

PART II

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Period of the Anglo-French  
Alliance



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## STATISTICAL SUMMARY

In this book, the 1939-45 war has been divided into four chronological periods, each of which is treated in a separate part. The first three of these parts will be prefaced by a short statistical summary designed to focus the salient economic trends of the period and to show them in relation to the past and future periods of the war.<sup>1</sup> The past and future dates chosen for comparison vary according to the individual table; for example, for manpower 1943 has been chosen as the peak year for mobilisation, but in most other tables the forward comparison is with 1944 as the last complete year of the war.

The periods of this book have been fixed by strategic events and do not therefore coincide with the normal measuring periods of economic statistics; the nine-months period of the Anglo-French Alliance is a particularly awkward fragment. Nor are the measuring periods of all the statistics identical. The national income figures, for example, relate to calendar years; but the main manpower figures come from the 'July count' of insurance cards. The statistical summaries, therefore, inevitably run across the strategic boundaries.

### I. NATIONAL FINANCE

#### (a) National Income and Expenditure

	£ million				Percentages			
	1938	1939	1940	1944	1938	1939	1940	1944
1. National income . . .	4,707	5,075	6,066	8,310	100	100	100	100
2. National cost of consumers' goods and services	3,713	3,791	3,931	4,452	79	75	65	54
3. Government current expenditure:								
i. War . . . . .	327	763	2,600	4,481	7	15	43	54
ii. Other . . . . .	440	480	484	536	9	9	8	6
4. Net capital formation at home . . . . .	297	291	-145	-500	6	6	-3	-6
5. Net lending abroad . . . . .	-70	-250	-804	-659	-1	-5	-13	-8
6. Net national expenditure at factor cost . . . . .	4,707	5,075	6,066	8,310	100	100	100	100

Figures for national income and expenditure are *net* in that they exclude sums allowed for depreciation and maintenance and are at *factor cost* in that they include subsidies but exclude indirect taxes.

Source: Cmd. 7371 and Central Statistical Office

<sup>1</sup> Munition figures are excluded; they have been left to the companion volume *British War Production*.

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(b) Personal Expenditure on Consumers' Goods and Services at 1938 Prices

£ million

	1938	1939	1940	1944
1. Food . . . . .	1,287	1,307	1,138	1,120
2. Alcoholic beverages . . . . .	285	296	276	274
3. Tobacco . . . . .	177	182	178	205
4. Rent, rates and water charges . . . . .	491	504	508	503
5. Fuel and light . . . . .	197	199	202	193
6. Household goods . . . . .	288	274	216	100
7. Clothing . . . . .	446	444	372	275
8. Books, newspapers and magazines . . . . .	64	63	59	73
9. Private motoring . . . . .	127	113	38	8
10. Travel . . . . .	163	155	132	188
11. Communication services . . . . .	29	29	27	42
12. Entertainments . . . . .	64	61	53	90
13. Other services . . . . .	483	471	438	343
14. Other goods . . . . .	177	177	162	113
15. Income in kind of the Armed Forces . . . . .	17	28	67	152
16. Total of above items . . . . .	4,295	4,303	3,866	3,679
17. Adjustment <sup>1</sup> . . . . .	-7	5	17	27
18. Total . . . . .	4,288	4,308	3,883	3,706

Source: Cmd. 7371 and Central Statistical Office

(c) Average Weekly Government War Expenditure Exchequer Issues for Defence and Vote of Credit Expenditure

£ thousands

1939	September	19,600	1941	June	68,800
	October	20,700		December	87,800
	November	31,700			
	December	29,600	1944	June	90,300
				December	91,100
1940	January	33,200			
	February	33,600			
	March	40,900			
	April	33,100			
	May	35,500			
	June	51,800			
	December	70,600			

Source: Central Statistical Office

(d) Disposal of Personal Income

Percentages

	1938	1939	1940	1944
Consumers' expenditure at market value . . . . .	88	86	80	69
Direct tax payments . . . . .	9	9	10	16
Saving and additions to tax reserves . . . . .	3	5	10	15
Personal outlay . . . . .	100	100	100	100

Source: Cmd. 7371 and Central Statistical Office

<sup>1</sup> The adjustment is to convert the total in line 16 to a total of purchases out of British income.

(e) Prices and Wages

	Weekly wage rates: estimated increase in all industries. <sup>1</sup> Sept. 1, 1939=100	Average weekly earnings in certain industries <sup>2</sup> % of Oct. 1938	Cost of living Sept. 1, 1939 = 100	Price index of total consumers' expenditure 1938 = 100	Import prices Aug. 1939 = 100	Export prices Aug. 1939 = 100	Wholesale prices Aug. 1939 = 100
1939 Sept. Dec.	100 102-103		100 112	} Year 1939 = 102	129	104	108 125
1940 March June Sept. Dec.	107 109-110 114 115	130	115 117 121 126				} 120
1944 Dec.	145-146	176	130	Year 1944 = 150	See Note 3	See Note 3	

Source: Central Statistical Office

2. MANPOWER

(a) Total Population of Great Britain

Thousands

	1939	1940	1944
TOTAL . . . . .	46,466	46,889	47,627
0-13 . . . . .	9,231	9,187	9,239
M. 14-64 } . . . . .	31,923	32,281	32,386
F. 14-59 }			
M. 65 and over } . . . . .	5,312	5,421	6,002
F. 60 and over }			
MALES . . . . .	22,332	22,632	22,975
0-13 . . . . .	4,672	4,656	4,698
14-64 . . . . .	15,887	16,168	16,261
65 and over . . . . .	1,773	1,808	2,016
FEMALES . . . . .	24,134	24,257	24,652
0-13 . . . . .	4,559	4,531	4,541
14-59 . . . . .	16,036	16,113	16,125
60 and over . . . . .	3,539	3,613	3,986

NOTE: (1) The figures have been given for Great Britain only, to correspond as closely as possible with the tables given elsewhere showing the distribution of manpower by industry. It should be noted however that in the manpower tables the figures for the Armed Forces include an unknown number of recruits from outside Great Britain (mainly from Northern Ireland and Eire) who are not included in the total population figures above.

(2) The figures for 1939 exclude men serving overseas in the Armed Forces and Merchant Navy (estimated at between 200,000 and 250,000). From 1940 onwards all members of the Armed Forces and Merchant Navy are included, whether at home or overseas. Prisoners of war in enemy hands are included in 1944, but are mainly excluded from earlier figures.

Source: Central Statistical Office

<sup>1</sup> Some small industries are omitted. Figures for wage rates relate to the end of the previous month in order to make them comparable with the cost of living index, which relates to the beginning of the month mentioned.

<sup>2</sup> The figures represent the average earnings, including bonus, overtime, etc. and before deduction of income tax or insurance, in one week, in January and July of each year. Administrative and clerical workers and other salaried persons are excluded.

<sup>3</sup> There are no comparable figures in this series after 1941.

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## (b) Distribution of Labour Force of Working Age in Great Britain

	Thousands		
	June 1939	June 1940	June 1943
<b>Working Population:</b>			
Total . . . . .	19,750	20,676	22,286
Men . . . . .	14,656	15,104	15,032
Women . . . . .	5,094	5,572	7,254
<b>Armed Forces:</b>			
Total . . . . .	480	2,273	4,762
Men . . . . .	480	2,218	4,300
Women . . . . .	—	55	462
<b>Civil Defence, N.F.S. and Police:</b>			
Total . . . . .	80	345	323
Men . . . . .	80	292	253
Women . . . . .	—	53	70
<b>Group I Industries:</b>			
Total . . . . .	3,106	3,559	5,233
Men . . . . .	2,600	2,885	3,305
Women . . . . .	506	674	1,928
<b>Group II Industries:</b>			
Total . . . . .	4,683	4,618	5,027
Men . . . . .	4,096	3,902	3,686
Women . . . . .	587	716	1,341
<b>Group III Industries</b>			
Total . . . . .	10,131	9,236	6,861
Men . . . . .	6,387	5,373	3,430
Women . . . . .	3,744	3,863	3,431
<b>Registered Insured Unemployed:</b>			
Total . . . . .	1,270	645	60
Men . . . . .	1,013	434	44
Women . . . . .	257	211	16
<b>Ex-Service men and women not yet in employment:</b>			
Total . . . . .	—	—	20
Men . . . . .	—	—	13
Women . . . . .	—	—	7

NOTE: (1) The figures include men aged 14-64 and women aged 14-59, excluding those in private domestic service. Part-time women workers are included, two being counted as one unit. The figures refer to Great Britain only except for the Armed Forces, which include an unknown number of volunteers from Northern Ireland, Eire, etc.

(2) Group I covers metal manufacture, engineering, motors, aircraft and other vehicles, shipbuilding and ship-repairing, metal goods manufacture, chemicals, explosives, oils, etc.

Group II covers agriculture, mining, national and local government services, gas, water and electricity supply, transport and shipping.

Group III covers food, drink and tobacco, textiles, clothing and other manufactures, building and civil engineering, distribution trades, commerce, banking and other services.

Source: Ministry of Labour and National Service and Central Statistical Office

the press, there had been little evidence of awakening to the peril of the time. Indeed in November 1939 the War Cabinet, fearing public discontent, had even considered relaxing the controls so recently imposed. National awakening might have come sooner if Hitler had launched his expected *blitzkrieg* in the west. But all was quiet on the western front and the bombers did not come.

( iii )

## Strategical Background

In all essentials, the strategical principles agreed upon by the British and the French in May 1939 remained in force after 3rd September.<sup>1</sup> The Germans, it is true, did not open the first phase of the war in the gruesome way that had been anticipated, nor did the Italians show any clear intention of intervening. At first, the Allies welcomed this respite as an unexpected gift of time, allowing them to develop undisturbed their own deliberate plan of war. They believed that they could do nothing to prevent the enemy from striking down Poland and that it would be a big mistake for them to attempt offensive land operations in the west. They ruled out an air offensive in the belief that it would call down on their own cities retaliation out of all proportion to the damage it could inflict on the enemy.<sup>2</sup> They felt themselves compelled to remain on the defensive until they had narrowed the gap between Allied and German resources, or until the Germans 'took some action which threatened decisive results against us or the French'. They did not dispute the enemy's initiative.

