CHAPTER II

BETWEEN THE WARS

(i)

The Processes of Planning

THE British machine of government had been drastically overhauled and reconditioned to meet the strain of war, and there were many persons of experience who thought that the same reconditioned machine should be retained to serve the nation in peace. Indeed, there were some who envisaged a still newer model of streamlined efficiency. Lord Haldane's Machinery of Government Committee enumerated twelve primary government functions, and for each function designated one responsible minister, acting through a single department of his own or through a number of departments grouped under his supervision: twelve functions, twelve senior ministers; in consequence, a Cabinet of twelve; and the Cabinet would be served by its modernised secretariat. But the actual trend of day-to-day politics was in a quite contrary direction. Within a year of the armistice, the old pre-war Cabinet of twenty or more ministers reappeared upon the scene. Before long, a hundred or more Conservative M.P.s were raising a clamour against the Cabinet secretariat.

Not without difficulty, this back-to-Gladstone movement was in the end repelled. Had it succeeded, the effects upon government efficiency would have been damaging. The period 1919 to 1939, compared with Mr. Gladstone's day or even with Mr. Asquith's, witnessed a formidable intensification of the pressure and strain of public business. In the years preceding the First World War meetings of the Cabinet had added up on the average to about forty a year: between the First and Second World Wars the yearly average of meetings was nearer sixty. Moreover, the list of important subjects coming up at each meeting for discussion and decision was now very much longer than it had been in the earlier period. Time might have been bought at the expense of the departmental and parliamentary duties of ministers by extending Cabinet meetings in length; but this was not done; the usual duration of a meeting remained two hours. All the more necessary was it to ensure that these two hours should give full value. Remission of some problems to committees of the

Cabinet,[1] careful allocation of time among the problems demanding the Cabinet's direct attention, the elimination of all details that could be settled in advance by interdepartmental discussion, the focusing of the main questions of principle—all these procedures depended in whole or in part upon action through the mechanism of the secretariat.

The same mechanism served the Committee of Imperial Defence,[2] which upon the supersession of the War Cabinet in November 1919 had reassumed its old peace-time personality as a body dedicated to investigation and advice. Twenty years later, the Committee still conformed both in structure and in function to its original constitution. To quote an authoritative lecture delivered by its secretary early in 1939:

> . . . The fundamental principles of the Committee of Imperial Defence are precisely the same as when it was first conceived; it is infinitely elastic; the Prime Minister is still its invariable President; he still has absolute discretion as to the selection and variation of its members; and there is still a small—though admittedly not quite so small—permanent Secretariat.[3]

But, side by side with this continuity of principle, there went an impressive extension of the Committee's organisation and range of activity. Its permanent panel was still the same amalgam of ministers and experts; but it had been enlarged to nearly twenty members. Its sub-committees had greatly multiplied. Their ramifications involved an increasing number of participants (in the year 1938, the total was not far short of 900) and covered a range of subjects far wider than in the pre-1914 years. This multiplication of sub-committees arose by necessity from the facts of modern war:

> The problems of defence are so many and so varied that no single man, and indeed no fixed body of men, however numerous or however well informed, can of themselves possess the knowledge to arrive at correct decisions, unless they are provided with expert advice on the various aspects of each particular problem. Such advice can only be obtained by assembling the team most appropriate to each case.[4]

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[1] From 1919 onwards there were on the average about twenty committees a year: most of them were appointed *ad hoc* and wound up after they had submitted a report to the Cabinet, or in some other manner completed their assignment of work; but there were also some standing committees meeting over a period of years—e.g. the Home Affairs Committee, which, first appointed in July 1918 with wide powers of action, continued throughout the inter-war period with more restricted powers of scrutinising and getting into order the legislative proposals of the Government.

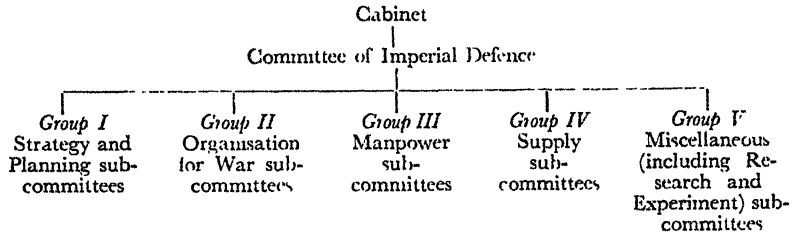
[2] In the Offices of the Cabinet and Committee of Imperial Defence there existed, strictly speaking, two parallel secretariats; but both were under the same office head (as was later the secretariat of the Economic Advisory Council).

[3] 'The Machinery of the Committee of Imperial Defence', by Major-General H. L. Ismay, C.B., D.S.O., in *Journal of the Royal United Services Institution*, May 1939, p. 10.

[4] *Ibid.*, p. 13.

The great majority of these teams included civilian members: Mr. Baldwin calculated in 1928 that, out of fifty or more sub-committees then existing, only one was confined entirely to Service representatives, and that, out of the last 100 questions that even this committee had considered, there were only five that did not involve civilian departments.[1] Indeed, the new conception of war that had been born from the experience of 1914–18 was wiping out the sharp line of division between 'Service' and 'civilian' activities. The men who understood modern war knew that the armed forces of the nation were no more than 'the cutting edge' of a mechanism that included all the departments of state and all the national energies that those departments controlled. Since modern war demanded mobilisation of the total resources of the nation, the task of studying it and preparing for it must involve investigations penetrating every sector of the national life. There was of course a danger that the wide dispersal of these investigations would overstrain the machinery of co-ordination. In theory, this danger was fended off by the vigilance of the Committee's secretariat and by the continuous attention of its permanent panel: all the separate bits and pieces of the defence problem that the sub-committees assembled were welded together by the main Committee. Whether or not actual practice was always in conformity with the theory is a matter on which later chapters of this narrative will throw some light.[2]

The Committee's range of activity can be broadly envisaged from the main heads of its organisation chart:



The chart could be elaborated in ramifications covering a crowded page. Under the first head, the Chiefs of Staff Sub-Committee and its subordinates, the Joint Planning and Joint Intelligence Sub-Committees, would be included; under the second, there would be grouped sub-committees on half a dozen important subjects ranging from censorship to civil defence; under the fourth, there would be listed sub-committees for such distinct subjects as munitions supply for all three Services (the Principal Supply Officers' Sub-Committee), food supply, and oil supply. And some of these sub-committees would

[1] H. of C. Deb. Vol. 215, Col. 1026.

