CHAPTER XIX

TOWARDS PEACE

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War-time Reconstruction Plans

FROM the invasion of Normandy onwards, a steady stream of papers came before the War Cabinet making it clear, in forceful terms, that the state of British external finances would be by far the gravest economic problem facing the country, once peace came into sight. But British planning for peace-time economic and social reconstruction had already taken shape long before Normandy, when peace and its difficulties had seemed very remote.

Systematic thought about the shape of society after the war had begun in August 1940, at the very time when Britain's danger was greatest. There existed at that time a strong impulse to fuse the will to victory with aspirations for a better world after victory. A War Aims Committee of the War Cabinet was set up and was expected to produce a declaration on war aims which could be used for propaganda in Europe. However, it proved difficult to produce anything beyond statements of high moral principle. Nothing was published; instead, at the end of 1940, a Minister without Portfolio was appointed 'to plan in advance'—as the Prime Minister put it[1]—'a number of practical steps which it is indispensable to take if our society is to move forward'. The Minister's function was primarily one of co-ordination and his staff was small. In 1941 and 1942[2] his work was supported by War Cabinet committees set up at the ministerial and official levels to consider post-war planning; but these committees could do little more than explore the main problems. For one thing, ministers were not yet ready to take decisions on issues which might be highly contentious and which seemed at that time extremely speculative. For another thing, detailed plans for reconstruction would have to be prepared by the departments which would be responsible for carrying them out; but these departments were fully occupied with urgent war work and could as yet spare very little staff to make plans for after the war.

[1] H. of C. Deb., Vol. 368, Col. 264 (22nd January 1941).

[2] In March 1942 his work was taken over by the Paymaster General.

From the end of 1942 onwards a change became apparent. The War Cabinet committees on reconstruction were strengthened. In March 1943, the Prime Minister set forth in a long broadcast the heads of a four-year reconstruction plan for Britain. In November 1943, Lord Woolton was appointed Minister of Reconstruction. Once again, the Minister's staff was small and his function primarily a co-ordinating one; but this time the responsible departments were moved to devote much more time to the post-war problems of the controls they operated and the industries they controlled.

The plans which in the course of time emerged were divided very roughly into two classes, domestic and international. The domestic plans were of two kinds—plans for handling the problems of transition from war to peace, and plans for long-term social betterment.

In making preparations for the transitional period, the Government had prominently in mind the mistakes that had been made after the previous war. These mistakes were reviewed in a careful report prepared by an official committee as far back as 1942. The report recalled the inflationary boom that had been let loose at the end of the First World War. Underlying it had been a superabundance of purchasing power; a main impetus towards it had been the need to re-stock both at home and abroad and to overtake arrears of plant renewal. Easy conditions of credit, the rapid removal of war-time controls, the withdrawal of subsidies to the cost of living, continuing budget deficits and the heavy fall in the exchange value of sterling had intensified the inflationary boom. The ensuing slump, which began in the summer of 1920, had been correspondingly intense. The official committee was anxious that this sequence of boom and slump should not a second time repeat itself. Yet the same economic causes would be operating even more powerfully than after the earlier war. The release of manpower from the Services and war work would probably be slower and less complete. There would be far more physical damage to make good, a greater need for replenishing stocks, a bigger task of renewing plant and reconverting it to peace-time production, a larger banking-up of purchasing power in the hands of consumers with unsatisfied wants, a more pressing need to switch production from the home market to the export markets and greater hindrances to the procurement of overseas supplies. All these difficulties would probably be reinforced by larger and longer-continuing budget deficits and by much severer conditions of general world shortage than those that had obtained after the First World War.

It was of course impossible, in the middle of the war, to evaluate the probable comparative strength of these various influences. But the committee's analysis suggested three outstanding economic tasks for the transition period—restoration of the balance of payments;

restraint of inflation; transfer of productive resources to the most necessary tasks. Unless the heavy deficit in the balance of payments could be wiped out, the committee said,

> 'the whole fabric of reconstruction is in danger and we run the risk of a failure to maintain essential imports and of a major inflation.'

Grave inflation at home would, in its turn, hamper the restoration of the external balance by diverting to consumption resources needed for capital equipment and exports. All the same, inflation was one method of speeding the transfer of resources from war to peace: if a price boom were ruled out, some alternative method of transfer would have to be found.

These basic ideas about the problems of the transition period were later redefined in accordance with the expectations that were held about the duration of the war. As has been seen, it was assumed that the Japanese war would continue for a good many months after the European war. Within the expanding field allotted then to 'civil' needs, production would have to be focused upon exports and upon essential goods for the home market and relief; at the same time, a start would have to be made upon the Government's main reconstruction projects, for example, the housing programme. So long as supplies of consumer goods remained short, the more urgent consumer needs would have to be met first and the war-time policy of 'fair shares' would have to be maintained. Throughout, the Government continued to emphasise the importance of balancing the nation's external accounts and restraining inflation.

Against this background, the Government constantly examined the apparatus of economic control built up during the war. When war ended in Europe, the controls would operate in very different conditions from those of full war. There would be political pressure to relax them substantially. There would no longer be a single criterion —that of unlimited war needs—for operating them. There would be new manufactures to control. Manufacturers would in general be attracted primarily to the home market. And the controls would have difficulties in retaining their staffs. Some relaxations in the detailed operation of the controls would no doubt be possible; but it seemed essential, if the aims of economic policy in the transition period were to be achieved, to maintain the general framework. It would not be enough to rely on any single group of controls—over manpower, for example, or finished products—or even on two groups in combination. War-time experience suggested that, at least in the earlier stages of transition, control would have to be maintained over the whole field—over labour, raw materials, finished products, prices and consumption: in addition, demand would still have to be repressed by heavy taxation and the stimulation of savings.