At home there was anti-climax; no air raids, no mass slaughter, but some social strain and soon considerable boredom. Static war, or 'phoney war', as some people began to call it, was not after all so very different from the phoney peace of recent years. On 9th September, when the Germans were at the gates of Warsaw, the British Prime Minister announced that his Government was preparing for a three years' war.<sup>3</sup> In the lull that came after the dust and ashes had settled upon Warsaw this announcement seemed somehow comforting; it meant there would be no negotiated peace, it meant that time was 'on our side'. At sea indeed there was no 'phoney' war. The merchant seamen were facing danger and death. Though the Royal

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<sup>1</sup> See above, p. 67.

<sup>2</sup> The Germans were thought to have over 2,000 bombers in September 1939 against an Allied total of 950. In fact, Germany then had a total of 1,442 bombers of which 1,343 were immediately available (Air Ministry figures).

<sup>3</sup> *The Times*, 11th September 1939.

Navy was bringing most of the convoyed ships to port, it had to cope not only with U-boats but with ocean raiding by pocket battleships.<sup>1</sup> It was also striving to draw a tightening ring around the German economy. On land and in the air life was easier. A British Expeditionary Force—small, perhaps, but ‘wonderfully prepared’<sup>2</sup>—had crossed the Channel into France, where, it was popularly supposed, an impregnable Maginot Line stretched from the North Sea to Switzerland. British soldiers sang that they would hang out their washing on the Siegfried Line. Meanwhile the Royal Air Force was scattering over Germany leaflets which proclaimed not only the wickedness but also the weakness of the German Reich. In British propaganda, at home as abroad, the dominant note was ‘assurance of victory’.<sup>3</sup> If this assurance did not intimidate the enemy, it lulled the British people.

Perhaps it lulled the British Government. Accepting its own military passivity as inevitable and the enemy’s unexpected pause as a reprieve, the Government pushed on the work of rearmament in depth, designing long-term programmes of expansion to yield fruit in future years. The programmes were of varying ambition. The merchant shipbuilding programme was not particularly impressive, but it was complementary with a warship-building programme designed to exploit United Kingdom and Empire capacity to the full.<sup>4</sup> The Air Ministry aimed high—at 2,500 aircraft a month by mid-1942 and more thereafter. The Ministry of Supply was authorised by the War Cabinet to begin industrial preparations for a fifty-five division Army—the thirty-two British divisions already agreed a few months back, and an additional twenty-three divisions to be supplied by the Dominions, India and prospective Allies. This fifty-five division scheme was an aspiration rather than a programme; it was soon hedged about by conditions whose fulfilment was not yet in sight and it was destined for a time which the War Cabinet called vaguely ‘as soon as possible’. Here was no immediate answer to the rearmament in width already achieved by Hitler. The conversion of British industry to a full war basis did not move fast. Government expenditure, even with its figures concealing a substantial rise in prices, rose gently from about £20 millions a week in the first two months of war to about £33½ millions a week in the sixth month.

But the blockade was already operating and the British people expected great things from it. Their expectations derived in part from the political education given to them in the wistful peace-time

<sup>1</sup> The pocket battleship *Graf Spee* was destroyed by British cruisers in December 1939.

<sup>2</sup> *The Times*, 11th September 1939.

<sup>3</sup> See Chapter II, p. 72.

<sup>4</sup> The programme was 1,100,000 gross tons a year—scarcely any larger than what commercial enterprise, with a little help from subsidies, had achieved in 1938.



years, when the power of blockade was re-named 'sanctions' and envisaged as an instrument of the new international order. Many people had believed that 'sanctions' could achieve mastery over the armed forces of even the strongest nations; it was natural for them to keep on believing it when yet another name for the same thing—this time it was 'economic warfare'—signified the collapse of the international order and the reversion of blockade to its traditional role as an instrument of national policy. These changes of name were perhaps partly due to the realisation that new methods of assault and constraint were now available to reinforce the action of naval blockade; but they were also due to the successful German propaganda against the 'hunger blockade' of 1914-18. In denouncing its inhumanities, the Germans had exaggerated its successes, thereby covering up the mistakes their own government had made in planning the German war economy. The distortion was a useful aid to German policy abroad, for it fostered the illusion in the western democracies that blockade, sanctions or economic warfare—the name does not matter—could be employed as a substitute for military force.

British statesmen and their expert advisers had shown between the wars considerable uneasiness over this popular tendency to 'exaggerate the potency of the blockade weapon'. They were aware that many of the drastic effects popularly attributed to the blockade had in fact been produced by mistakes of German economic policy before and during the First World War, by its failure to build up stocks of fertilisers and food, by its faulty distributive mechanism and the lack of balance in its agricultural effort.<sup>1</sup> When in 1937 they sharpened their studies of blockade policy and focused them upon the German economic system, they found it hard to believe that the German Government and its experts would be taken in by their own propaganda and make the same mistakes again.<sup>2</sup> Admittedly, the Germans were heavily dependent upon overseas supplies of iron-ore, manganese, alloy metals, liquid fuels, edible fats and some other materials; but it was thought that they were building up plentiful stocks of these commodities and preparing large schemes of substitute production. It seemed probable that the German war machine would be able to run at full strength for fifteen or eighteen months at least, even if the blockade drastically cut down essential German imports.

When war came, this drastic cut could not be imposed. The Ribbentrop-Molotov pact had guaranteed German access to the

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<sup>1</sup> The authority is Dr. R. Kuczynski (*Deutschlands Versorgung mit Nahrungs- und Futtermitteln*, 1927) of whose work Lord (then Sir William) Beveridge made use in the pamphlet *Blockade and the Civil Population*, 1939.

<sup>2</sup> In fact, German stocks were low on the outbreak of war (see U.S. Strategic Bombing Survey, *op. cit.* Chapter vi).

economic resources of all Europe east of the Rhine. By intimidation or cajolery, the Germans were able to assure the flow of supplies from their neutral neighbours, including the Scandinavian countries. As intimidator and cajoler the British Government was less successful; for it was chary of provoking unfriendly neutrals or offending friendly ones.<sup>1</sup> Shortage of foreign exchange circumscribed its plans to forestall the Germans in purchases from neutral countries. Its desire to observe existing rules of international law, except in so far as German action justified reprisals, hampered its attempts to ration forcibly the imports of neutrals, or to block enemy exports. Moreover, the international law concerning blockade was subject to rival interpretations: the United States were by tradition the opponents of the British doctrine of blockade and the champions of neutral rights. Difficulties arising from this cleavage of opinion were not completely eradicated until the Lend-Lease Act was passed in March 1941. With all these hindrances to contend against, Allied economic warfare during the first six months of the war could not make much of a dent in the enemy's strength. Paradoxically, the British Government seemed now to be forgetting its earlier and more sober estimates of possible achievement. At the meeting of the Supreme War Council at the end of March, the British Prime Minister acclaimed economic warfare as 'the main weapon'.

By this time, however, the British and French Governments were ready to think out ways and means of sharpening their 'main weapon' and using it more resolutely. They felt that they must take a firmer line with some of the neutrals that were supplying Germany. Their military advisers were becoming increasingly uneasy about the undiluted passivity of Allied strategy. Spring was approaching, but the gap between Allied and German resources seemed just as great as it had been in the previous autumn. An offensive on the western front could not be attempted in 1940 and might well be impossible before 1942. Even then, the disparity between Allied and German divisions made any hopes of success depend partly on the development of new tactical methods and weapons, partly on the participation of Belgium. Yet meanwhile Belgium could not even be persuaded into staff conversations with the Allies to provide for her defence if she should be invaded. All this was disheartening, and the Chiefs of Staff felt constrained in March 1940 to utter a warning. 'Time is on our side', they said, 'only if we take the fullest possible advantage of it.' The moral and political disadvantages of passivity, as well as the military ones, were becoming only too obvious. Between September and March the British War Cabinet had more than once given attention to reports which suggested that public

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<sup>1</sup> An account of the trade agreements negotiated with neutrals is given in Professor W. N. Medlicott's *Economic Blockade*, Vol. I, in this series (H.M.S.O., 1952).

opinion in France was 'highly restive'. The trend of public opinion in neutral countries was a cause of considerable anxiety to both Governments. At the end of March, M. Reynaud pictured to the Supreme War Council a general feeling among neutrals 'that the war had reached a deadlock, that Germany had only to wait, and that then, like the better of a pair of chess players, she would be able to take her enemy's pieces one after another'. A war, after all, could not be won merely by trying not to lose it. Such an outlook, the Chiefs of Staff declared, was very unlikely to inspire neutrals who, whatever might be their sympathy with the Allies, had no wish to share the fate of Poland.

Within the agreed framework of defensive strategy a more spirited policy was needed, and in March 1940 the Supreme War Council tried to provide it. A desire to force the pace, yet without any frittering away of resources, bore fruit in plans for certain perimeter operations which would strengthen the blockade, cut off some valuable imports from the Germans, compel them to consume their stocks, and at the same time bolster up domestic and neutral morale. Nothing need be said of these schemes, for while they were being constructed the days of grace were swiftly passing. It was not the new plans that were called into operation but the older defensive plan for resisting German attacks in Norway and in the Low Countries.