[2] e.g. for the difficult case of shipping, see below, Chapter IV, Section (iii).

themselves be at the head of immensely complicated family trees of subordinate committees. There would, however, be little profit in composing a systematic diagram of all these ramifications. The trouble with such a diagram is its tendency to suggest that a place has been found for everything and that everything is in its place—a blessed situation which occurs very infrequently in human affairs. Moreover, an organisation chart is necessarily a flat thing; it does not show the picture that really matters—the moving picture of work in progress.

The inquirer who wishes to understand not merely the general scope of British preparations for war, but also their *tempo* and practical results, will find very frequently that his inquiries must start with the Chiefs of Staff Sub-Committee. It was set up in 1923, following the report[1] of a specially appointed sub-committee under the chairmanship of Lord Salisbury. The problem of inter-Service co-ordination, more intricate now owing to the emergence of the R.A.F., had led to renewed demands for a Minister of Defence with supreme control over all three Services. These demands the Salisbury committee did not endorse; but it made two important recommendations: first that a minister should be appointed to act as the Prime Minister's deputy on the Committee of Imperial Defence, to give that continuous direction to its business which the Prime Minister himself was not always able to give: secondly, that the Chiefs of Staff of the three Services, while still continuing to fulfil their existing responsibilities as advisers on sea, land and air policy respectively, should be vested with 'an individual and collective responsibility for advising on defence as a whole, the three constituting, as it were, a Super-Chief of a War Staff in Commission'. The first of these recommendations was not implemented until 1936; but the second was put into effect immediately. From 1923 until 1939 the Chiefs of Staff Sub-Committee, together with the organisation built up under its oversight, was a permanent part of the Committee of Imperial Defence: in 1939 it was absorbed, with the rest of the Committee's mechanism, into the organisation of the War Cabinet.

Recommendations of the Chiefs of Staff Sub-Committee were inevitably the starting point of investigations and recommendations in other widely dispersed sectors of defence preparation: for example, the advice that the Chiefs of Staff tendered about the size of the armed forces was fundamental data both for the Manpower Sub-Committee, which was concerned with military recruitment and industrial labour, and the Principal Supply Officers' Sub-Committee, which was concerned with the problems of industrial capacity and materials. In general, all the teams of experts working within the

[1] Cmd. 2029 of 1924.

framework of the Committee, if they were to bring their planning into sharp and realistic focus, needed clear guidance about the size and character of the war that might be anticipated: failing such guidance, they might be able to produce valuable essays of a general character; but they could not possibly reach exact conclusions about problems of time, place, and quantity—such as the claims of war production upon materials, plant and labour, or the tasks that would be laid upon the nation's shipping and ports, or the civilian evacuation of cities.

This advice the Chiefs of Staff were at first quite unable to give. They could not produce any realistic appreciations of the war that was to be expected and prepared for, because the Cabinet had laid it down that for ten years to come no war—or at least no 'great' war—need be expected and prepared for. Instead of a firm strategical hypothesis for the guidance of the war planners in all sectors, there was this so-called 'ten-year rule'. It had been first adopted by the War Cabinet on 15th August 1919: in 1928 it was reaffirmed or reinterpreted by a decision to advance the base date from year to year. Thus, failing an explicit rejection of the original assumption in (say) 1932, the ten-year period during which no great war need be expected would stretch to 1942.

It was, in fact, not until 1932 that the ten-year rule was rescinded by a formal decision of the Cabinet. Even then, a considerable time elapsed before the strategical hypothesis of German, Japanese, and possibly Italian aggression was definitely accepted as the basis for all defence studies and plans.[1] That act of acceptance still left many things undecided and obscure (necessarily so, for only the powers planning the attack could forecast its weight and direction, and fix its zero hour); but it did at least open a new period of urgency and definiteness in British preparations for war.

The historian of British war economy may perhaps identify the year 1935 as a watershed separating two contrasted historical landscapes: on one side of this watershed lies a tranquil country in which people move about without hurry, on the other side lies the rough and dangerous land of haste and struggle. From 1919 almost until the mid-nineteen thirties, the work of the Committee of Imperial Defence had been a kind of leisurely essay-writing on the kind of action that would have to be taken in the event of a 'great war': in this period, it was the formulation, by Treasury initiative, of policies to combat war inflation that most attracts the historian's attention. After 1935, the initiative passed to the men who were attempting, very often under great pressure, to build up the war sector of British industry: in this period, planning increasingly meant decisions

[1] See pp. 63, 64 below.

quantitatively expressed. Between the two periods there exists, of course, no absolute contrast of activities; for example, the preparations against inflation did not by any means come to a dead stop in 1935. Nevertheless, the chronological division, if not too strictly drawn, is for the historian the most significant one. Each period will therefore be reviewed in turn.