All these general discussions on the future of the controls were of course clouded by uncertainty about the length of the Japanese war. But some of the problems that would arise with the armistice could be tackled in advance. Demobilisation and resettlement, the liquidation of war contracts, the disposal of surplus government stocks and of government factories, the de-requisitioning of factory space—all these practical steps towards 'unscrambling' the war economy had been carefully studied from an early stage in the war.

The demobilisation plans were particularly important. For the elaborate demobilisation scheme of 1918 had been a failure. That precedent showed clearly that the principle of demobilisation by industrial category, however attractive it might be in theory, would be unlikely to commend itself to the troops as a fair arrangement. It might indeed be resisted to the point of mutiny. In consequence, as far back as 1941, the Government had adopted age and length of service in the Forces as its criteria for the order of release. The probability that war in Asia would continue for some time after the close of war in Europe created some complications; but the Ministry of Labour produced a fair and workable scheme for handling them. Under this scheme, men were divided into groups according to their age and length of service. Demobilisation was in the main to be in group order with the exception of a small number of workers required for certain urgent reconstruction jobs and a very small number of individual specialists who would be released out of turn. Provision was made for gratuities, free clothing and paid resettlement leave. The men released out of turn were to receive smaller financial benefits.[1] Higher pay would be made to the men engaged in the Far Eastern war. Principles were also formulated by the Ministry of Labour to govern the release of civilians on war work.[2] Side by side with these various schemes went arrangements for the further education and training of demobilised men and women.

Plans for the disposal of government assets were likewise governed by a determination to avoid the mistakes of 1918. It was generally agreed that there must be this time an orderly disposal of surplus goods which would exclude profiteering and serve the interests of consumers without disturbing current production. The necessary inter-departmental machinery for the collection, marking and disposal of surplus consumer goods and machinery was working well before the end of the war. Discussions were held with industry in good time. A special scheme was devised for machine tools so that factories might be re-equipped with surplus tools they needed

[1] *Reallocation of Manpower between the Armed Forces and Civilian Employment during any Interim Period between the Defeat of Germany and the Defeat of Japan.* Cmd, 6548. Demobilisation of any group or individual was subject to over-riding military need.

[2] *Reallocation of Manpower between Civilian Employments.* Cmd. 6568.

without damage to the valuable machine tools industry. Similarly, the Factory and Storage Premises Control of the Board of Trade was authorised in 1943 to collect lists of redundant government factories and of applicants for them. Gradually, too, the Board of Trade compiled for the supply departments a list of firms particularly important for exports and for reconstruction. These firms were to have priority of release from war contracts and from requisitioning.

While the Government was making these plans for a smooth and orderly demobilisation of the war economy, it was also giving much thought to reconstruction proper, in which plans for repairing the ravages of war merged with schemes for social betterment and the reorganisation of industry. At the head of the Government's list was a housing programme. We have already seen how bad the housing situation had become even before the flying bomb and rocket attacks; when demobilisation began it would grow even worse. There would be an immense demand on the building industry—not only for new houses but for maintenance, war damage repair, removal of defence works and many kinds of new building. A series of reports studied post-war building problems—the building labour likely to be available, the potential demand, methods of controlling the demand, the allocation of building labour and the cost of building. The housing programme fluctuated. It had to allow for all the other demands on the building industry. It was modified according to the assumptions about the end of the war and releases from the Forces. Moreover, air-raid damage continued right up to the end of the war. The last programme to be announced before the war ended—in March 1945—proclaimed the Government's intention that there would be 300,000 permanent houses built or building by the end of the second year after the end of the war in Europe. A good deal of preparatory work for the housing programme went forward during the war. Discussions began with local authorities; housing subsidies were extended; a beginning was made with acquiring and preparing sites; a survey was made of productive capacity in firms producing materials and fitments; standards and designs for houses and fittings were approved. On top of the housing programme proper, the Prime Minister called for a programme of emergency houses to be carried out 'by exceptional methods on the lines of a military operation'. Provision was made for £150 million to be spent on temporary pre-fabricated houses.

Housing was the chief item on the post-war building programme, but not the only one; schools, factories, roads, etc., also had to be built. All these claims on the use of land ought somehow to be harmonised so that rebuilding might go ahead without the loss of time, money and well-being that the wrong use of land had caused before the war. Heavy air raid damage had stimulated much interest in the whole subject of town and country planning and the Government had begun to study the subject as early as 1940. A succession of public reports analysed the defects of the existing law and administration of town and country planning.[1] The Government's first measure was the establishment of a central planning body. Early in 1942, the Ministry of Works and Buildings was transformed into the Ministry of Works and Planning. Then, early in 1943, an independent Ministry of Town and Country Planning was set up to secure consistency and continuity in the framing and execution of a national policy towards the use and development of land. In the same year, an interim Development Act extended control over the use of land to all Great Britain and strengthened the powers to prevent development prejudicial to good planning. In 1944 the Government introduced a bill designed to enable local authorities, especially in the badly bombed cities, to acquire land in large blocks, so that they might plan the redevelopment of areas as units instead of piecemeal. The compensation to be paid for land thus acquired was fixed at the March 1939 level. But national rules were needed for 'compensation and betterment'—the sums to be paid to landowners who suffered financially from planning schemes, the sums to be collected from those other landowners who profited from the schemes. Before the war, the state of the law about this difficult problem had been chief among the hindrances to good town and country planning. The Government formulated proposals for tackling the problem;[2] but no legislation was passed before the 1945 General Election.

The provision of houses was one of the main items on the Government's reconstruction programme. No less important was the provision of work. As early as 1941, the Economic Section of the War Cabinet Offices had produced a paper on the maintenance of full employment after the war—not so much in the transition period, as in the long-term. In 1943, full employment and related subjects were intensively studied by a small committee of officials, and the Government's policy was subsequently set forth in a white paper.[3] For the new era which would begin when the war ended, the Government accepted the maintenance of a high and stable level of employment as one of its major aims and responsibilities. The white paper explained the action proposed by the Government to maintain total expenditure for goods and services at the level necessary for avoiding general unemployment. It also examined two other conditions of full employment—a reasonable stability of prices and wages, and mobility

[1] *The Royal Commission on the Distribution of the Industrial Population* (Cmd. 6153); this is known as the Barlow Report. *The Committee on Land Utilisation in Rural Areas* (Cmd. 6378); this is known as the Scott report. *The Expert Committee on Compensation and Betterment* (Cmd. 6386); this is known as the Uthwatt Report.