As early as the first week of May the Chiefs of Staff felt themselves compelled to assess Great Britain's chances in a war that she might be compelled to continue alone. In a study of 'British Strategy in a Certain Eventuality' they ruled out submission but saw no chance of final victory unless full economic support were forthcoming from the United States. Looking to the immediate future they saw no prospect save a desperate defence. At home, the most urgent of many needs was for fighter aircraft and crews for the approaching battle against the German air fleets and possibly the invading German Army. Abroad, the western basin of the Mediterranean would be dominated by the enemy; but Suez and the approaches to the Middle East must be held. At the other end of the world Singapore must be strengthened lest the Japanese attack. And after these defensive battles had been fought and won—what then? The Chiefs of Staff believed in the possibility of victory; but they did not as yet look so far as the final victorious assault of a new British Army against the European Continent. They envisaged prospects that then seemed nearer—revolt in conquered Europe, and, most of all, the effects of economic pressure. The Chiefs of Staff based their conclusions about economic pressure upon prophecies from the Ministry of Economic Warfare that in 1941 Germany would suffer acute shortages of food, fuel and industrial supplies. They said they could not emphasise too strongly the

importance of the substantial accuracy of this forecast, since upon the economic factor depended the only hope of bringing about the downfall of Germany.

In fact, German's economy was immeasurably strengthened by her conquests and the Ministry of Economic Warfare's forecasts were sheer illusion. But at a time when the British Government and people were in stern reaction against their earlier complacent mood, one or two illusions may possibly have done less harm than an overdose of the harsh truth would have done.

So the strategical programme seemed, superficially, what it had been before—a military defensive and an economic offensive. But the defence must now be desperate instead of leisurely and the economic offensive must come from the air as well as from the sea. Even that was thinking too far ahead; for with France fallen the chief function of British air power must be to join the Navy in its traditional task of maintaining the island security of the United Kingdom. And in those same summer months the whole emphasis on the value of sea power shifted. The Italian fleet had joined the enemy, the French fleet had given up the struggle and might perhaps fall into enemy possession, German submarines now had bases on the Atlantic coasts of Norway and France. In the Far East the Japanese Navy was threatening. The Royal Navy had suffered heavy losses of destroyers in rescuing the British forces in Norway and France. Less emphasis was placed upon its part in waging a war of attrition on the enemy's economy and much more emphasis on its primary duty to keep an invading army from British shores and to safeguard the flow of overseas supplies.

## CHAPTER IV

### CASH AND CARRY

(i)

#### Overseas Supply

**I**N THE Second World War, it was not naval blockade but air bombardment that proved itself in the end to be the most devastating weapon of warfare against the enemy's economic power. Nevertheless, naval power confuted all those prophets who in enemy countries and elsewhere had foretold its obsolescence in modern war. Fused in new ways with the other elements of warfare, it still maintained its old advantages of flexibility and surprise. At Dunkirk it brought deliverance to an outmatched army; at Salerno and Normandy it assembled the avenging armies and supported their assault. These were the dramatic battles; between them was the never-ceasing battle of supply—the Malta convoys, the Arctic convoys to Russia, the Battle of the Atlantic which was fought year in year out to safeguard those overseas reinforcements of war-making power that in the end overwhelmed Hitler's Continental fortress.

Economists have sometimes attempted to measure the advantage of overseas supply in statistical terms. Even in the dark year of 1941, the economists of the War Cabinet Office, piecing together their knowledge of British figures and their guesses at German and Italian figures, concluded that the war production of the United Kingdom was already closely matching that of her enemies—a prodigy of achievement which a nation so heavily outmatched in population could not even have approached, had not its own efforts been intermeshed with the productive labour of other countries. It would take too much time to confront these estimates of 1941 with our retrospective knowledge of Germany's performance; but it may be confidently asserted that the estimates revealed one important truth. Taking full advantage of the international division of labour, the United Kingdom was enabled in large measure to rectify her numerical inferiority by mobilising in the immediate war zone a much higher proportion of her much smaller population. Not to mention the Allied and associated countries on either side, Greater Germany had in mid-1939 a population of nearly 79½ millions with a total military and working force of about 40½ millions: Great Britain's population was

nearly 45½ millions, of whom nearly 20 millions were gainfully employed. But this formidable contrast in human resources shrinks sensationally when the distribution of the two labour forces is examined. Great Britain, for example, employed on the land less than a million people or not quite five per cent. of her labour force; whereas Germany, to provide her people with food, was employing on the land 11 millions, or twenty-seven per cent. of her labour force. Again, to take a single minor example: the erection by the Germans of twelve synthetic oil plants with a capacity of 3·3 million tons a year was estimated to require 2·4 million tons of structural steel and 7·6 million man-days of labour; with a much smaller expenditure of man-days of labour, Great Britain was able to procure in British-owned or foreign tankers natural oil from the wells of Iraq or Persia or America.<sup>1</sup>

The Germans, of course, were able to make other people work for them; by 1944 they were employing in their own country more than five million imported civilian workers and nearly two million prisoners of war—a total of 7·13 million foreign workers, which in large measure explains the gentleness with which the German Government treated its own people, in comparison with Great Britain's relentless mobilisation of manpower. Germany, moreover, was able to draw other economic contributions from a *lebensraum* which after 1940 included the whole of Continental Europe west of the new Russian boundaries. But the productive resources that Germany's land neighbours could make available to the German war economy were immensely inferior to Britain's potential gain from her oceanic neighbours. The agricultural countries of the tropics, although their average economic efficiency was low, could contribute specific commodities of great value, such as rubber and oilseeds, cotton and sisal and cocoa: some of them could contribute valuable minerals as well. The agricultural countries of the temperate zone, such as Australia and New Zealand and the Argentine, had an immensely higher output per man than any of the peasant countries of Europe; they had besides a respectable and increasing manufacturing productivity. And on the continent of North America there was established, both in agriculture and industry, the most formidable concentration of productive power in the whole world.

The United Kingdom's economic advantage was therefore great; but in earning it she had chosen to live dangerously. Whereas the Germans held on secure tenure—until the liberating armies at last drew near—their modest profits from Polish or Bulgarian economic

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<sup>1</sup> See U.S. Strategic Bombing Survey, *op. cit.*, Chapter III and appendix: also C. T. Saunders, 'Manpower Distribution 1939-1945' in *The Manchester School*, May 1946. Owing to statistical difficulties the manpower figures are for Great Britain, not the United Kingdom.

effort, the British held on precarious and conditional tenure their much greater benefit from Argentinian or American production. If the Axis powers had been able to break British naval strength they would have turned the tables indeed: the United Kingdom would then have been compelled to struggle for economic self-sufficiency, at so pitiable a level that she could neither have made effective war nor even maintained her civilian population. There was another contrast: Germany was creating in Europe a 'new order' largely subservient to German military command; but the international economic order to which the United Kingdom belonged was still in large measure governed by the notions of economic self-interest held by the individual communities participating in it. Britain might be granted some privileges of deferred payment, her merchant fleet might be reinforced by ships of other nations; but until the coming of lend-lease the strength that she could draw from overseas was sharply limited by her own capacity to pay and to ship. Whereas Germany could use force to exact from her land neighbours a large, if not a full, measure of economic collaboration, the United Kingdom must depend upon the good will of her distant oceanic neighbours, and upon their feeling of a common interest between themselves and her.

The United Kingdom must in particular attune her economic policy to the political decisions of the United States. In September 1939, each self-governing nation of the British Commonwealth, excepting Eire, had by its own sovereign decision made common cause with the United Kingdom; but the United States had proclaimed a rather complicated neutrality. Judging by the experience of the previous war, this neutrality might possibly make all the difference between victory and defeat. Certainly, nothing short of full United States support would have saved Great Britain and her Allies in 1917, when the German U-boats came close to cutting the oceanic life-lines. American supplies had then been made available without stint, along with the credits to pay for them; American yards were then set hard at work to produce millions of tons of shipping to share the dangerous Atlantic passage; American armies were then called up and trained to reinforce the western front. How great was the contrast of 1939 and 1940! The United States were competent, this time, to give far greater help;<sup>1</sup> but they had proclaimed their resolve to give far less. Moreover, as if in distrust of their own passionate sympathies for the democratic cause, they had embodied their resolve in formal legislation of Congress.

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<sup>1</sup> In the previous war, American economic aid had been chiefly in materials, food, ships and finance, rather than in finished munitions, for the U.S. had not got to the stage of producing them in large quantities and depended largely on British industry to equip their armies in France.

The historian of the British war economy must not presume to expound the history of the Neutrality Acts of 1935-39; but he is bound to discuss the effects of American neutrality policy upon British economic policy. Far back in the nineteen-twenties, the British Government had feared that America's traditional policy of affirming the trading rights of neutral nations, now that it could for the first time in history be backed by a great mass of American naval power, might wreck altogether the British design of economic warfare.<sup>1</sup> When Hitler came to power, a drastic reversal of United States policy removed this anxiety; but put a more serious one in its place. The British could now go ahead with their plans of naval blockade without fearing that their attempts to weaken the Axis powers would embroil them with the United States Navy; but they were at the same time given warning not to expect effective economic aid from American democracy if they found themselves at war with Germany, Italy, or Japan, or all three together. The new doctrine of American neutrality was thus on balance a discouragement to the democracies, an encouragement to the Fascist powers. Its legislative statement in the Neutrality Act, after reasserting some of the duties that were traditionally incumbent upon neutral powers—for example the duty of refusing refuge and supply to belligerent armed vessels—proceeded to surrender those traditional rights of which the United States had been the foremost claimant for more than 100 years. Instead of claiming for American ships and American citizens the right to pursue their peaceful business in time of war, it forbade them to entangle themselves in the dangers of war. Indeed, the Neutrality Act might very well have been called the Non-Entanglement Act. Its main features reflected the popular conceptions, or misconceptions, of the causes of American entanglement in the First World War.