(ii)

The First Phase: Concept of a Great War

So long as the 'ten-year rule' remained in force, those economic planners whose business it was to think in quantitative terms appealed in vain to the military experts to define the basis of their planning. Some questions that the Principal Supply Officers framed in 1928 reveal an almost comical uncertainty about the kind of war they were expected to plan for. Would the terrain be mountainous or level, well-watered or waterless? Would there be railways and roads? Would the climate be hot or cold? The Committee of Imperial Defence could not answer these simple questions. The best it could offer was a vague alternative hypothesis: some wars were little, others were 'great' or 'major' wars. The phrases recurred in various documents; but there was at first no uniformity in their definition. At one time it was suggested that a war in which more than three-quarters of a million men were called to arms might be reckoned a major war. At another time a great war was defined as one in which the whole resources of the nation would be engaged. In the end, it was this second definition that stuck.

The concept of a great war had important implications for the organisation of government. The Committee of Imperial Defence did not forget those two and a half years of indecisive experiment that had elapsed between August 1914 and the constructive reorganisation of December 1916. It enumerated the four possible variants of supreme control in time of war: first, the ordinary peace-time system of Cabinet government; secondly, Cabinet government with a War Committee of very limited powers: thirdly, Cabinet government with a strong War Committee; fourthly, a real War Cabinet. The first expedient would be unsatisfactory even for a minor war; for a war of the largest size, only the last solution would be adequate. Steps were therefore taken to ensure that all the relevant papers would be assembled and put before the Prime Minister of the day immediately on the initiation of the 'precautionary stage' before the outbreak of war; in the light of the facts before him, he would then establish the appropriate instrument of supreme control.

It was no less necessary to think out the economic implications of a great war. But who was to initiate the thinking? On the organisation chart of the Committee of Imperial Defence there seemed to be provision enough for the study of bits and pieces of the economic problem; but there was no visible provision for the study of economic policy as a whole. In 1930 the Government set up a new 'Prime Minister's Committee', the Economic Advisory Council. It never came properly to life except through the activities of its two main sub-committees, the one for economic information, the other for scientific research. The first of these bodies was presided over by Sir Josiah (later Lord) Stamp. In the summer of 1939 he and two colleagues were given an important commission to survey the economic and financial plans for war and to point out the main gaps. This 'Stamp Survey' got through a great deal of work on the eve of the war and in its early months. Up to that time, however, the problems of defence economy had not come within the orbit of the Economic Advisory Council.[1] They remained the Committee's business. Whether or not the Committee would make any sustained attempt to envisage them as a whole depended in practice upon the initiative of the Treasury, the department that was charged with the duty of measuring all the activities of government by the common standard of finance.

Finance, however, had long since ceased to be sufficient as the measure and motive power of economic mobilisation in war; what had been adequate in the days of Mr. Pitt had been proved inadequate in those of Mr. Lloyd George; twentieth century governments were under a strong compulsion to measure their war needs in terms of real resources, and to take direct action for mobilising these resources. A memorandum of 1929 on *The Course of Prices in a Great War*, gave proof that this lesson had been pondered in the Treasury. The memorandum, which was intended in the first instance for the Manpower Sub-Committee, became the starting point of investigations at some of the chief focal points of economic planning. It threw open a window upon the wide, if still misty landscape of war economy.

At the very outset, the memorandum put the war-time price problem in the wide context that had been outlined so well by Patrick Colquhoun and the political arithmeticians, not merely in the narrower context of monetary theory that had dominated economic discussion for a hundred years after Ricardo's propaganda and the report of the Bullion Committee. It reviewed the processes whereby war expenditure generates greatly expanded monetary incomes at the very time when the switch-over of capital and labour to war

[1] Moreover, Lord Stamp's Survey of financial and economic plans did not officially involve the mechanism of the Council: the appointments were personal.

production restricts the replenishment of consumer stocks. It surveyed the measures that the Government might take to mitigate the pressure of increased purchasing power upon a decreasing supply of goods. Its concluding summary of these measures is worth quoting in full:

> The real conclusion is that the problem of banking and general financial policy in time of war and the problem of controlling profits and the price of labour (including remuneration for personal services of all kinds) must be dealt with together. The limitation of wages is probably more important than the limitation of profits, since all other methods failing taxation can be applied more easily to correct inflated profits than to correct inflated wage payments. The problem is to reduce the volume of money in circulation so as to correspond to a decreased supply of commodities at the same time as we increase the amount of employment and services called for from the Nation. The programme must include fixation of wages and prices so as to reduce to the smallest possible dimensions the demand for additional credit; it must include a strict control of imports and rationing of consumable goods so as to reduce possible objects of expenditure, and lastly, it must seek to bridge the gap that yet remains between the national revenue *plus* national savings and the war expenditure by increasing taxation and borrowing additional funds without the artificial creation of credit.

This paragraph contains both a modern doctrine of war finance and far-reaching proposals for economic control—drastic taxation, a borrowing policy purged so far as possible from all inflationary expedients, control of prices, control of profits, control of wages, control of imports, consumer rationing—items that when added up together amount to a pretty comprehensive instalment of war economy. Permeating the whole document is a fundamental assumption about method: supply-and-demand prices cannot be trusted in time of war to perform their customary function of allocating productive resources, determining production priorities, and distributing the final products amongst purchasers. All these processes must be governed by explicit government decision and administrative direction, inspired always by one firm purpose: the maximum concentration of the nation's dispersed economic resources in the zone of effective war-making power. Nevertheless, the Government, like any private purchaser, will still find itself compelled to pay a price for the materials it demands and the labour it hires; it will find itself no less compelled to make money payments to the nation's conscripted soldiers and to their families. In this way, every section of the war effort will be given a money value, and the Government will be compelled to shoulder a heavy responsibility for maintaining the value of the money unit. The Treasury's memorandum is permeated by a deep conviction, well grounded upon the experience of many belligerent nations during the previous war, that excessive inflation of the money unit would open the way to great calamities.