[2] *The Control of Land Use* (Cmd. 6537).

[3] *Employment Policy* (Cmd. 6527, May 1944).

of workers between occupations and localities. The Government's study had covered not only general employment policy but also the distribution of industry and ways and means of preventing heavy unemployment in particular areas. It proposed to schedule local danger spots of unemployment as 'development areas' and, by a variety of means, to encourage in those areas the development of new enterprises.

The discussions on employment policy embraced a variety of proposals for promoting industrial efficiency generally—for example, by the encouragement of research and design and the provision of financial facilities for small firms. But, during the last two years of the war, reports which were produced on the coal, building and textile industries raised some specific and very urgent problems of industrial efficiency. There was, besides, the problem of monopoly and restrictive practices. These subjects were not deeply probed in the white paper. The Government simply announced that it would seek power to inform itself of the extent and effect of restrictive agreements and of the activities of combines, and to check practices that worked to the detriment of the economy as a whole.

The separate studies of the post-war future of particular industries cannot be reviewed here; but something must be said of agriculture. The first reconstruction plans for any organised occupational group within the nation were produced by the Ministry of Agriculture. The Government had indeed made promises on the subject of post-war agricultural policy as early as November 1940, when it announced that the system of fixed prices and an assured market for agricultural produce would be maintained for at least one year after the war and publicly affirmed 'the importance of maintaining after the war a healthy and well-balanced agriculture as an essential and permanent feature of national policy'. There were considerable differences of opinion about the implications and implementation of this pledge—for example, about the size of home agriculture and the degree to which it should be insulated against supply and demand. Meanwhile, uncertainties were growing about the conditions of overseas supply. In 1944, the War Cabinet agreed that the system of fixed prices and an assured market should be maintained until the end of the 1947 harvest. This, it was hoped, would cover the transition period and allow enough time after the end of the war for the formulation of a long-term agricultural policy.

Linked with all the hopes and plans for a healthier and more stable British economy were other hopes and plans for improvements of the social services. There were minor schemes, such as milk and meals in the schools, and there were three major projects: reform of education, a national health service, social insurance. The Government's plans for a recasting of the national education services appeared in 1943[1] and the reforms were passed into law before the end of the war. The other two projects were not legislated upon during the war; but the preparatory work on each of them was carried a long distance forward. The scheme for a national health service was published by the Government early in 1944:[2] its purpose was to provide for every man, woman and child in the nation all the medical advice and treatment he or she needed, irrespective of ability to pay. Planning for the reform of social insurance had been set in hand as far back as the middle of 1941, when the Government invited Sir William Beveridge (as he then was) to take charge of a comprehensive survey of existing schemes. His Report appeared at the end of 1942[3] and aroused much popular enthusiasm. The Government spent many months studying the Report and working out detailed proposals[4] on the many points involved in the reform of workmen's compensation and the unification and extension of insurance for sickness, unemployment and old age; the proposals also included a scheme for family allowances.[5]

This bare summary of domestic reconstruction plans could not be omitted from the history of the British war economy. There existed, so to speak, an implied contract between Government and people; the people refused none of the sacrifices that the Government demanded from them for the winning of the war; in return, they expected that the Government should show imagination and seriousness in preparing for the restoration and improvement of the nation's well-being when the war had been won. The plans for reconstruction were, therefore, a real part of the war effort. In the later years of the war, particularly, they absorbed a very considerable part of the energies of departments, burdened though they were by urgent war tasks.

It is for the historians of the peace to judge how much of the work that was done in those years of heavy pressure was justified later on. They in their turn may find it convenient to make the same division of reconstruction plans that this chapter has used—plans for the transition from war to peace and those for long-term improvements. They may well be agreed that with one or two important exceptions[6] the plans for orderly demobilisation and for a smooth reconversion of industry passed the tests of experience. Opinion about the long-term plans, on the other hand, is already controversial.

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[1] *Educational Reconstruction.* Cmd. 6548, July 1943.

[2] *A National Health Service.* Cmd. 6502, February 1944.

[3] *Report on Social Insurance and Allied Services.* Cmd. 6404, November 1942.

[4] *Social Insurance,* Part I and Part II, Cmd. 6550 and Cmd. 6551, September 1944.

[5] A family allowance scheme was one of the three assumptions which Sir William Beveridge's Report took as its starting point.

[6] For example, far too little attention was given to the implications of the continuous decline in coal stocks.

Most of the long-term plans could not in any case be put into final shape during the war because they involved political decisions which a coalition government could not easily make. But the decisions when they came were often based on the preparatory work done during the war and public expectations were certainly stimulated by war-time plans. Were these plans no more than 'practical steps' which it was 'indispensable to take if British society [was] to move forward?' Did not the war itself compel many major reconstruction schemes? Were the plans, on the other hand, based on hopes which were illusory? Did they reckon sufficiently with the difficulties of external payments? Were they too optimistic about the continuing growth of national income?[1] In 1944, when most of the long-term plans had already been assembled, a cry came from the Treasury that 'the time and energy and thought which we are all giving to the Brave New World is wildly disproportionate to what is being given to the Cruel Real World.' Was this true?

These are questions that can only be answered when the history of the peace is written. Certainly if there was optimism it was no less apparent in international than in domestic plans and no less prevalent among the Americans than among the British. Leading economists and officials of the two countries, at a series of conferences and in very persistent labours between them, devoted long sustained efforts to a large task of constitution-making in the sphere of international economics.