According to a widely diffused opinion, three causes—apart from propaganda, which in the American view had exacerbated each single cause and all three together—had brought about American participation in a European quarrel: first the interest of the munitions industries, secondly the destruction of American ships and the death of American citizens at sea, thirdly the financial interest created by Allied borrowings on the American market. The neutrality legislation attempted to root out all these evils. First, it imposed an absolute embargo on the export of arms to belligerent states. Secondly, it

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<sup>1</sup> e.g. at the time of the Geneva Disarmament Conference of 1927, the British Government believed that the extreme U.S. doctrine of the freedom of the seas underlay the American determination to deny to Great Britain the large force of small cruisers which she wanted. Small cruisers could be used not only to defend trade routes but to enforce a blockade; whereas a small number of large cruisers, which was what the Americans wanted, could be used to prevent British interference with neutral commerce. There is some discussion of the American background to British blockade policy in *Economic Blockade*, Vol. I.



withdrew the protection of the U.S. Navy from American nationals on belligerent ships, and it forbade American ships to enter the combat zones. Thirdly, it obliged belligerent purchasers of American goods to secure a transfer of title before exportation. The first prohibition needs no comment. The second prohibition expressed the policy of 'carry'—i.e. that belligerents must carry in their own ships all cargoes procured by them in the United States, even if those cargoes were only apples or tobacco. The third prohibition reasserted the principle of 'cash'—which had already found another expression in the Johnson Act of 1934, prohibiting loans of money from any person under American jurisdiction to any foreign government in default on its payments to the United States.<sup>1</sup>

It is worth remembering that there were certain gaps in this legislation: most noticeably, the exemptions with which the American republics were favoured, and the discretion entrusted to the President to 'find' or not to 'find' a state of war.<sup>2</sup> Far more important from the British point of view was the expectation, which from the early months of 1939 appeared reasonably well founded, that the outbreak of war in Europe would be followed quickly by important modifications of the Neutrality Act. This expectation was justified on 4th November 1939, when the President approved a 'joint resolution to preserve the neutrality and peace of the United States and to secure the safety of its citizens and their interests'. This resolution, called for convenience the 1939 Neutrality Act, removed the arms embargo; but it stiffened the 'cash and carry' provisions.<sup>3</sup>

In outward appearance, the amending legislation of 4th November made considerable difference to British supply policy. As far back as July the British Government had made preparations to establish a purchasing commission in the United States; but respect for American susceptibilities had prompted it hitherto to place the main emphasis on procurement in Canada. The 'British Supply Board in Canada and the United States' had its headquarters in Ottawa; in New York it had only an inconspicuous branch office, under the direction of Mr. Arthur Purvis. The excision of the arms embargo changed all that. Mr. Purvis was at once instructed to go to Washington and make contact with the United States administration, not merely on behalf of the British Government, but as chairman of the newly constituted Anglo-French Purchasing Commission.<sup>4</sup>

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<sup>1</sup> By a ruling of the U.S. Attorney-General, a token payment was held to be equivalent to default.

<sup>2</sup> The President 'found' a state of war in the Italian aggression upon Abyssinia, but not in the Japanese aggression against China.

<sup>3</sup> In this, the latest version of the neutrality legislation, the 'combat zones' made their first appearance, and foreshadowed the total disappearance of U.S. shipping from all dangerous waters.

<sup>4</sup> See below, Chapter VII.

Nevertheless, the immediate real effects upon British policy were small. The British Government believed itself to be too sparsely supplied with dollars to justify any considerable expenditure upon American finished munitions, and was determined to limit its purchases as stringently as possible to indispensable materials and tools for use by British workers in British factories.<sup>1</sup> On the other hand, the Government believed itself to be very well supplied with ships. The validity of these two beliefs will be examined in the following sections of this chapter. In so far as they were valid, they appeared to justify policies of food and raw materials importation by the longer shipping haul from those countries—chiefly in the British Empire or the sterling area—which from the financial point of view were more accommodating than the United States.

This approach to the problems of overseas supply was in harmony with the policy of armament in depth and the aim of preponderant military power within the period of a three-year war. If the British and French Governments had realised that Hitler was banking on victory in the west within the first twelve months of war, they would surely have felt themselves compelled to state their import requirements very differently, with a much heavier demand upon the American munitions industries, despite the immediate cost in dollars. Indeed, they began to overhaul their programme in this way even before Hitler started his *blitzkrieg* in the west.

( ii )

## Cash

In the chapters which discussed the United Kingdom's previous experience of modern war and British studies of war-economic problems during the nineteen-twenties and thirties, apology was made for postponing consideration of the external financial problem.<sup>2</sup> The

<sup>1</sup> The first total statement of British requirements in the United States for the first year of war (30th January 1940) was as follows:

	£ millions	
Cotton . . . . .	26	
Other materials . . . . .	22	
Food . . . . .	13	
Petroleum . . . . .	30	
General manufactures . . . . .	25	
<i>For Service Departments</i>		
Aircraft . . . . .	23	} 81
Machine tools . . . . .	43	
Munitions . . . . .	12	
Other equipment . . . . .	3	
	197	

<sup>2</sup> See above, p. 54.

main reason for this postponement was convenience of arrangement; but if any further justification were called for, it would be possible to plead the new circumstances, including the new habits of thought, following Britain's departure from the gold standard in 1931. Only two years previously, the Treasury memorandum on *The Course of Prices in a Great War* had given international gold movements a central place in its discussion of external financial policy; but all the documents produced after 1931 started from the assumption of a very different monetary order. After 1931, Britain was no longer subject to any obligation, legal, contractual, or moral, to maintain the pound sterling at any fixed parity with gold, or with the currency unit of any foreign country. Moreover, the control of Britain's normal reserve of gold and foreign exchange, having become a risk which the resources of the Bank of England were not competent to sustain, had passed from the Bank to the Treasury, acting through the Exchange Equalisation Account. Rates of exchange were determined by the prices at which the Exchange Equalisation Account bought and sold currency; they could be altered from day to day, or half a dozen times a day.

More important still were the changes that had taken place between 1914 and 1939 in the basic conditions of British financial strength. When the First World War broke out, the United Kingdom was at the climax of its exporting power. It was moreover still postponing an important part of its claim upon imports: in the decade 1904-1914, unprecedented sums of British capital—which would better have been used, some critics have said, in modernising the industrial structure at home—were invested in the development of overseas economies. Even in the first year of the 1914-18 war, British investors maintained their capital exports to the tune of about £200 millions. But in 1939 the situation was very different. The old staple export industries had for a long time been languishing, and for some years past a net deficit on the international balance of payments had announced that the nation, even in advance of war, was already beginning the process of overseas disinvestment. Moreover, the aggregate sum of past overseas investment was less in 1939 than it had been a generation earlier: if the nation's holdings of gold were larger, its holdings of useful foreign securities were considerably smaller.<sup>1</sup>

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<sup>1</sup> There is a basis for comparison in the well-known estimate by Sir George Paish (Supplement to *The Statist*, 14th February 1914) and Sir Robert Kindersley's articles in the *Economic Journal* during the nineteen-thirties. The difference in capital value, according to these estimates is about £500 millions. Sir George Paish's estimate of total British capital invested abroad in 1913 was £3,700 millions. Early in 1940, the War Cabinet was given an estimate of £3,240 millions capital value with an income of £185 millions in 1938. An official retrospective estimate of 1945 put the average annual income from overseas investment for the years 1936-38 at £203 millions but gave no figure for total capital value. See Cmd. 6707, Appendix VII. Reference to the qualitative inferiority of British overseas holdings in 1939 is made on p. 115 below.

To cap this dispiriting comparison, there was the plain notice given in the Johnson Act and the Neutrality Act that United States resources would not be made available a second time in support of a British war effort, except upon terms of immediate payment. To earn the means of payment, the British would find themselves compelled to maintain a large flow of exports, thereby diluting the intensity of their war mobilisation, both materially and psychologically—for it would be hard to persuade ordinary people that the workers who were producing luxury frocks for Buenos Aires or fine table linen for New York were serving the nation just as effectively as the workers in the dockyards or the aircraft factories.

In figuring out this not very exhilarating balance-sheet of external financial prospects, the British Government had one consolation: although the resources which it could now command were smaller than in 1914, it could command them more effectively. After one or two false starts, the twentieth-century state had added to its armoury of defensive and offensive weapons the new and formidable engine of exchange control. Its short modern history may be said to have begun in the years of currency disturbance after the First World War, when some states of continental Europe attempted with poor success to compel their subjects to keep their money at home. In the crisis year of 1931 the British Government itself established an ephemeral exchange control, with the purpose of preventing a collapse of the pound sterling following upon the suspension of the gold standard. This mild British control was not seriously tested.<sup>1</sup> Meanwhile, Germany and some other European countries were initiating much more drastic policies. The German Reich under Hitler was pursuing an inflationary employment policy in a country morbidly afraid of inflation; in consequence, it had to block all the escape holes. It established a large and complex administrative machine capable not merely of preventing the flight of capital, but of mobilising for government use all the financial resources accruing externally to German nationals, whether by payment of interest, or sale of exports, or in any other way. It achieved success by inquisitorial and quasi-police action covering every individual transaction in foreign exchange. Would Britain be compelled in time of war to construct the same formidable engine of exchange control? The question was raised by the Bank of England in the summer of 1937, and was discussed between the Bank and the Treasury during the next

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<sup>1</sup> The Gold Standard (Amendment) Act of 1931 prohibited purchases of foreign exchange or transfers of funds except in satisfaction of legitimate current requirements, namely: (1) normal trading requirements, (2) pre-existing contracts, (3) reasonable travelling or personal expenses. These restrictions might possibly have prevented a flight from the £ if one had been attempted; but persons with transferable money showed themselves more anxious, at any rate after the first three or four anxious months, to run away from the currencies that remained on gold than from sterling.

eighteen months. The Treasury, while showing a marked distaste for German methods, nevertheless recognised that it would be essential to mobilise and conserve for war purposes the nation's limited and precious resources of gold and foreign exchange. Six months before the war it had ready the following draft regulations, which could be enforced without delay on all residents in the United Kingdom:

1. A regulation making dealings in gold and foreign exchange a monopoly of the Treasury and its authorised agents, and giving power to the Treasury to limit sales to current requirements.
2. A regulation requiring that all gold and all holdings of designated foreign currencies be offered for sale to the Treasury.
3. A regulation prohibiting all payments to residents outside the United Kingdom, except with Treasury permission.
4. A regulation empowering the Treasury to exercise control over all securities marketable abroad, and to call for their registration with a view to their ultimate acquisition by the Treasury.

