximum output quotas in the districts. In 1938, for example, the average cost per ton of coal in the lowest priced district, Leicestershire, was 13s. 8d. and in the highest priced district, Cumberland, 20s. 3d., the average for all districts being 16s. At the beginning of the war the Government had hoped to maintain the financial *status quo* in the industry and, in view of the unfortunate experiences in and after the 1914–18 war, to keep its control of prices as remote as possible. Before long, it seemed clear that such a hope rested on faith rather than on reason. The outbreak of war upset coal marketing arrangements and it was necessary to meet certain extra costs and assist collieries in danger of financial ruin by levies on each ton of coal. At first these were managed by the industry, but in June 1942 the Government took the levies over. They were paid into a Coal Charges Account which was to be used with the approval of the Treasury for any purpose connected with the production or marketing of coal.[1]

The Government thus became openly and directly implicated in coal finances in spite of its original intention to steer very clear of them. The Account was barely established when the Greene Award

[1] *Coal Charges Account*, Cmd. 6617. April 1945. Coal (Charges) Order, 1942.

was made. This big increase in wages would of course bear most heavily on districts with a low output per shift and widen still further the gap between the costs of different districts. Again there arose those general problems which had been faced earlier in the war in agriculture, transport, iron and steel and other industries. How could high-cost producers be kept in existence without raising intolerably prices and the profits of low-cost producers and without destroying the incentives to efficiency? The earlier Necessitous Undertakings Scheme to help individual collieries that were financially broken could hardly be extended to whole districts. The Government decided in June 1942 to increase the coal levy and with it the price of coal and to pay to each colliery individually the actual cost of the Greene Wages Award. Other increases in wage costs were met in the same way. Costs other than wages were also increasing and again were heaviest in districts where output was falling fastest. To pay all these additional costs to each colliery individually would soon destroy whatever competitive incentive remained in the industry. A price allowance scheme was therefore evolved which eliminated competition between districts but enabled it to persist between pits within each district. District standard credit balances per ton of coal were agreed.[1] The difference between the standard and actual balances was then paid quarterly from the Coal Charges Account to individual collieries on the tonnage they had sold. By these means the increased costs of the individual districts were met by increases in price spread over the whole country. Requisitioning of the mines might well have made not only production control but also financial control much easier. But the politics of coalition having ruled it out, the Coal Charges Account provided perhaps the best kind of compromise between stabilising the industry's finances and keeping some incentive to efficiency.

This chapter has made it plain how inevitable was the interlocking of the Government's financial policy with its industrial and social policies. The amount of space given to the finances of the coal industry will not surprise anybody who remembers that it was this industry which first confronted the Government with the problems of wages policy and with the threat of a vicious inflationary spiral.[2] There continued throughout the war, in consequences no less than in causes, a significant relationship between the coal industry and the general financial trends of British war economy; the rise in the price of coal was, indeed, one of the biggest changes that the war brought to British industrial costs. In a degree only less marked, the structure of wages, profits and prices in other particular industries—agriculture was a notable example—had throughout the war to be adjusted

[1] They varied from 6d. to 2s. 9d. and averaged out at 1s. 9d. for the industry as a whole.

[2] See Chapter VI, Section (ii), especially pp. 163, 164.

continually to the general design of the Government's financial policy; or *vice versa*. The same continuous adjustment was no less necessary in the social sphere; that is why so much attention has been given in this section to questions of soldiers' pay, the rationing problems which were entangled inextricably with price control, and even humdrum difficulties about the production and distribution of furniture or pots and pans. The financial policies of the Government throughout the war were always 'impure' in the sense that they were interwoven with the manifold intricate threads of the nation's economic and social life.

Nevertheless, it is essential in summing up to emphasise the fact that the Government's financial policy had a very clear design and that it achieved very great success. If in this section attention has been concentrated upon special problems, and these the more difficult ones, this is because the main principles were no longer a matter of debate; they had long since been established and vindicated. That 'level economy' which had been sought at the beginning of the war had been achieved—not statically, but as a balance regulating and facilitating the unprecedented thrust and drive of the nation's economic energies.

The Government succeeded in its efforts to hold the economy steady under immense inflationary pressure. Inevitably, the symptoms of inflation that were visible in the months before Pearl Harbour[1] grew more evident as the war effort grew. Wage rates and prices outside the subsidised cost-of-living index continued to rise. Personal expenditure still spilled over on to tobacco, drink and entertainments. Stocks were depleted. There were queues, sales 'under-the-counter' and black markets. But these symptoms never became really alarming. They never threatened serious obstruction to the war economy nor did they engender the social bitterness that had marked the First World War. There was general recognition that the cost of the war, in terms of reduced civilian standards, was being spread justly—or at least with that rough justice which was the most the nation expected. The achievement was great; but it must be remembered how complicated was the system on which it rested. No simple formula had been found for keeping the economy steady. Very high taxation, new forms of taxation, price control, many forms of production control over finished goods, labour and raw materials, many forms of rationing and distribution schemes were all essential parts of the system. Yet the structure was not so rigid as to stifle the will to produce. In spite of the complexities of control, much was still left to the restraint and goodwill of the citizens. They saved, they practised the principle of 'fair shares' which they preached and they worked very hard without examining too grudgingly their rewards.

[1] See p. 343 above.