Reference may first be made to the short-term plans for relief in the war-devastated countries. An agreement for the establishment of a United Nations Relief and Rehabilitation Administration was signed in Washington in November 1943.[2] The United Kingdom willingly assumed the financial obligation determined by the Council of U.N.R.R.A. at its first meeting at the end of 1943—a contribution amounting to not less than one per cent. of the national income in the year ending 30th June 1943.[3] For a country in the financial situation of Britain, the contribution was not a light one: during the two years or so when U.N.R.R.A. operated it amounted to £155 millions. This was additional to the sums provided for military administration of relief in the early days of liberation.

[1] In 1943, the Government accepted £7,000 millions as the probable level of the national income in 1948—that is, allowing for a price level thirty-five per cent. higher than pre-war, the national income would be between seventeen per cent. and twenty per cent. greater than in 1938. The estimate was the result of various guesses about post-war unemployment, the size of the working population, hours of work, productivity and terms of trade. Of the economists and statisticians who produced the estimate, some thought £7,000 millions was much too pessimistic and others that it was far too optimistic. The £7,000 millions figure was based on guesses about unemployment and the size of the working population that have proved too pessimistic, but the pessimism was far out-weighed by over-optimism about hours of work, the terms of trade and—above all—productivity.

[2] Cmd. 6491.

[3] Cmd. 6497. Not less than ten per cent. of the contribution was to be in convertible currency.

The first of a series of Allied conferences on long-term problems of international economic policy was held at Hot Springs in the United States in May 1943.[1] Its purpose was to discuss post-war food problems and the provision 'for all the men in all the lands' of a secure, adequate and suitable supply of food. It exhorted governments to undertake the improvement of their peoples' diet by a variety of means and laid down principles which should govern the production and distribution of foodstuffs if an 'economy of abundance' were to be achieved. To deal with what was thought to be the short-term problem of scarcity, the Conference called on the one hand for a production drive, especially of crops for direct human consumption, and on the other hand for the continuation of international schemes for the allocation of food and shipping. Finally, it recommended that a permanent organisation for food and agriculture should be established and that an 'interim commission' should be set up immediately to formulate a specific plan for the permanent organisation. The Food and Agriculture Organisation of the United Nations was constituted at the end of 1944 and the United Kingdom Government immediately became a member.[2]

There was, perhaps, some tactical advantage in opening the discussions on international economic policy on a simple theme which was likely to touch the popular imagination; but the problems of food and agriculture could not be separated from the wider problems of world trade. The United Kingdom and the United States were pledged to early discussions on trade policy. In Article VII of the Mutual Aid Agreement signed in February 1942,[3] they had agreed in general terms that the final settlement of lend-lease should—

> 'include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods . . .; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers.'

On the British side, a good deal of work was done to prepare material for the coming discussions with the Americans. There emerged three main items for discussion—a currency scheme, a commodity scheme and proposals for commercial policy. When the first general talks took place in the autumn of 1943, the United States broadened the agenda to include an international investment bank, employment policy and international cartels.

[1] *Final Act of the United Nations Conference on Food and Agriculture.* Cmd. 6451.

[2] *Documents relating to the Food and Agriculture Organisation of the United Nations.* Cmd. 6590, 1945.

[3] *Agreement on the Principles applying to Mutual Aid.* Cmd. 6341, 1942.

The currency question came first. The British proposals were founded on Lord Keynes' suggestion, made in the spring of 1942, for an International Clearing Union. Under this, a new international money of account and a new international central bank would be created to aid adjustments in the international balance of payments. Countries with a deficit would be allowed, with certain safeguards, to overdraw at a central clearing union.[1] These proposals in some respects went further than those put forward by the United States; but the differences were reconciled and a United Nations Conference was held at Bretton Woods in the summer of 1944. There, the forms of an International Monetary Fund and of an International Bank for Reconstruction and Development were agreed.[2] Ratification by Governments was of course necessary before individual countries became participants in these new institutions.

Not long after the first currency proposals appeared, another paper—again the work of Lord Keynes—put forward a commodity scheme designed to iron out extreme fluctuations in the prices of primary products. In essentials, the proposal was that buffer stocks should be set up by international commodity controls and operated so as to stabilise prices near 'a reasonable level'. Provision was made for the organised restriction of production in the event of chronic excesses of supply over demand. The principles embodied in this scheme were, in general, acceptable to the Americans and at the Anglo-American discussions of the autumn of 1943 broad agreement was reached. Both sides accepted the view that international commodity arrangements should be made; that they should in operation be harmonised with the general aim of economic expansion; in consequence, that the primary object of buffer stock arrangements should be merely to mitigate short-term price fluctuations, leaving long-term price adjustments to follow the basic conditions of demand and supply.

Commercial policy occupied the central place in the Anglo-American programme of economic discussion. On the British side, a forthright impulse was given at an early stage by the Board of Trade. Towards the end of 1942, the President of the Board looked forward to the 'chance of a first-class shake up at the close of this war'. He believed that the opportunity should be seized and great efforts made to bring about big cuts in tariffs and preferences everywhere within a new international association called the Commercial Union. His proposals were further elaborated by an official committee and then went to the War Cabinet. The War Cabinet, after much discussion, recorded a provisional conclusion in favour of taking the initiative in putting forward proposals based on the view that a general clearance of barriers to world trade was particularly in the interest of the

[1] *Proposals for an International Clearing Union.* Cmd. 6437 (April 1943).
[2] *Final Act of the Conference held at Bretton Woods.* Cmd. 6546.

United Kingdom, and that such a clearance could best be secured by a multilateral commercial convention open to adherence by all States. This conclusion was qualified by the insistence that a country with an adverse balance of payments must preserve its freedom to maintain quantitative import restrictions without having to obtain the permission of an international monetary authority.