Not merely would it widen the budgetary gap and aggravate the problems of government accountancy, but it would throw into confusion the social accounting of all households and classes of the nation; it would generate economic waste, and social injustice of the most embittering kind; it would hinder and distract the orderly mobilisation of the nation's power in war, and after the war would heap upon the nation a heavy burden of suffering and discord.

In the sphere of financial policy, it was the Treasury's own responsibility to plan the appropriate precautions—a programme of taxation without any misjudged mercy in it, and a programme of borrowing to bring in the genuine savings of the people. There was another sphere, that of external payments, in which the Treasury's initiative would be decisively important. The memorandum of 1929 gave a great deal of attention to the external balance; but this is a problem that is best postponed to a later chapter,[1] for it has aspects far more extensive than British price policy, and was besides placed in a new context by changes that occurred, after 1929, both in the United Kingdom and in the United States. To avoid over-crowding the present chapter, attention will be concentrated upon the plans for domestic economic control to which the Treasury memorandum gave the impetus. The memorandum was in effect an invitation to the Committee of Imperial Defence to initiate wide-ranging studies of economic policy. The ramifications of these studies, the recommendations arising out of them, and the decisions arising out of the recommendations are not at all easy to follow in their criss-crossing from one sub-committee to another and their occasional return to the main Committee and to the Cabinet. It is possible that ministers and officials sometimes got lost amidst the dispersed multiplicity of details. The historian shares their difficulty; but he must do his best to pick up and follow the main threads.

After some years of leisurely discussion, a new sub-committee was appointed in 1932 to decide how far price control, import control and rationing should be imposed at the beginning of war or in its later stages and to designate the departments amongst which the various controls would be distributed. It is to be emphasised that at this time a strict control over wages was an assumption that all official bodies shared. They did not of course all approach the problem from the same angle: to the Treasury, wage control appeared necessary if price increases were to be kept in check; to the Ministry of Labour and the Manpower Sub-Committee, price control appeared the preliminary and essential condition of an effective control over wages. There were these differences of emphasis; but nobody doubted at that time that price control and wage control were interdependent, and that

[1] See below, Chapter IV, Section ii.

both must be placed side by side at the foundation of economic policy. (And yet, later in the nineteen thirties, the foundation stone of wage control slipped quietly away.)

If there were to be control of prices and wages, there must also be control of profits. This was necessary for political no less than financial reasons: Labour would never accept stabilisation of wage rates unless workers' cost of living and employers' profits were stabilised at the same time. Especially in the expanding war industries the control would need to be firm. These general propositions were universally accepted; but it was hard to give them firm substance so long as planning was for an undefined 'great war', not for a specific war that would demand a specific expansion of the munitions industries. Until the phase of rearmament was considerably advanced, there was not even agreement about the administrative arrangements to be made for managing the munitions industries.[1] For the present, therefore, plans for the control of profits (as distinct from their taxation) were limited to the co-ordination of contracts and a general declaration of faith in the procedures of cost accountancy and price fixing.

In the field of civilian consumption, to which the Treasury memorandum of 1929 had assigned such outstanding importance, rather more precision was possible. The basic data contained in the population census would not be altered by the onset of war; the basic physical needs of the population were known—better known than they had been during the First World War, when scientific nutritional studies were as yet in their infancy. To the sub-committee appointed in 1932, 'fair shares' in the diminishing supply of consumption goods that would be available to the civilian population was a consideration no less important than precautions against inflation and insistence upon efficiency in the processes of production and distribution. The sub-committee found a starting point in the cost-of-living index number compiled each month by the Ministry of Labour. The weights of the index, which added up to the total of twelve and a half, were as follows:

Food . .	7½
Rent and Rates . .	2
Clothing . . .	1½
Fuel and Light . .	1
Other items included .	½
	12½

[1] In 1920 it had been decided to hand back to the Service departments the functions which the Ministry of Munitions had performed. The only institutional mitigations of departmental separatism in munitions supply were (1) the Contracts Co-ordinating Committee, established in 1922, and (2) the Principal Supply Officers' Committee, established in 1924. For the discussions about creating a Ministry of Supply, see below, pp. 57, 58, 67.

In two successive reports, the sub-committee made suggestions for policy and administration over the whole range of the index. The suggestions had to be studied by many departments. Rent and rates were of special interest to the Ministries of Labour and Health. Fuel and light were of concern to the Mines and Petroleum Departments of the Board of Trade, the Electricity Commissioners, and the Ministry of Transport. Clothing and boots and 'other items' belonged chiefly, though not exclusively, to the Board of Trade. In the event of war, administration of the appropriate controls would be parcelled out amongst these various departments, and others which would in due course be set up.

When all the specialist and departmental investigations had been completed, there remained a few gaps in the planned network of control. There was a disposition to leave uncontrolled the prices of all unessential goods, allowing restricted allocations of raw material and price rises to bring about equilibrium at a reduced level of purchases. More important: no scheme had been accepted for the rationing and supply of clothing, which was a significant item in the cost-of-living index. But rent control had been agreed upon, and so had a rationing scheme for fuel. Moreover, preparations for food control had been carried a long distance.