This network of control, comprehensive though it seems at first sight, contained gaps which did not exist in the German system. Moreover, its administration was not centralised on the German model, but was delegated to the banks, as authorised dealers, acting under detailed Treasury instructions, issued through the Bank of England.<sup>1</sup>

The draft regulations for the British exchange control reached their mature form in March 1939, when the Germans occupied Prague; they were promulgated in instalments between 24th August and 3rd September, the day when the United Kingdom declared war.

On the same day the sterling area was given its wartime definition. Neither in September 1939, nor eight years earlier when sterling had separated itself from gold, was the sterling area a new creation: all that happened on both occasions was that a trading and financial partnership already long established took a shape that was more visible to outsiders. The sterling area had grown naturally from the London-centred international market of the nineteenth century, when overseas producers were always able to sell their products for sterling which they could use either to finance their imports from the United Kingdom or to clear their accounts with third parties. Under these circumstances, it was natural for them to hold a considerable

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<sup>1</sup> For drastic contemporary criticism see articles by T. Balogh in the *Economic Journal*, March 1940, and *Economica*, August 1940. It should be noted especially that the exchange control did not effectively cover non-resident holders of sterling balances. Hence arose after the outbreak of war the so-called 'black market' in sterling—a misnomer, since dealings abroad between non-residents, at whatever rates, were not an infringement of the law. In these dealings, sterling was not at first at a heavy discount, but by 27th March 1940 it had fallen to \$3.48, in comparison with \$4.03, the official middle rate fixed for the dollar. On 12th May foreign-owned sterling securities were blocked. Balances were still left free, but it was believed that they had been by this time reduced almost to the minimum requirements for existing commitments.

part of their monetary reserves in the form of sterling in London. In September 1939 this was still the qualification for membership, as it had always been. Some foreign countries, such as Egypt, still remained in the sterling area; some Empire countries—notably Canada and Hong Kong—had passed outside it;<sup>1</sup> but, by and large, the sterling area was now co-terminous with the British Commonwealth and Empire. Its wartime definition was in form the result of Treasury action;<sup>2</sup> but behind this were careful discussions which had started six months previously in response to an Australian initiative. The sterling area rested upon the recognition of common interests and responsibilities by an association of sovereign governments. All the associates engaged themselves to impose within their own jurisdictions an exchange control of the United Kingdom brand. None of them was under any obligation to keep its currency unit in any fixed relation to the British £; what united them all was a common code of practice under which they remained unhampered from exchange control in their mutual transactions with each other, but maintained a united front in all their external dealings. They combined their earning power, pooled their earnings of 'hard' currencies, and entrusted them to the Exchange Equalisation Fund, which held them as the reserve of the entire sterling area and issued to each member the sums that it required to satisfy its own economic needs. The sterling area was in fact a financial union, centred on London and managed by London.

Its existence freed the British Government from a substantial part of its anxieties on the score of 'cash', seeing that a large part of the world, including some countries of great productive efficiency, were willing to guarantee the flow of supplies on terms of deferred payment. No doubt the United Kingdom would pay for these supplies in part by current sales of British goods and services, and by realising British capital assets;<sup>3</sup> but for the rest it would be able to borrow the

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<sup>1</sup> The reasons for these two omissions, the first by decision of Ottawa, the second by decision of London, were basically the same: namely, the powerful influence of geographical and (still more) economic neighbourhood in North America and Asia respectively. To cite the example of Canada only: fifty-nine per cent. of her visible trade was with the United States, and only thirty-one per cent. with the United Kingdom; American investments in the Dominion were fifty per cent. higher than British investments, while Canadian investments were large in the United States but negligible in the United Kingdom. Under these circumstances, Canada was inevitably led to follow 'an intermediate course between the sterling area and the U.S. dollar'.

<sup>2</sup> S.R. & O. 1168 of 1939, issued concurrently with the Defence (Finance) Regulations of 3rd September 1939. The Treasury was empowered by the Regulations to issue exemption orders from the prohibition against making payments to residents outside the United Kingdom; in the Order cited, it exempted payments to residents in those countries which held their principal monetary reserves in sterling at London and imposed exchange control similar to that of the United Kingdom.

<sup>3</sup> Cmd. 6707 gives for the whole war period the figure of £564 millions for total proceeds of sale or repatriation of British investments in the sterling area (Dominions, £201 millions; India, Burma and Middle East, £348 millions; the rest, £15 millions).

STATISTICAL SUMMARY

79

3. SUPPLIES FROM ABROAD

(a) *United Kingdom External Disinvestment*

(as far as recorded: probably an underestimate)

£ million

	Sept.- Dec. 1939	1940	Total Sept. 1939 to June 1945
Realisation of external capital assets . . . . .	58	164	1,118
Increase in external liabilities <sup>1, 2</sup>	80	179	2,879
Decrease or increase (—) in gold and U.S. dollar reserves <sup>2, 3</sup> .	57	474	152
Unallocated . . . . .	17	—6	49
<b>TOTAL . . . . .</b>	<b>212</b>	<b>811</b>	<b>4,198</b>

NOTE: The figures given in the above table are those given in Cmd. 6707 and are the only ones at present available. The totals given in Cmd. 7099 for the years 1940-1945 are however slightly smaller so that the figures in the table will need slight adjustments throughout.

(b) *Exports of Produce and Manufacture of the United Kingdom*

	Value as recorded £ million		Index of volume 1935=100	
	Including Munitions	Excluding Munitions	Including Munitions	Excluding Munitions
1938 Quarterly average . . . . .	117.7		98	
1939 4th Quarter . . . . .	102.8		82	
1940 1st Quarter . . . . .	119.9		89	
2nd Quarter . . . . .	129.8		91	
3rd Quarter . . . . .	93.9		63	
4th Quarter . . . . .	67.6		44	
1944 Quarterly average . . . . .	82.1	66.6	38	31

NOTE: (1) The figures up to 1942 do not exclude munitions. In 1940, however, it is reasonable to assume that exports of munitions were very small while in 1944 they were large.

(2) The index of volume is calculated on quantities revalued at 1935 prices and expressed as a percentage of the quarterly average in 1935.

Source: Board of Trade

<sup>1</sup> Comprising banking liabilities less assets, and funds held in the United Kingdom as cover for overseas currencies, etc.

<sup>2</sup> After deduction of outstanding liabilities to provide gold against sterling liabilities and of liabilities to convert U.S.A. holdings of sterling into dollars on demand.

<sup>3</sup> Gold valued at 172s. 3d. per ounce fine and dollars at £1 = \$4.03.

## 80 PERIOD OF THE ANGLO-FRENCH ALLIANCE

### (c) Shipping Gains and Losses

#### Gains and Losses of British Flag Tonnage 1,600 g.t. and over

(Gross tonnage figures in thousands)

	Gains		Losses		Net Gain + or Loss—	
	Non-Tankers	Tankers	Non-Tankers	Tankers	Non-Tankers	Tankers
1939 Sept. . . . .	37	13	106	43	-69	-30
Oct.-Dec. . . . .	243	104	274	38	-31	+66
1940 Jan.-March . . . .	277	18	262	73	+15	-55
April, May . . . . .	292	7	149	20	+143	-13
Annual rate for first 9 months of war . . . . .	1,132	189	1,055	232	+77	-43
Year 1941 . . . . .	1,694	402	2,591	488	-897	-86
Year 1942 . . . . .	1,834	277	3,341	693	-1,507	-416
Year 1943 . . . . .	2,784	273	1,609	217	+1,175	+56

NOTE: (1) It is important to realise that:

(a) Figures of gains are no guide to the post-war shipping position since they include ships due to be returned after the war.

(b) Figures of gains and losses give only the very crudest guide to the shipping position. Carrying capacity per million tons of shipping is equally important but this must necessarily be discussed in the text.

(2) Shipping figures are sometimes in gross tons and sometimes in deadweight tons according to the point under discussion.

Gross tonnage is the sum of space (in cubic feet) of all the various enclosed spaces of a vessel divided by 100. Deadweight tonnage is the number of tons (of 2,240 lb.) of cargo, stores, bunkers (and where necessary passengers) required to bring a ship down from her light line to her load-water-line.

Source: Ministry of Transport

### (d) Imports

#### Imports under Departmental Programmes

(excluding imports from Eire)

Million tons

	Non-tanker imports				Tanker Imports <sup>1</sup>
	Total	Ministry of Food	Ministry of Supply	Munitions and Miscellaneous	
1934-38 Quarterly average	13.75	5.5	6.5	1.75	4.1
1939 4th Quarter . . . .	10.3	4.8 <sup>2</sup>	5.3	0.3	2.5
1940 1st Quarter . . . . .	11.3	5.7	5.2	0.3	3.3
2nd Quarter . . . . .	12.4	6.0	6.1	0.3	3.9
Annual rate of import:					
Oct. 1939-June 1940	45.4	22.0	22.6	1.2	12.9
Imports during year 1941	30.5	14.7	15.0	0.8	13.6
" " " 1942	22.9	10.6	11.5	0.8	10.7
" " " 1943	26.4	11.5	12.8	2.0	15.1

<sup>1</sup> Petroleum products, molasses, unrefined whale oil, industrial alcohol, and, from January 1943, acetone.