On this basis, discussions were held in 1943 first with the Dominions and then with the United States of America. The upshot was general agreement between British and American officials in favour of a multilateral international convention under which agreed limits would be set to all protective measures and discriminatory practices would be forbidden. The proposals involved the reduction of tariffs, the narrowing of preferential margins, the abolition of export subsidies (though not of general subsidies to production), rules designed to prevent the use of State trading in ways that would infringe either the agreed limits of protection or the rules against discriminatory trading, and finally, the banning of import quotas unless they should be specifically permitted to remedy disequilibrium in a country's balance of payments. It was recognised that such a régime could not come into full force during the first period of economic reconstruction and that many improvisations would have to be permitted during a transition period. To supervise the execution of the agreement and to serve as a forum for the discussion of international trade questions, an International Trade Organisation was proposed.

The Anglo-American discussions of 1943 were between officials and it was often emphasised that they in no way committed His Majesty's Government. Differences of view in the War Cabinet in fact arrested the discussions in 1944. They were not renewed until the end of the year. This time the British proposals were modified to allow greater protection for home agriculture and temporary protection for infant industries.

The discussions on commercial policy, commodity policy, employment policy and cartels were so inter-connected that they were combined in one comprehensive agenda. They still proceeded at the official level. No government decisions on any of the subjects had been reached by the time the German war ended and a General Election was held in Britain. But at Potsdam and subsequently in the financial talks at Washington, these questions were considered as matters of urgency. In the minds of many United Kingdom officials, the principles and purposes of the 1945 Loan Agreement were in fact a pendant to the discussions on international commercial policy. In December 1945, the British Government published the proposals formally transmitted to them by the United States Government for consideration by an International Conference on Trade and Employment. The ground they covered was by now very familiar. The

Government of the United Kingdom announced that it was on all important points in full agreement with the proposals. It accepted them as the basis for international discussions and undertook to use its best endeavours to bring the discussions to a successful conclusion.[1]

(ii)
Some Costs of the War

Clear insight into fact may be fogged just as easily by disillusionment as by hope and we do not propose, at this stage of our history, to brood too mournfully upon 'the cruel real world'. But the radiance of the earlier visions of a 'brave new world' had certainly been dimmed by the time the war ended. To quote Lord Keynes, Britain was faced with what might be called 'without exaggeration and without implying that we should not recover from it, a financial Dunkirk'.

The quotation is taken from a paper which came before the War Cabinet on 14th August 1945, the day on which Japan accepted unconditional surrender. The paper and the discussion upon it laid stress on the things that Britain herself could do. But they would take time. In the balance of payments for 1946, 1947 and 1948 the prospective deficit was so great that, unless substantial new aid were secured from the United States to compensate for the imminent closure of lend-lease, the nation would be 'virtually bankrupt and the economic basis for the hopes of the public non-existent'.

On 17th August, President Truman issued a directive ending lend-lease as from America's officially appointed VJ-Day, which was fixed subsequently for 2nd September. The abrupt cessation of supplies already in the 'pipeline' would have completely disorganised British economic life and the British Government undertook to purchase them, on terms to be negotiated later as part of a general financial settlement. Before the Japanese war ended, both Governments had already begun preparations for talks to be held at Washington in September upon the subject of Britain's financial position in Stage III. VJ-Day made the talks far more urgent. In the first week of September, a British mission headed by Lord Keynes arrived in Washington.

The primary aim of the mission was to negotiate dollar credits. In addition, it had to discuss the winding-up of lend-lease and the implementation of Article VII of the Mutual Aid Agreement. All these matters were closely intertwined and all were finally included in

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[1] *Proposals for consideration by an International Conference on Trade and Employment* (December 1945), Cmd. 6709.

a comprehensive 'economic concordat' between the United States and the United Kingdom. It is not our purpose to study this concordat, for we are writing the last chapter in a history of the war, not the first chapter in a history of the peace. Certainly, disentanglement of the war history from the peace history is no easy matter; it is, indeed, a highly artificial attempt, for wars are not switched on and off like the electric light. But we must manage our task as best we can.

We may begin by recording the final and complete settlement of lend-lease.[1] Over the whole period from March 1941 to September 1945, the balance in favour of the United States in the mutual aid books[2] was in round terms about $21,000 millions. But by the settlement of 1945 Britain was required to pay no more than $650 millions, or £162 millions sterling. Of this, about $118 millions[3] (=£30 millions) was the net amount due to the United States in the offsetting arrangements in mutual aid after VJ-Day. Approximately another $60 millions (=£15 millions) represented payment by the United Kingdom for the acquisition of tangible assets previously the property of the United States and valued at about $350 millions at original cost to the United States.[4] The remaining $472 millions (=£118 millions) were due to the United States in final settlement of the mutual aid account proper for the whole period from 11th March 1941, to VJ-Day. This sum was in fact simply a payment for the considerable stocks of lend-lease goods of civilian types which the United Kingdom held on VJ-Day and now acquired outright.[5] The only other item it included was payment for the net acquisition by the United Kingdom of petroleum stocks throughout the world.

There were no other claims for payment. There were in the settlement no financial obligations whatever for lend-lease and mutual aid goods destroyed or consumed during the war. Naval vessels and merchant ships supplied and still surviving at VJ-Day were returnable to the supplying Government. Installations constructed under reciprocal aid for the United States Forces in the United Kingdom reverted to the United Kingdom; the same principle applied to lend-lease installations in the United States. As for munitions, the title to lend-lease military supplies held by the United Kingdom Forces at VJ-Day remained with the United States which retained the right—though they would not generally exercise it—to recapture

[1] See *Financial Agreement between the Governments of the United States and the United Kingdom*, Cmd. 6708; *Specific Agreements Regarding Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims*, Cmd. 6778. See also *Journal of the Royal Statistical Society*, Vol. CIX, Part III, 1946, article by R. G. D. Allen.

[2] Mutual aid only between the United States and the United Kingdom.

[3] This was later reduced to just under $90½ millions. Cmd. 7471.

[4] R. G. D. Allen, *op. cit.*

[5] *Ibid.* These stocks were valued by the United States Administration at $690 millions at original cost.

the equipment; again, the same principle applied to reciprocal aid equipment held by the United States Forces.