Food was reckoned at that time[1] as three-fifths of working-class expenditure and occupied a central position, both from the statistical and psychological points of view, in any effective policy of price and wage stabilisation. 'If the problem of food can be met', declared the sub-committee of 1932, 'the objects set out in our reference are in a fair way to attainment'. To tackle the problem, the Government must be ready, at the first menace of scarcity affecting any of the staple foods, to impose a firm control containing some of the following restrictions, and if necessary all of them:

'(*a*) prohibition and licensing of (private) imports;
(*b*) purchase of supplies whether imported or home-produced;
(*c*) control of ancillary factories, e.g. flour-mills, sugar-refineries;
(*d*) control or requisition of visible stocks;
(*e*) control of prices, including, if necessary, the fixing of the margin of profit at each stage of production and distribution;
(*f*) regulation of distribution;
(*g*) rationing of consumers.'

Such far-reaching plans could only be made effective in time of war if close contact were established in advance of war between the Government and the more important trade organisations engaged in

[1] The Ministry of Labour inquiry into working-class budgets in 1938 showed this estimate to be out of date: two-fifths rather than three-fifths had come to represent the true proportion.

importing, producing and distributing foodstuffs. There still survived one relic of the first Ministry of Food, namely, the Board of Trade Food Emergency Organisation;[1] but to prepare the way for a second Ministry of Food, which would be ready at the very beginning of a new war to exercise comprehensive and firm control, it was necessary to establish a new organisation. This was done in 1936 by setting up within the Board of Trade the Food (Defence Plans) Department, a small but competent body which was staffed predominantly by officials with experience of food control in the First World War.

The immediate impulse towards this decision came most notably from Sir William Beveridge who had been called in to serve as Chairman of a group of officials advising on the technical problem of food rationing. He went beyond this limited problem and laid down the following four essentials of effective food control:

'(1) A decision to appoint a Food Controller with full powers as from the first day of war.
(2) A feeding policy, thought out in advance, for adequate total supply in the country at all stages of possibly protracted war.
(3) A control plan, prepared in advance, in regard to each essential food . . .
(4) Outbreak plans to meet a likely air attack.'

The last three heads of this comprehensive programme contained an immense administrative task—a task far too big for the small staff appointed in 1936. At the time of the Munich crisis, not one of the stipulated needs had been as yet provided for. But when war broke out twelve months later, preparations under all heads except the second were well in hand. The Food Controller was ready to take over; commodity controls were ready and ration books printed; plans were prepared to meet the expected air attack. The 'feeding policy', however, had not been thought out beforehand. It was to emerge gradually, even reluctantly, under the pressure of events.

The narrative that started with the Treasury's memorandum of 1929 on *The Course of Prices in a Great War* has been permitted to cross the 'watershed' of 1935 into the territory of rearmament, and has ended by emphasising the maturity of preparations in the sector of food control. Upon the evidence so far submitted, the reader might be tempted to conclude that the men responsible for British preparedness had learnt 'the lessons of history' so well that they were

[1] The Board of Trade Emergency Organisation was supported by the Emergency Powers Act of 1920; though when the organisation was tested during the General Strike of 1926, it did not need to invoke these special powers. The Food (Defence Plans) Department arose from the deliberations of the Committee of Imperial Defence's 1936 sub-committee on Food Supply in Time of War. This sub-committee, like its 1932 predecessor, called in Sir William Beveridge as adviser. The agitation about food storage was largely responsible for these activities.

ready to start fighting the new war at the point where they had stopped fighting the old one. This, however, would be a question-begging statement; its implications might perhaps be flattering in the sector of food policy, but in other sectors they would be the very reverse. The Committee of Imperial Defence would have laid itself open to censure and mockery if it had sought to apply the lessons of history in so mechanical a way. The mistake of 'preparing for the last war' is a common one, whose roots are to be found, not in the use of historical knowledge, but in its misuse. A true understanding of historical experience will show itself, not in a habit of memorising and repeating (or avoiding) past behaviour, but in a forward-looking quality of mind—the kind of mind that recognises the problems it ought to look for. No doubt the experience of 1914–18 revealed, to those who in retrospect studied its meaning, the general type and pattern of a war economy under twentieth-century conditions; but it could not reveal the actual weight and proportions and particularity of the war economy that Great Britain would be called upon to fashion twenty-one years after 1918. Those twenty-one years were a time of rapid change; they produced some entirely new data, both in the industrial and in the strategical field.

In the industrial field there was, for example, the rapid growth of trade associations in wide areas of British industry—a phenomenon that was bound to modify the terms of partnership worked out haphazardly between Government and industry during the First World War. The Government was also compelled to reckon with the changed conditions of some basic industries. Coal is a good example. In 1914 the industry was still expanding rapidly, but in 1939 it had behind it many years of painful contraction; in 1914 its structure was intensely competitive, but in 1939 it had a cartel and governing body of its own; in both years it had behind it a tradition of fierce disputes between capital and labour, but between the two wars it had become 'politics' in an altogether new way, and one peculiar to itself. In these changed circumstances, there would have been no sound reason for assuming that those same controls that had been imposed in the later phases of the First World War ought to be reimposed in the opening phases of the Second.[1]

In the strategical field, change was even more rapid, and an excessive deference to past experience would have been even more dangerous. Since 1919, the sensational advent of massive air power

[1] Between 1917 and 1921 the Government had assumed complete responsibility for the industry's finances, but no detailed control of its operations. In 1942 the Government followed a different policy: it took control over coal-mining operations, but left financial responsibility with the collieries. At the outset of war in 1939 the Government had taken control neither of the industry's finances nor of its operations. Here, then, were three distinct policies—and each of them in its own time was widely proclaimed to be a failure. Under each system there was a yearly fall in the total output of coal and in output per man-shift.

and the mechanisation of land forces had loosened that constipation of war in which the armies of the western front had been bound after the battle of the Marne; but before 1940 there was no sure knowledge of this fact, nor of its consequences. Knowledge of the changed and changing mechanics of the fighting services did indeed make possible some realistic estimates of the new qualitative demands upon the munitions industries. These qualitative changes had important quantitative implications; but the aggregate of quantities could not be envisaged, even vaguely, until the period of rearmament was far advanced. In consequence, the planners in the civilian sector of war economy were also condemned—despite the far greater continuity in the data they had to handle—to a corresponding vagueness about quantities. For the scarcities they had to foresee were of a derivative kind. Their extent, and in consequence the rigour of the policies designed to cope with them, would be determined by two basic conditions: first, constriction of the nation's capacity to import overseas supplies, secondly, expansion of its armed forces and of the industries employed in equipping them.