<sup>2</sup> Estimated.

Source: Central Statistical Office



(e) Stocks of Foodstuffs and Raw Materials in the United Kingdom

Million tons

End of month	Food and animal feeding stuffs			Raw materials		Petroleum products	Principal commodities					
	Total	Stocks other than on farms	Stocks on farms	Total <sup>1</sup>	Covered by import programme		Iron-Ore <sup>2</sup>	Steel <sup>3</sup>	Timber <sup>4</sup>	Non-ferrous metals <sup>5</sup>	Wheat	Flour
Beginning of war . . . . .	10.53	3.74	6.79	13.1	11.8	6.73	2.4	1.0	3.90	0.7	1.03	0.27
1939 December . . . . .	7.49	3.81	3.68	12.18	10.68	5.78	1.87	0.79	3.44	0.72	0.83	0.31
1940 March . . . . .	5.52	4.07	1.46	11.03	9.65	5.77	1.76	0.79	2.90	0.67	1.11	0.50
June . . . . .	5.10	4.92	0.18	11.47	10.05	6.33	2.26	0.78	2.76	0.67	1.40	0.67
1940 December . . . . .	10.63	5.14	5.49	14.45	12.54	5.36	2.03	1.71	4.11	0.81	1.30	0.70
1941 December . . . . .	13.39	6.38	7.01	14.67	12.89	7.04	2.12	2.65	2.95	0.88	1.37	0.86

<sup>1</sup> Excluding consumers' stocks of steel.

<sup>2</sup> Including home produced iron-ore at the imported equivalent.

<sup>3</sup> At producers' works and in British Iron and Steel Corporation stockyards, including material in transit. Consumers' stocks are excluded.

<sup>4</sup> Softwoods, hardwoods, pitwood and constructional plywood.

<sup>5</sup> Copper, zinc, zinc concentrat<sup>r</sup>, lead, tin, nickel, bauxite.

Source: Central Statistical Office



## CHAPTER III

# ORGANISATION AT THE CENTRE

(i)

### Powers of Government

**A**T LAST the mounting tension of the years and the suspense of the summer months of 1939 were broken. In those first September days, when the Polish cities were already burning, the people of British cities filled their sandbags, erected their Anderson shelters, groped their way nightly in unaccustomed blackness and by day watched the pathetic processions of labelled children moving to the railway stations. On the morning of Sunday, 3rd September, they heard that their Government had declared war against Germany. They listened for the air-raid sirens and the German bombers.

At Westminster, the Government immediately sought from Parliament new additions to the exceptional powers with which it had been vested during the past fortnight. Even in time of war, no British Government can act outside the law. It has to find legal authority for its actions, either under the Common Law, or the Royal Prerogative, or Statute Law. Since the use of the Common Law and the Royal Prerogative is subject to strict limitations, it must secure most of its emergency powers from Acts of Parliament and from the Regulations and Orders made under those Acts.

At the beginning of the First World War, before the intensity of the economic effort and the extent and penetration of administrative control had revealed themselves, the Government's attempts to equip itself with legal powers had been of necessity experimental and hesitant. In November 1914, when it issued the first consolidated code of the Regulations made under the first Defence of the Realm Act, it announced its intention to interfere as little as possible with the ordinary avocations of life and the enjoyment of property. Later on, when necessity compelled it to interfere drastically, it found frequently that its actions were challenged in the courts by contentious and often successful plaintiffs. These undesirable consequences of legal unpreparedness had been taken to heart: so much so, that among all the multifarious plans for war, the preparations of war

legislation became perhaps the most thorough and complete. Study of the emergency powers that would be required in a future war had begun in 1924. By July 1937 the Committee of Imperial Defence had approved a draft Defence Bill and a comprehensive draft code of Defence Regulations. It had in addition marked out a considerable number of special subjects to be dealt with by separate legislation. Thus, two years before the Second World War broke out, the foundations of the necessary powers were in firm shape.

However, there still remained a good deal of detail to fill in. The draft Defence Bill and Regulations had also to be kept up to date and additional emergency legislation had to be drafted and co-ordinated.<sup>1</sup> Moreover, as crisis succeeded crisis—Vienna, Munich, Prague—the problem of timing became critical. Should the Defence Bill be introduced in advance of the emergency? Should it be introduced at the onset of emergency, but before the outbreak of war? Or should it be held back until hostilities had actually started? And how should the issue of Defence Regulations be spaced? Which ones should be issued before the onset of emergency, which ones before the outbreak of war? Which ones should be held back until war was declared?<sup>2</sup> The pros and cons of these questions were much discussed; but it was considered that final decisions must depend upon the precise circumstances of the emergency and of the transition from a state of emergency to a state of war. In April 1939, the Cabinet agreed to get the Defence Bill passed through Parliament at the beginning of the emergency, when many precautionary measures, such as civilian evacuation, would be set in hand. It also agreed to rearrange the main code of Regulations into two sub-codes according to their suitability for issue before or after war broke out.

At last the moment came. On 22nd August the Cabinet decided to introduce the Defence Bill and request its passage in a single day. On 24th August the Bill became law as the Emergency Powers (Defence) Act 1939.<sup>3</sup> It was purely an enabling Act, empowering His Majesty by Order in Council to make such regulations as appeared necessary or expedient for securing the public safety, the defence of the Realm, the maintenance of public order, the efficient prosecution of any war in which His Majesty might be engaged and the maintenance of the supplies and services essential to the life of the community. It specified six particular purposes for which regulations might be made—the punishment of offences against the regulations, the detention of persons in the interests of public safety

<sup>1</sup> Some forty draft Bills were prepared in the next two years.

<sup>2</sup> For illustration, see the account in section ii of Chapter IV of the institution of exchange control. The delay in imposing it cost perhaps some £200 millions; some of the horses had got out before the stable door was shut.

<sup>3</sup> 2 & 3 Geo. 6, c. 62.

or the defence of the Realm, the possession or control of any property, other than land, entry into any premises, and the amendment, suspension or application of any other Acts. In this lavish delegation of its authority, Parliament included also a wide power of further delegation: Defence Regulations could empower such authorities as they specified, to make orders, rules and bye-laws; while these 'third generation' orders might in their turn beget a further brood of directions and general licences.

Nevertheless, the Government evidently desired to set a limit to the things that could be done under authority derived directly or indirectly from the Defence Act. During the opening weeks of the war it invited Parliament to pass some sixty additional Statutes. There were some legal gaps to be filled; the powers specified in the Defence Act did not, for example, authorise the imposition of taxation nor the general expenditure of public money, nor alterations in peace-time public services and the administration of justice. There were some other things that might legally have been done by regulation under the Defence Act, but were for political reasons more prudently done by special legislation after full parliamentary discussion. Property compensation was one such thing, military conscription was another. As for industrial conscription, the Government was not as yet ready to ask for it, nor the trade unions to permit it, either under the Defence Act or in any other way.

Apart from these deliberate omissions, the Government secured from the Defence Act of 1939 as much power as it then needed to legislate by subordinate instruments. In the crisis of 1940 it sought and obtained from Parliament two further Emergency Powers Acts. There is an instructive contrast in the legislative history of these two Acts. The first was very short.<sup>1</sup> It declared simply that all persons might be called upon to place 'themselves, their services and their property' at the disposal of His Majesty. This assertion of a limitless power of conscription was in part a gesture to the times, since the Act of 1939 had already given to the Government complete powers over property;<sup>2</sup> but in part it was far more than a gesture, since it introduced something new and important—industrial conscription. It passed through all its stages in one hectic day. The second Act, which was also short, was debated for three days in the Commons and two days in the Lords.<sup>3</sup> Its purpose was to provide in the event of 'actual or immediately apprehended enemy action' a system of special war zone courts in place of the ordinary centralised system of

<sup>1</sup> 3 & 4. Geo. 6, c. 20. H. of C. Deb., Vol. 361, Cols. 154-185, 22nd May 1940.

<sup>2</sup> Control over industry was in fact exercised throughout the war by regulations under the 1939 Defence Act.

<sup>3</sup> 3 & 4. Geo. 6, c. 45. H. of C. Deb., Vol. 363, Cols. 65-146, 702-758, 831-905. H. of L. Deb., Vol. 117, Cols. 3-40, 57-72, July 1940.

criminal law. The need to invoke this Act never arose; but its stormy passage through a Parliament that had agreed almost without debate to the conscription of life and property is a fact of great historical significance. At a time of intense national danger and unlimited national resolution, Parliament was moved profoundly by the fear of domestic encroachments upon those civil liberties which foreign enemies were threatening with complete overthrow.

The present narrative is not a constitutional history of the United Kingdom at war; nor can it discuss those deeper themes of political philosophy that are implicit in the war-time tension between authority and liberty. Nevertheless, there may be some profit in looking briefly backward and forward from the summer of 1940, in order to identify some of the main issues.

Judging from the evidence of the Statute Book, of the volumes of Defence Regulations and of Statutory Rules and Orders, it would at first sight appear that the powers which Parliament surrendered to the Government for the purpose of defending national freedom left in being very few of those concrete individual freedoms for which Parliaments of earlier centuries had struggled so steadfastly. In some fields, the planners of legal preparedness had hoped to mitigate government encroachments upon civil liberties; they had for example earmarked for last-minute scrutiny and decision by ministers the Home Secretary's power to detain persons upon suspicion. In the hectic days of August 1939 the opportunity for this last-minute scrutiny was never found. In other fields the wide powers claimed on the Government's behalf simply reflected the incompleteness of detailed planning. Industrial plans, for example, were in September 1939 still in a very elementary stage; yet Defence Regulation 55 made provision for the most comprehensive and stringent control over industry. The Government preferred to run the risk of asking for too much power rather than discover later that it possessed too little. In general, its memory of the embarrassments of the previous war and its anticipation of stress in the coming one moved it to close every legal loophole and to secure the fullest power to cover every contingency that might arise. Such loopholes as were still left open by the Defence Act of 1939 were effectively closed on 22nd May 1940.