The lend-lease settlement, it must be said once again, was part of a comprehensive 'concordat' which included the loan agreement and the agreement on commercial policy. An historian of the peace would find it hard to remove the settlement from the wider context to which it belongs. But the historian of the war may treat it in isolation. The settlement was on its own standing fair and indeed magnanimous. It did not shoulder the United Kingdom with any repayments for purely war-time aid. This item at least was not added to the costs of the war that the British nation would have to meet in the peace.

The Washington negotiations of 1945 made it clear that these costs were, in truth, already burdensome enough. The general analysis of the United Kingdom's position did not vary in essentials from that disclosed in the Stage II talks of the previous year. The salient points affecting the balance of payments have by now become familiar in this book—the United Kingdom's very high mobilisation at the cost of its civilian production and export trade, the sale of its foreign investments, the loss of its shipping, its low gold and dollar reserves and its immense external liabilities. It would be mere repetition to traverse this ground again in detail. But it is worth while bringing the figures up to date, as it were, in order to see where the United Kingdom stood when VJ-Day came.

First, external disinvestment: in the period from September 1939 to June 1945, this added up to a total of £4,198 millions. Of this total, £1,118 millions represented the sale of capital assets, £2,879 millions the increase in external debt and £152 millions the reduction in gold and dollar reserves.[1]

Next, shipping: after allowing for the return of ships belonging to other countries, the merchant shipping fleet of the United Kingdom and Colonies, which had been so valuable a source of foreign exchange, was about thirty per cent. smaller at the end of June 1945 than it had been on the outbreak of war.[2]

Next, exports: during the first nine months of 1945, British exports had risen above the low level of 1944; but they were still not much more than forty per cent. by volume of the 1938 level.[3]

Last, the military aftermath: it was clear that the costs of the war would not cease to accumulate now that the Japanese had surrendered. The aftermath would involve the Government in expenditure abroad which, although lower than in war time, would be far higher than before the war. War-time bills would be presented in arrears;

[1] See Table 3 (a) on p. 352. The remaining £49 millions come under the heading 'unallocated'.

[2] Cmd. 6707. The calculation is by deadweight tonnage.

[3] *Ibid.*

more important still, there would be the costs of occupation and policing.

When the British negotiators in Washington looked forward to 1946, therefore, they foresaw a huge deficit in the United Kingdom's balance of payments. Assuming an export and import price level double pre-war, a very rough calculation suggested that the deficit in visible trade which had been about £300 millions in 1938 might be £650 millions in 1946. Government expenditure abroad which had been £16 millions in 1938 might be £300 millions in 1946 and net invisible income might shrink from the 1938 figure of £248 millions to £120 millions. Altogether, the estimate, the precariousness of which was often stressed, was that the deficit in the balance of payments in 1946 might be £750 millions even with a very austere import programme. The years after 1946 were of course even more uncertain. The hypothesis then held was that the adverse balance would diminish until equilibrium was reached, possibly in 1951. But by that time the cumulative adverse balance might be £1,250 millions or even higher.

These calculations and the need for a relentless export drive had to be viewed against the background of Britain's internal economy. The manpower figures[1] show that at June 1945 Great Britain still had nearly forty-five per cent. of its labour force in the Services and munitions industries. Only two per cent. were producing exports and less than eight per cent. were providing and maintaining the nation's capital equipment.[2]

In some ways, however, the high war-time mobilisation promised peace-time compensations. In particular, the employed population in mid-1945 was about three millions higher than in mid-1939—partly, as we saw, because of an increase in the labour force and partly because of a reduction in unemployment. This increase over pre-war would not be maintained in its entirety in peacetime; but in all probability it would at least more than balance the nation's war casualties. They fell far short of the dreadful total of the First World War, but were nevertheless grievous; rather more than 360,000 civilians and members of the Forces had been killed or were still missing.[3]

In general, it was not doubted in 1945 that manpower, highly mobilised though it was, would redistribute itself pretty quickly among peace-time tasks. It was not expected that a distorted distribution of manpower would be a permanent cost of the war. But there were some exceptional and very intractable manpower problems. The war had dealt harshly with one or two basic industries whose position had been difficult enough before it began. Coal was the

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[1] See Table 2 (b) on p. 351.

[2] Cmd. 6707.

[3] i.e. still missing in 1946. *Strength and Casualties of the Armed Forces*, Cmd. 6832 (1946). The casualty figures are for the United Kingdom, not Great Britain.

outstanding example. By 1945, for the first time for a century and more, plentiful and cheap coal had ceased to be the basis of British economic life. The number of wage earners on colliery books had fallen from 782,000 in 1938 to 709,000 in 1945; war-time efforts to rebuild the labour force had never met with much success. Early attempts to rebuild the textile industries had also been unpromising. The estimated numbers employed in these industries, which were so important for the export trade, had fallen from approximately 987,000 in June 1939 to 619,000 in June 1945.[1]

The 'undermanning' of certain vital industries was not the only cost of the war in manpower terms. The war had also affected efficiency as measured by output per man year. The statistical difficulties of measuring changes in productivity are formidable, and there is not the evidence for drawing general conclusions. In some cases, however, the position is clear. We have already seen the serious fall in output per man in the coal-mining labour force.[2] This fall, added to the decline in the total of the mine-workers, had been largely responsible for one of the war's most dangerous legacies—a grave coal stocks and production problem. It is also certain that during the war productivity in the building industry had shown a marked fall.

There were some items to be put in the credit column of this reckoning of efficiency. An outstanding example was agriculture. In the present book we have discussed agriculture almost solely in the context of price policy and we cannot now do more than summarise the productive achievement. During the war, the value of the net agricultural output at constant prices had increased by about thirty-five per cent. Intensive investment in petrol-driven machines had made British agriculture among the most highly mechanised in the world, with 190,000 tractors compared with a pre-war figure of 60,000. It appeared that output per man year had risen by as much as ten to fifteen per cent.[3] and that these results were more than enough to compensate for the costs of the war that had arisen through a reduction in livestock.[4] It was possible that some, though not all, of this increase could be carried forward for peace-time purposes.