To what extent would the nation's customary imports of food and raw materials be curtailed by war-created stringencies of the means of payment or the means of transport? To what extent would the demands of the Services and war industry siphon away the manpower, materials and other productive resources that in peace time were employed, directly or indirectly, in satisfying consumer needs? Until the answers to these questions could be forecast with some show of quantitative precision, it would be vain even to guess at the probable dimensions of the gap that might be expected between the nation's expanding monetary income and its contracting supplies of purchasable goods and services. And in each specific blue-print of control, blank spaces would have for the time being to be left: for example, though rationing was accepted in principle and its mechanisms prepared, the specific commodities to be rationed could not always be identified nor could the size of the ration be fixed.

Forecasts were made of the resources of foreign exchange and of shipping that would be available for procuring imports. These forecasts were destined to exercise an extremely important influence upon British economic policy in the first phase of the war. An account of them will be given in Chapter IV.

The suction of resources into the 'war sector' of the British economy began some years before the war broke out. With the progress of rearmament, war-planning merged into war-programming—a thing of present decision and quantitative definition. The following section of the present chapter will describe this transition.

The present section will conclude by sketching the outlines of manpower preparations over the whole period between the wars. Here

it would be inappropriate to break up the narrative too much either by a logical or a chronological division. The Manpower Sub-Committee of the Committee of Imperial Defence had to make its contribution of thought both to the anti-inflationary policies that preoccupied the Treasury and to the mobilisation plans of the Services and their production departments. Under both heads, there was considerable continuity between the two main chronological periods of planning. Such changes of plan as occurred in the second period were not always of the kind that might at first sight have been expected.

The Treasury memorandum of 1929, as has been seen, discussed the effects of labour shortage as a constituent of the inflation problem. Failing control, scarce labour would mean higher payments for labour and in consequence higher prices in the shops: conversely, higher prices in the shops—for the necessities of life[1] at any rate—would create an irresistible pressure for wage increases. The Treasury maintained, and everybody at that time agreed, that wage control and price control must go together. Yet in the late nineteen-thirties wage control was thrown overboard almost casually. There is no record of any formal discussion on the subject by the Committee of Imperial Defence, which would seem to have consented by silence to a conclusion of the Manpower Sub-Committee: that the price of labour must be settled by voluntary agreement within industry, although prices in general, and profits also, must be brought under effective and visible control. How came it that a change of such great theoretical and practical importance was brought about so unobtrusively? The new rigours of life in the rugged country 'across the watershed' may have had something to do with it; the Government was now striving to expand at high speed the industries engaged on rearmament and felt itself compelled to tolerate high wages as a means of building up their labour force. Moreover, in the days of leisurely essay-writing, the co-ordination of theories had been not too difficult a task; but it was not by any means so easy to co-ordinate the actual policies that overworked staffs were shaping under the pressure of rearmament and the imminent threat of war. In 1937 and again in 1938 the Committee of Imperial Defence showed itself aware that the aggregate of specialist departmental preparations no longer reflected the principles and proportions of a comprehensive price policy. In the hope of setting things right, it appointed a new sub-committee to go into the whole question once

[1] The writers have come across only one tentative official suggestion, before the war, pointing towards cost-of-living stabilisation through subsidies. At an interdepartmental meeting of 8th September 1938, the Treasury representative observed that subsidies to steady the wholesale prices of essential goods would increase expenditure and therefore probably inflation; but the sacrifice might be worth while in order to get Labour to accept the principle that both retail prices *and wages* should be stabilised.

again. When war broke out, this sub-committee had not yet sent in any report.

The increasing pressure of war preparations was not however the main cause of the growing raggedness of price policy. In particular, it did not bring about the change of attitude towards wage control. The main reason for this change lay altogether outside the circle of economic theory and its applications to the anti-inflation policy. The Manpower Sub-Committee had to consider not only economic, but also psychological and political data. Economics and psychology—if one may be permitted to personify these abstractions—were at war with each other. According to the former, the relevant factors in the wage problem had been assembled in the Treasury memorandum of 1929: according to the latter, the main elements in the problem were the workers' organisations, the working men and women of the nation, and what they would or would not stand for. Memories of the last war and estimates of the trend of their feelings during the nineteen-thirties made it seem highly unlikely that they would stand for surrendering their peace-time right of bargaining for higher wages. As the nineteen-thirties wore on, the Ministry of Labour argued with a growing insistence that wage control was unthinkable, that reliance must be placed instead upon the realism and moderation of organised Labour and upon the processes of persuasion and conciliation, operating through the joint industrial machinery that ever since the previous war had been linking employers' and workers' organisations ever more closely.