But did the Government hold and exercise its emergency powers unconditionally? After May 1940 the surrender of the liberties of economic classes in the interests of national war-making power was never seriously challenged;<sup>1</sup> but Parliament showed a steady disposition to criticise, and where necessary to curb governmental

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<sup>1</sup> Two years of war passed before a motion was moved in the House of Commons to annul a Regulation for the control of industry. H. of C. Deb. Vol. 373, Cols. 2050-64 (6th August 1941).

interferences with individual liberties. The most effective check upon unnecessary or excessive interferences did not come from the judges; it came from the M.P.s.<sup>1</sup> The absence of guaranteed rights in the British constitution meant that extraordinary powers, provided they derived from Act of Parliament, could not be challenged in the courts on grounds of *ultra vires*; moreover, since Parliament had entrusted to the Government complete discretion about what was 'necessary' or 'expedient', judicial control was virtually confined to questions of interpretation.<sup>2</sup> But Parliament still retained its ultimate political control over the executive; it could, and, in 1940, it did force out of office a Government in which it had lost confidence. From a Government to which it gave its confidence without stint it still demanded proofs of efficiency, equity and restraint in the use of emergency power. Apart from its stubborn questioning of the war zone courts, it had granted willingly and even enthusiastically the enabling powers of the Defence Acts, and it accepted without demur most of the Regulations made under these Acts. But against some Regulations it concentrated heavy fire—most notably against the powers to suspend Habeas Corpus, to control propaganda and establish press censorship, to prevent attempts at spreading disaffection in the Services and to suppress without warning any newspaper which systematically published matter 'calculated to foment opposition to the successful prosecution of the war'.<sup>3</sup> Its criticism was not in vain; for sometimes it moved the Government to modify Regulations, and always it inculcated a salutary moderation in the administration of the more distasteful ones, such as those that gave the Government power to detain persons on suspicion and to suppress newspapers. Moreover, the House of Commons showed an increasing anxiety to extend its effective control over Regulations to cover those multitudinous rules and orders which departments were by Regulation empowered to make. Parliamentary procedure,<sup>4</sup> combined with the sheer bulk of the orders, made effective scrutiny very difficult. Nevertheless, continued parliamentary pressure did secure greater uniformity of procedure among the departments issuing this subordinate legislation; it secured also greater care in drafting, and the

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<sup>1</sup> For a discussion of safeguards, see *Concerning English Administrative Law* by Sir C. T. Carr. (O.U.P. 1941).

<sup>2</sup> The most famous legal cases were those which arose under Reg. 18b by which the Home Secretary could intern anyone whom he had 'reasonable cause to believe' came within one of the specified categories of suspects. In *Liversidge v. Anderson*, [1942] A.C.206, and *Greene v. Secretary of State for Home Affairs*, [1942] A.C.284, the House of Lords decided that the courts could not inquire into the reasonableness of the belief which led to the making of a detention order; the matter was one for executive decision.

<sup>3</sup> H. of C. Deb. Vol. 352, Cols. 1829-1902 (31st October 1939); Vol. 363, Cols. 1307-48.

<sup>4</sup> Defence Regulations had to be laid before Parliament and either House could resolve in favour of a prayer for their amendment. The only ways of criticising rules and orders were a formal motion of censure or a debate on the adjournment.

publication of explanatory notes for the purpose of making difficult orders more easily comprehensible. Finally, it led in 1944 to the establishment of a Select Committee to scrutinise rules and orders as they were issued.<sup>1</sup>

In its organisation of the country's war effort, the British Government was never hampered by insufficiency of legal powers; but it held these powers subject to good behaviour, as a trust bestowed upon it by Parliament and people for a specific purpose within the specific period of emergency. If Mussolini, who prided himself on his knowledge of Machiavelli, had read his favourite author more carefully, he would not have been so much taken in by his own catch-cry of 'decadent democracy'. The enduring advantages of efficiency did not lie with those nations which had governments permanently immune from constitutional criticism.<sup>2</sup>

## ( ii )

### Mechanism of Government

Most historians of British responsible government have attuned their story to the theme of liberty. It might with equal appropriateness be attuned to the theme of efficiency: indeed, the inspired constitutional historian, if ever he arises, will combine both themes in harmony. The personal responsibility of ministers and the collective responsibility of the Cabinet supply strong inducements for cleaning up all those inefficiencies that inevitably from time to time find lodgment in the complicated government structure. At the beginning of a great war, the ramifications of that structure and its ponderous bulk increase with immense rapidity. The switch over of the machinery of government from peace to war is no less difficult a task than the switch over of factory equipment, or the transformation of civilians into soldiers. If the task is mishandled, civilians will go short of food and armies of weapons, campaigns will be lost, the will to win them will waver.

As has been seen in an earlier chapter, the Committee of Imperial Defence had given much thought to the problems of government organisation in time of war. There was, to begin with, the problem of constituting new ministries or reconstituting old ones. The Government had begun to attack this problem even before war broke

<sup>1</sup> H. of C. Deb., Vol. 389, Cols. 1646-1694; Vol. 386, Cols. 149-180; Vol. 400, Cols. 202-99.

<sup>2</sup> On this theme there will be room for an important book when the British war histories are completed and the German evidence more deeply studied.



out. In the spring of 1939, the small but comparatively efficient Food (Defence Plans) Department had been freed from the apron strings of the Board of Trade and given independent status under a Minister;<sup>1</sup> in the summer, the Ministry of Supply was constituted and the Ministry of Labour vested with National Service functions.<sup>2</sup> Moreover, plans had been written in the War Book for the Government to introduce swiftly a Bill enabling the establishment of new war-time ministries, and then to set up Ministries of Home Security, Economic Warfare, Information, Food, Shipping. On 1st September 1939, the Bill passed through all stages into law<sup>3</sup> and ministers were shortly afterwards appointed to all the new offices.<sup>4</sup> Before France fell, another new Ministry—that of Aircraft Production—had been created.<sup>5</sup> All the new ministries with economic functions to perform found themselves faced with common problems of organisation. If they were to exercise detailed control over the trades and industries entrusted to their oversight they had to expand their staffs with great rapidity; but they could find in the civil service neither the numbers nor the expert knowledge requisite for their efficiency. They therefore reinforced their administrative strength with academic persons whose names were on the National Register and built up their industrial controls chiefly with business men who had experience in the industries now subjected to control. This partnership of civil servant, don and business man turned out to be one of the most interesting and fruitful administrative experiments of the war: its history, in each significant sphere of economic management, will be told in the appropriate volumes of this series. In the present volume, the problems of government organisation can be considered only from a central point of view, and even then only briefly.

The more widely functions were diffused among departments, the more necessary it became to institute efficient machinery for knitting them together into one coherent policy for winning the war. The Ministries of Supply and Economic Warfare had to serve the needs of strategy. The Ministry of Labour had to produce men for the Ministry of Supply's contracts and for the Forces themselves. The Ministry of Food's actions were heavily influenced by the policy of

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<sup>1</sup> The Minister was the Chancellor of the Duchy of Lancaster.

<sup>2</sup> See Part I, Chapter II, p. 58. Throughout this book the Ministry of Labour and National Service, as it became on 8th September 1939, is called, for brevity, the Ministry of Labour.

<sup>3</sup> H. of C. Deb., Vol. 351, Cols. 212-215.

<sup>4</sup> The Ministry of Economic Warfare was set up by S.R. & O. (1939) No. 1188, the Ministry of Food by S.R. & O. (1939) No. 1119, the Ministry of Home Security by S.R. & O. (1939) No. 1142, the Ministry of Information by S.R. & O. (1939) No. 1189, the Ministry of National Service by S.R. & O. (1939) No. 1118 and the Ministry of Shipping by S.R. & O. (1939) No. 1425. The Minister of Shipping was appointed in October, the other Ministers in September.

<sup>5</sup> Set up under S.R. & O. (1940) No. 747, 17th May 1940.

the Ministry of Shipping. The list could go on indefinitely; for all the strands of home and economic policy were intertwined, and economics and strategy were themselves inextricably mingled.

The responsibility for infusing unity of purpose into all the dispersed activities of government rested squarely on the War Cabinet. In the War Book it had been laid down that the final choice between different models of the 'Organ of Supreme Control' must be made by the Prime Minister in power when the emergency arose;<sup>1</sup> but there never was any real doubt that the only practical course in a great war would be to establish immediately a War Cabinet with supreme power. Accordingly, on 1st September 1939, Mr. Neville Chamberlain informed the Cabinet that if war came he would immediately set up a War Cabinet on the 1916-19 model. He did so on the first day of war. The Cabinet resigned, the Committee of Imperial Defence died, the War Cabinet held its first meeting. Its members were the Prime Minister, the Chancellor of the Exchequer, the Minister for Co-ordination of Defence, the Lord Privy Seal, the Foreign Secretary, the First Lord of the Admiralty, the Secretaries of State for War and for Air, and the Minister without Portfolio.<sup>2</sup>

There had been between the two wars a good deal of academic discussion about the principle on which Mr. Lloyd George's War Cabinet had been constructed. Most writers had ascribed its virtues to its limitation in size to five or six members and these members' freedom from departmental duties. The Committee of Imperial Defence had itself envisaged for any great war of the future a War Cabinet of this kind. But the War Cabinet set up in September 1939 had nine members, five of whom had to carry heavy departmental responsibilities. The theorists of government were in consequence inclined to lament what they considered a departure from true principles. They forgot that the making of a government is a delicate operation in which personalities count as much as the design of a machine. They over-estimated the contrasts, they under-estimated the identities and similarities between the War Cabinets of the two twentieth-century wars. By peace-time standards, the War Cabinet set up in September 1939 was, like its predecessor, very small, and its proportion of non-departmental ministers was large. Again like its predecessor, it did not confine its meetings to its own members, but called in other ministers when it thought their attendance necessary: indeed, it summoned the Minister of Home Security<sup>3</sup> and the Secretary of State for Dominion Affairs to practically all the meetings held

<sup>1</sup> See Part I, Chapter II, p. 46.