It is possible that the war had brought increased efficiency to some other industries—for example, to some food industries, boots and shoes, tobacco and tinplate. In the engineering industry, the war had brought much that was new in mass production techniques. In many sectors of the industry, these techniques were not applicable to peace-time

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[1] Central Statistical Office, *Monthly Digest of Statistics*. The figures are for Great Britain and include males aged fourteen to sixty-four and females aged fourteen to fifty-nine; non-insured workers earning over £420 per annum are excluded.

[2] See above, Chapter XVI, Section (ii).

[3] *Economic Survey for 1947*, Cmd. 7046. para. 106.

[4] There were more cattle at the end of the war than at the beginning (most of the increase was in dairy cattle) but far fewer sheep, pigs and poultry.

production but in other sections—motor cars, for example—they promised real peace-time benefits. The measurable evidence about all these influences, however, is scanty. And even where efficiency increased during the war, the increase was not necessarily sustained in the post-war years.

It is to be hoped that before long some economist or historian will attempt a detailed study of the war-time changes in industrial efficiency and of the underlying influences such as methods of management, rationalisation and reductions in the number of types of particular products.[1] In this chapter, we shall simply pause to consider one of the most important of these influences—the capital equipment of industry. It has already been emphasised sufficiently in this book that one of the main methods of meeting the internal cost of the war was by depreciating 'non-war' resources and property. In addition, there was extensive war damage to property—much of it industrial plant. A very rough estimate that was produced during the Washington talks in 1945 suggested that physical destruction and internal disinvestment over the war period had together destroyed about ten per cent. of the pre-war national wealth.[2] With external disinvestment added, the calculation of the loss of wealth reached twenty-five per cent. At home, the evidence of this loss was abundant not only in bomb damage but in the absence of civilian building and the inadequate maintenance and replacement of equipment in nearly all the industries that, for manpower purposes, were called Group II and Group III—that is, inland transport, shipping and docks, gas, electricity, water and drainage and all the manufacturing industries except metals, engineering and chemicals. One of the worst threats to the future was the war-time impossibility of building enough generating plant to keep pace with the rising demand for electricity.

Seen in total figures, the United Kingdom's capital equipment undoubtedly suffered heavy depreciation during the war. The private net capital loss at home from 1940 to 1945 inclusive has been estimated in very rough terms at more than £1,700 millions. This figure, however, did not represent the total loss to be made good; part of the capital maintenance which would normally have been required was to provide for consumption that had been not merely postponed but permanently forgone during the war. Moreover, the total figure of loss conceals some important items on the credit side. British agriculture was far better equipped than before the war. Although the coal-mining industry had suffered for other reasons a calamitous fall of productivity, it possessed at the end of the war more machinery for cutting, conveying and loading coal—though less for cleaning it—than it had possessed at the beginning.

[1] Beginnings have already been made; for example by Dr. L. Rostas.

[2] Cmd. 6707, Appendix VIII.

Above all, the Group I or munitions industries—metals, engineering and chemicals—had benefited from a great increase in their capital equipment. The figures for the loss of national wealth and the figures for private disinvestment do not take account of government capital expenditure during the war which had a peace-time use. Between April 1939 and March 1945 the Government spent well over £900 millions gross on capital expenditure—buildings and plant—in the munitions industries alone.[1] A small part of this figure consisted of overseas expenditure. The domestic figure, moreover, would have to be substantially written down to arrive at the value of the capital assets that were available and suitable for peace-time production. To take one example, machine-tools: some of the tools provided by the Government were worn out and the rest had depreciated by the end of the war. Nevertheless, at the end of the war machine-tools worth about £100 millions were available for disposal to private industry. Some of the tools were useful only for war production, but even after making all allowances the engineering industries undoubtedly derived great benefits from these acquisitions.[2] Not only could the munitions industries buy government-owned tools and plant at the end of the war: during the war their finances were strong and in the later years they were able to replace equipment far more rapidly than was normal in peace time.[3] Another example is government buildings; between the end of the war and the end of June 1948 about seventy-five million square feet of government-owned factory space had been allocated for peace-time industry.[4]

The loss of capital equipment during the war, then, was not quite so great as it sometimes seemed. But in spite of qualifications the loss undoubtedly remained very heavy. This deterioration in the nation's capital position could be expected to have two ill effects on the peace-time economy. In the first place, it would retard production, both directly and also indirectly through its impact upon the living conditions of a people who in any case were bound to suffer the after-effects of six years of over-work and over-strain. In the second place, the necessity of replacing the lost capital would compete strongly with other urgent demands upon the nation's production. Paramount among these, as has been made abundantly clear, were exports, which were quite literally a matter of national life and death. But there were other urgent claims besides. There was relief

[1] i.e. excluding hostels, camps, airfields, etc.

[2] In 1935, which was quite a prosperous year, the intake of machine-tools into the engineering industry was worth only £5 millions.

[3] See *British War Production*, Chapter VII, Section 4, and Chapters VIII and IX.

[4] All the factories that were allocated might not find a permanent peace-time demand. Some were inconveniently situated and firms might not always wish to operate them when new factories become easier to acquire.

in the reoccupied countries, which again meant exports. And there were the demands of the civilians at home who, in the six years of war, had received less than four years' normal supply of clothing and less than three years' supply of household goods—to take at random two examples out of many. Private stocks of all civilian goods were low and clamoured for replenishment; stocks in the hands of distributors were equally low.