Wage problems, important though they were, were only a part of manpower policy. The Manpower Sub-Committee had to make plans for performing the most challenging of all the tasks that would be laid upon Government and people in a great war—the mobilisation of the fighting strength and the working strength of the men and women of Great Britain. Success or failure would be determined in the end not only by economic and administrative arrangements but by the deepest currents of national feeling. The first systematic survey of the dimensions of the task was made when the costly errors of the early years of the previous war were still vividly remembered. It was, for example, remembered that unrestricted voluntary enlistment had taken away from the engineering industry in the first twelve months of war nearly one-fifth of its total labour force, and from the chemical and explosive industries nearly one-quarter—follies that were repeated in reverse during the following twelve months when the armed forces were starved of men, partly through failure of the voluntary principle, partly through the successful private wars initiated by the Service departments, and thereafter continued by the Ministry of Munitions, in defence of their separate labour forces. The worst of this confusion had subsequently

been cleared up, very slowly and laboriously, by three acts of policy and their detailed application: first, military conscription; secondly, the standardised Schedule of Protected Occupations; thirdly, the vesting of administration in a Ministry of National Service strong enough to hold the balance between the rival claims of the armed forces and industry.

This survey of experience was produced in 1922, and the Cabinet subsequently accepted the main principles embodied in it. In the event of another great war there would be universal liability to military service, a Schedule of Protected Occupations, and a Ministry of National Service. From 1922 onwards, the principle of military conscription was not questioned, except during the short period—to be explained later—when the concept of 'a war of limited liability' was in the ascendant. Even then, the questioning was not very forcible, and in the end the principle of conscription was made effective in advance of actual war by the Military Training Act of May 1939.

In contrast, the problem of establishing a Ministry of National Service caused protracted and hesitant discussions. They were mixed up with the parallel problem of the proposed Ministry of Supply, and the allocation of responsibility for handling industrial labour—a responsibility everybody at that time seemed anxious to pass on. One plan succeeded another, but the common tendency of all the plans up to the very eve of war was to divide responsibility. Usually, the conception was rather as follows. The Ministry of Labour—seemingly the most natural, but for the time being a reluctant candidate for the special war-time powers—would confine itself fairly strictly to its peace-time functions.[1] A separate Ministry of National Service would therefore be created to control recruitment and hold the balance between the armed forces and industry. A new Ministry of Supply would handle the dilution of labour and the other labour problems of war industry. However, these allocations of function had to remain extremely tentative until it was known for certain whether there would really be a Ministry of Supply, and if so, what its capacities would be. Under the aegis of the Principal Supply Officers' Sub-Committee there were two widely ramifying organisations, the one for industrial capacity, the other for materials. Some people thought that these two organisations should be established in two separate ministries. Others thought that they should be combined in a single Ministry of Supply. Even so, there was a parallel question calling for an answer: whether the Ministry of Supply should act as supplier to all three Services; or whether the

[1] Within the Ministry of Labour there was a division of opinion, with the negative view against the assumption of war-time powers, upheld by the Industrial Relations Department, temporarily in the ascendant.

Admiralty, and perhaps the Air Ministry should be permitted to retain control of design and production within their own separate spheres? It was not until after the German occupation of Prague and the ensuing decision in favour of a great expansion of the Army that these uncertainties were finally cleared up. On 1st August 1939, a bare five weeks in advance of war, the Ministry of Supply came into existence with two main functions: first, to supply finished munitions for the land forces only; secondly, to control the great majority of the materials (not quite all) that would be required by all three Services and the civilian population. During the same August, the Cabinet took the decision that led a month later to the institution of the Ministry of Labour and National Service. The Ministry of Labour had been made responsible, after the Munich crisis, for drawing up the National Service Handbook and administering the recruiting campaign; after the Military Training Act of May 1939 it found itself faced with the task of calling up the first conscripts. By this time it had overcome its earlier hesitations and was growing willingly into its war-time greatness as Ministry of Labour and National Service—though not as yet to the full measure of that greatness.[1]

It was the Schedule of Reserved Occupations, a cardinal item in the manpower policy adopted in 1922, that was given throughout the inter-war period the most continuous and constructive attention. The Schedule was worked out in detail on the basis of two main principles: first, it listed occupations or trades, not industries; secondly, it granted to no occupation an absolute exemption from the operation of military conscription, but varied deferments of military call-up in accordance with the war-time importance of each particular trade. This variation was achieved by working out different combinations of two criteria, age and medical category. From 1922 until 1937 the task was very much simplified by the principle of the 'clean cut', which excluded from deferment of military service every man under twenty-five years of age and in medical grade one, no matter what his occupation might be. After 1937, the requirements of the munitions industries for skilled men were pushed up by the decision to create a better-equipped Army, at the very time when these industries, owing to their reduced intake of apprentices during the depression years and their correspondingly heavy replenishment in the years of recovery, were abnormally dependent upon skilled workers in the 18–25 age group. So the 'clean cut' had to be sacrificed, and a revised Schedule prepared. The revision was ready a year before the outbreak of war. Moreover, during the last twelve months of peace, a variant of the Schedule was published and used to control

[1] For the willing assumption of additional responsibilities by the new Minister of Labour and National Service in May 1940 see below, chapter XI.

the successful campaign of voluntary enlistment which was then filling the gaps in the approved strength of the armed forces.

The Schedule of Reserved Occupations embodied, with comprehensiveness and detailed precision, much still-relevant experience gained between 1914 and 1918. Combined with military conscription, it gave reliable assurance that the needs of the armed forces would be satisfied without draining away the skilled workers essential to industry. It did not, however, give any assurance that industry would make the best use of these reserved workers. Reservation was by occupations, and occupations could be pursued in places very remote from the war effort; electricians, for example, might choose to remain in comfortable peace-time jobs even when the Admiralty dockyards were desperately short of skilled men to install modern electrical gunnery controls in the nation's fighting ships. Getting the workers into the right place at the right time and keeping them there so long as they were needed was a problem that the Government had not mastered during the previous war. It had not dared to propose industrial conscription. It had even been compelled to whittle away some of the negative controls—the system of leaving certificates, for example—that mitigated the evils of an excessive labour turnover. Although the workers had accepted dilution of labour, limitations of their right to strike, and other restrictions upon their ordinary rights and customs, they had by and large stood out for their basic peace-time freedoms of movement and wage bargaining. Their version of 'business as usual', no less than the employers' version, had impeded the mobilisation of war-making power and cost the nation dear in suffering and death. In 1922 the memories of this frustration and loss were still vivid; the manpower experts who reported in that year were convinced that they must not be permitted to recur in any great war of the future. To forestall their recurrence, the Government should arm itself with powers to 'control and transfer civilian labour according to national needs'.