<sup>2</sup> Respectively, Mr. Chamberlain, Sir John Simon, Lord Chatfield, Sir Samuel Hoare, Lord Halifax, Mr. Churchill, Mr. Hore Belisha, Sir Kingsley Wood, Lord Hankey.

<sup>3</sup> This office was always combined with that of Home Secretary.

between September 1939 and May 1940. It also regularly summoned the Permanent Secretary to the Treasury and one or other of the Chiefs of Staff, or their deputies. Its meetings in this period were usually about fifteen strong—about half the size of a normal pre-war Cabinet and very manageable compared with the ‘bear garden’ atmosphere which was said to have characterised some War Cabinet meetings during the First World War.

In the autumn of 1939 the War Cabinet met once, or sometimes twice daily; but in the winter of 1939–40 it discontinued its Sunday meetings, limited its Saturday meetings to specially urgent business and arranged them on a rota system. Not until the invasion of Norway did it resume full meetings for each day of the week. Even so, it cumbered itself in this first period of the war with rather too much detail. It could not, of course, devolve upon the Chiefs of Staff or any other body the responsibilities of high political decision, but it involved itself perhaps more widely than it need have done in matters which departments might have been left to settle: for example, some of the smaller details of food rationing or the handling of Army petrol. Not that it ignored the advantages of decentralisation: on the contrary, it authorised some sixty War Cabinet committees, of which about two-thirds were inter-departmental, non-ministerial bodies. The number seems impressive, but mere number is no guide. Fewer committees might possibly have done more competent work.

The military committees had their shortcomings, but, unlike the civil committees, they could at least build upon a firm basis of proved experience; the Chiefs of Staff Committee and its sub-committees for Joint Planning and Joint Intelligence<sup>1</sup> were already in existence. It was felt, however, that a ministerial committee was also needed, to provide for the regular exchange of views between the ministers primarily responsible for defence and the Chiefs of Staff, to save the War Cabinet’s time by giving preliminary consideration to complicated reports from the Chiefs of Staff, and to serve as a clearing house for the discussion of new strategical ideas. At the end of October 1939, therefore, the Ministerial Committee on Military Co-ordination (the M.C.C.) was established,<sup>2</sup> with terms of reference so wide that, as one authority pointed out, ‘an almost infinite variety of grist could be brought to its mill’. Grist came in plentifully, both from the side of supply and that of operations. By the time of the Norwegian campaign the M.C.C. had fitted itself reasonably well into the chain of command. It did not, however, establish itself as a permanent institution of war government. Some people doubted whether the same body

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<sup>1</sup> A Deputy Chiefs of Staff Sub-Committee also existed.

<sup>2</sup> Consisting of the Minister for the Co-ordination of Defence (Chairman) and the three Service Ministers. The Chiefs of Staff were advisers.

could handle effectively both supply and strategy.<sup>1</sup> There was moreover difficulty in finding the appropriate chairman. The office of the Minister for Co-ordination of Defence had been established in 1936 for peace-time duties with the Committee of Imperial Defence; in time of war the Minister had no clearly defined functions. The War Cabinet was the real co-ordinator, and no one but the Prime Minister could be its effective spokesman on defence policy. In April 1940 the office of Minister for Co-ordination of Defence lapsed, and Mr. Churchill, as First Lord of the Admiralty, assumed the chairmanship of the M.C.C.; but even he requested the Prime Minister to take the chair when exceptionally important matters were discussed.<sup>2</sup> The last reorganisation of the M.C.C., on 1st May 1940, provided that the Prime Minister would preside whenever possible, and in his absence the First Lord.

Ten days later, Mr. Churchill became not only Prime Minister but also Minister of Defence. While retaining the Chiefs of Staff machinery he set up to assist him a Defence Committee (Operations) and a Defence Committee (Supply), both infinitely flexible bodies. This arrangement was challenged later on, at times when the war was going badly; but it endured to the end of the war.

On the civil side the need for an efficient mechanism was if anything greater; for whereas the Service Ministers were all members of the War Cabinet, the majority of civil departments were unrepresented in it. If therefore the separate activities of these departments were to be effectively and continuously focused upon the main objectives of war policy, the War Cabinet must establish bodies vested by devolution with substantial authority. But there did not exist on the civil side the same firm foundation of peace-time organisation; nor had the Committee of Imperial Defence devoted much time to planning the structure of civil committees. In the little that was said or written about this subject after Munich, two committees had been contemplated—a Home Security Committee, and a Home Affairs Committee which would concern itself with ‘all domestic affairs’. When war came a third committee—the Ministerial Priority Committee—was set up to supervise the allocation of productive resources.<sup>3</sup>

The Ministerial Priority Committee and, still more, the Home Affairs Committee were prolific parents of sub-committees.<sup>4</sup> Yet there

<sup>1</sup> In the Committee's twenty meetings between 8th April and 6th May, there was no discussion of supply.

<sup>2</sup> H. of C. Deb., Vol. 359, Cols. 699–700.

<sup>3</sup> At the same time the other two committees were renamed respectively the Civil Defence Committee and the Home Policy Committee.

<sup>4</sup> One of these, the Food Policy Committee, soon achieved independent status as a committee of the War Cabinet.

remained apparently an important gap to be filled; for in October 1939 the Prime Minister and the Chancellor of the Exchequer decided to appoint an inter-departmental committee 'in order to keep under review and to co-ordinate the functioning of the departments in relation to the economic effort of the country as a whole and to make any necessary arrangements for Anglo-French economic co-operation'. Lord Stamp was to preside over this committee, which indeed was expressly intended to continue and expand the work of the Stamp Survey.<sup>1</sup> However, two days later, a Ministerial Committee on Economic Policy was constituted above Lord Stamp's committee of officials—the first example of a 'two-decker' committee structure which was soon imitated in the sphere of food policy and elsewhere.

The pattern of organisation was complicated and for some time there was much uncertainty about the boundaries of jurisdiction. Frequently they came to be drawn along lines that had not been foreseen. For example, the Home Policy Committee failed to establish itself as the authority exercising effective oversight of 'all domestic affairs'. On the other hand, the Economic Policy Committee quickly achieved a position of importance. Here a clear thread of continuity could be traced with the pre-war methods of economic co-ordination. The Treasury still held the key positions. No doubt this was due in part to the personal position of the Chancellor of the Exchequer (Sir John Simon) and his Permanent Secretary (Sir Horace Wilson) in the counsels of the Prime Minister. The Chancellor, alone among the ministers concerned with economic affairs, had a seat in the War Cabinet; he was also chairman of the Ministerial Economic Policy Committee and the political supervisor of Lord Stamp's work. The Permanent Secretary to the Treasury was chairman at the official level of both the Economic Policy and the Food Policy sub-committees.

This balance in the composition and leadership of the civil committees was reflected in their deliberations: the economic effort of war was commonly assessed in terms of finance rather than of physical resources. Much study was given to the problems of foreign exchange and domestic inflation but less to the problems of industrial production and of the mobilisation of shipping, manpower and raw materials. Shipping, indeed, slipped through the hands of all the committees and was in the end dealt with by a special review of import problems by the Lord Privy Seal.

These limitations of central economic control were perhaps aggravated by the absence at that time of adequate machinery for the collection of economic information. However, a beginning was made

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<sup>1</sup> See p. 47 above.

by the establishment of a Central Economic Service in November 1939. It was a small beginning—nothing more than the engagement of one or two additional economic experts to assist Lord Stamp—but from it grew later the Economic Section of the Offices of the War Cabinet and the Central Statistical Office.

Fundamentally, however, it was not in the mere assembly of economic data, but in the approach to the data and the handling of it that the War Cabinet in this first period of the struggle differed from the new War Cabinet which took power in May 1940. Before May 1940 the Government thought of 'financial and economic plans' and put the accent on the first word. The new Government shifted the order of words and put 'economic' in front of 'financial'. It continued and indeed carried further its predecessor's anti-inflation policy; nor did it despise budgetary arithmetic; but it shifted the emphasis of planning to the simpler arithmetic of import programmes and stocks and the supply of skilled engineers. The new attitude announced itself emphatically in the composition of the new War Cabinet. Sir Kingsley Wood, who succeeded Lord Simon as Chancellor of the Exchequer, was given neither the chairmanship of the Economic Policy Committee nor a seat in the War Cabinet; but there was a strong representation in the War Cabinet of ministers who, then or later, were charged with the main burden of mobilising and allocating the nation's physical resources—Mr. Bevin, Minister of Labour and National Service; Mr. Arthur Greenwood, Minister without Portfolio and chairman both of the Economic Policy Committee and the newly-established Production Council; Mr. Attlee, who was appointed Lord Privy Seal and chairman both of the Home Policy Committee and the Food Policy Committee. Mr. Neville Chamberlain for the few months before his death acted as Lord President of the Council—an office destined to achieve pre-eminence in guiding and governing the nation's economic energies.

A good deal of experiment had still to be made, both with personalities and mechanism, before the new Government found itself smoothly in gear with its economic task. The task would soon be defining itself in new ways as unemployed resources were absorbed and scarcity became the chronic condition in all sectors of the national economy. When that happened, the need would be much more urgent than it had been in the first period of the war to establish at the centre of government an efficient mechanism of economic control.

But in the summer of 1940 it was the new motive power, not the new mechanism, that mattered most. Unity of spirit between Government, Parliament and people proclaimed a new day of realism and relentless will to victory. In the War Cabinet papers produced during the first eight months of the war, as in the columns of Hansard and