Thus the war had left vast unsatisfied claims upon production. It had also left dangerously large accumulations of purchasing power. War-time taxation, it is true, had been heroic; it had produced drastic effects upon the distribution of income between different classes[1] and had powerfully restrained inflation. But taxation had not been the only means whereby the Government had got into its hands the means of paying for the war. There were 'the post-war credits', a kind of forced savings collected with income tax but not strictly a part of it; these, to be sure, need have no inflationary effect after the war, because the Government could determine the time of their release. It was different with the voluntary savings which had reinforced taxation; any person could turn his war savings into spendable cash at any time. In addition to these savings, there were the Service gratuities. Savings and gratuities together were bound to intensify the difficulties arising from the contrast between enhanced money incomes and a painfully constricted supply of goods and services. It would be difficult indeed to prevent the demand of British consumers from competing too fiercely with the urgent needs of the export trades and restoration of the nation's capital equipment.

Within the realm of home finance, perhaps the most insidious legacy of the war was a habit of mind. The reckonings of national achievement to which people had accustomed themselves had been in physical terms. Finance had lost its traditional significance as a criterion and a method of control. The call had been for production and for government spending without too close a regard for the costs.

> The Supply Departments have demanded of the Treasury that money should be no object. [so wrote Lord Keynes in 1944] and the Treasury has so contrived that it should be no object. The financial problems of the war have been surmounted so easily and so silently that the average man sees no reason to suppose that the financial problems of the peace will be any more difficult.

For the British people, as well as for their defeated enemies, a painful and dreary course of 're-education' lay ahead.

All the costs of the war which we have enumerated—most of them tangible, some of them closely measurable, a few of them rather

[1] It is to be hoped that some writer will undertake a close comparative study of war-time changes in the standards of living (in the fullest sense) of different groups and classes of the population.

elusive—were plainly apparent when the war ended. But there were other costs which did not become apparent until later on. Despite our determination to avoid entangling ourselves in post-war history, we are tempted to lengthen the perspective a little—to reassess the costs of the war to Britain from the vantage point of 1947, when the initiative of an American Secretary of State, supported on this side of the Atlantic by a British Foreign Secretary, launched the European Recovery Plan. By that time, the early and in some respects misleading spurt of recovery, which had been made in 1946 by Britain and some of her neighbours, had been arrested. It had become clear that the costs of the war were far more complex and cut far closer to the bone than had been realised earlier on. In the special case of the United Kingdom, it would plainly take far longer than had been expected to make up the arrears of expenditure on consumption and capital goods; during that time, the conflicting claims upon limited economic resources—which to a degree unprecedented in history must be devoted to export—would be fierce indeed. But the special case of the United Kingdom was everywhere interwoven with the special case of many another national economy. Germany's collapse threatened to drag with it the countries whose economies depended on German coal, steel and industrial capacity. Devastation in Russia and Eastern Europe had cut off the major European supplies of grain and timber. Asia, which had emerged from the First World War almost unharmed, had suffered this time alarming material and psychological damage: some of the Asiatic countries which had been formerly such valuable direct suppliers of European needs and such bountiful earners of dollars were now themselves hungry 'demand' countries. The United Kingdom was dependent to an unprecedented degree upon the North American continent, where industrial and agricultural production had expanded no less sensationally than it had contracted elsewhere.[1] But the abnormal demands upon American production—demands both domestic and foreign—had greatly inflated the dollar cost of what America could supply. For the United Kingdom in particular, the inflation of American prices was a cruel problem, not merely because the British requirements of imports in proportion to population were exceptional, but also because changes in the terms of trade fell with exceptional, if not with exclusive severity upon the British economy.[2] The effects of

[1] Before the war, the sixteen nations participating in the European Recovery Plan had drawn about forty-five per cent. of their overseas imports from North America: it was believed that the corresponding proportion in 1948 could not be less than two-thirds.

[2] cf. *A Survey of the Economic Situation and Prospects of Europe* prepared by the United Nations Research and Planning Division, Economic Commission for Europe (Geneva, 1948) p. 57. Taking 1938 as the base year equal to 100, the average cost of the United Kingdom's imports in terms of its exports was 106 in 1946 and 119 in 1947. For the continental countries of Europe there was no comparable deterioration in the terms of trade though the reason was in many cases a sinister one—namely, the inflation of the prices of their exports to a degree which restricted sales.

these distortions in the channels of trade were all apparent within two years from the end of the war. There were other distortions whose effects were longer delayed; sooner or later, for example, Britain could expect to experience new difficulties in placing exports owing to the rapid industrial growth of countries which formerly had been large buyers of British manufactures.

Despite our protests, we shall soon find ourselves, if we are not careful, entangled in the history of the post-war world. Perhaps we have written just enough to demonstrate one important truth—that the costs of the war to the United Kingdom and to the international community in which the United Kingdom earns its living will not be fully recognisable until the violent efforts and upheavals of 1939–1945 have receded into a more distant perspective. Perspective, of course, reaches backwards from 1939 as well as forwards from 1945. Historians are already busily reminding us that our main economic problems, most notably those of the balance of payments and the capital equipment of industry, are not completely new creations of the Second World War. To be properly understood, these problems, we are told, must be envisaged as currents of tendency whose direction can be traced quite clearly from the eighteen-seventies onwards. This reminder is a necessary one; but it is no less necessary to remember the difference in character and consequence between a gentle current and a wild cataract.

That still longer perspective which was sketched in the first chapter of this book may be recalled here both as a reminder that war economy has its theory and also that each particular war economy in its own particular time has characteristics peculiar to itself. Despite all the contrasts of technology and of economic magnitude between the wars of the Napoleonic Age and those of the twentieth century, there are some striking parallels between the situation of the United Kingdom in the earlier age and the situation of the United States in the later one. Each of these two countries, in its own fortunate time, was able to use the expansion of its exports as an instrument of war; each found itself, at the conclusion of war, in some degree compensated for its efforts and sacrifices by an immense enhancement of its comparative economic strength among the nations. But the United Kingdom in the twentieth century found itself in quite the opposite situation. The nation's struggle after the Second World War to overcome the consequences of an effort which had so heavily overtaxed its economic strength was bound to be a long one.

This book, however, is not deeply concerned with the consequences. Its theme is the effort.