The same advice was repeated in subsequent documents of the Committee of Imperial Defence; but no resolute steps were taken to translate it into a policy and plan of action. Had the attempt been made, it would have collided with other vivid memories—not, this time, of the losses that the nation had sustained because control over labour had been in economic terms too feeble, but of the losses it had sustained because the control had been in psychological terms too oppressive. Indeed, it seemed as if economics and psychology were so much in conflict with each other that they could remain on speaking terms only so long as the former remained content to express its wisdom in general propositions. This perhaps may partly explain a paradox in the history of preparations for managing industrial labour: as the Second World War grew more imminent, so did the proposals for labour control grow more attenuated.

It may be helpful to review quickly how these proposals stood in September 1939. There are three main headings to be considered: labour supply, labour productivity, labour earnings. The last has been already discussed in outline; the Government's decision not to impose control left over for future solution problems that would in due course become insistent. Under the head of labour supply, there were a number of separate problems to be attacked. There would have to be a great increase of the total population of fighters and workers by absorption of the unemployed and by bringing in new recruits from the 'unoccupied' or, as it was later called, the 'non-industrial' population; but in September 1939 no systematic attempt had as yet been made to measure the dimensions of this increase, or to construct a budget of requirements and supply either in long term or in short term. There would have to be large transfers of skilled and unskilled workers from less essential to more essential industry, a proper distribution of skilled workers amongst the essential war jobs, and restraints upon excessive labour turnover. In these matters the plans of September 1939 fell short even of the limited negative controls adopted during the previous war; in particular, they did not include the much-hated system of leaving certificates. Their chief feature was the draft of a Control of Employment Bill, empowering the Ministry of Labour and National Service to control advertisements for labour and to prohibit engagements except through the labour exchanges or through the recognised placing arrangements of trade unions. For the positive direction of labour to essential work there were no proposals at all. Nor were there as yet many definite proposals for bringing about an increase of labour productivity. That also was a problem made up of many particulars, some highly dependent, others less dependent on official action: increase of working hours with due safeguards for the health of workers and their will to work; dilution and similar economies in the use of skilled labour; training; cancellation of restrictive practices; enforcement of factory discipline; prevention of lost time through strikes and lock-outs—the list could no doubt be enlarged. A quick scrutiny of it shows once again that the Government's preparations in September 1939 fell short of what had been done in the previous war. For example, the Ministry of Labour had made no plans for the enforcement of industrial discipline by statutory means. It had turned down proposals for the prohibition of strikes and lock-outs, and in consequence was not proposing to introduce a system of compulsory arbitration.

If this attitude of caution is to be understood, various considerations must be borne in mind. There was, to begin with, the long delay in settling problems of jurisdiction. The Ministry of Supply did not come into existence until 1st August 1939; the Ministry of Labour and

National Service was not constituted until two days before the outbreak of war: there was not, nor could there be as yet, any finality in the division of responsibility between these two authorities. The Ministry of Labour had for long contended that its own functions should be broadly limited to the sphere of industrial relations. Industrial discipline within the factories and the manifold problems of the dilution and substitution of labour ought to be handled by the production departments. And when the Ministry was challenged to produce its plans for shifting labour into the centres of war industry, it contended that the solution of this problem also lay chiefly in the hands of the production departments, which could, at any rate, immensely reduce the dimensions of the problem if only they had the wit to site their new factories in areas of abundant potential supplies of labour: when war work could be brought to labour, surely it was foolish to make plans for pulling labour up by the roots and shifting it to war work.

In this contention there was some force; but intermingled with it was an economic philosophy whose insufficiency had been proved in the previous war. The Ministry of Labour was clinging to the old faith in wage inducement and the other economic incentives as sufficient means of bringing about a satisfactory distribution of labour at a satisfactory speed. Just before the war, a representative of the Ministry told the Stamp Survey that 'individualism' would do the job. Lord Stamp and his colleagues thereupon concluded that they had found one of those gaps in the economic and financial plans for war which they had been instructed to search out and bring to the attention of the Government. They thought the time had come for 'far-reaching changes in the relations between government and labour'; they pleaded for 'a positive and dynamic policy, directed at securing the most effective and economic use of the limited labour supply of the country'.

They did not however define the content of this dynamic policy, nor the conditions under which it could be made acceptable to organised Labour. Winning Labour's consent was an essential part of the problem. The Ministry of Labour might be excessively reluctant to exercise direct administrative control; but it was placing great hopes in the operation of self-control and patriotic leadership in the trade unions. Although it had made no plans for government action to enforce the dilution of labour, it believed that the same end would be in fact achieved by joint agreement of the partners in industry. It could point in justification of its trust to the Relaxation of Customs Agreement concluded during the summer of 1939 between the Amalgamated Engineering Union and the Engineering and Allied Employers' National Federation. Moreover, it had prepared plans for establishing immediately on the outbreak of war a National Joint

Advisory Council in which representatives of the employers, the unions and the Government would face together all the main problems of labour as they arose, and agree with each other on the appropriate solutions.

To prepare plans for war is to prepare moulds into which the fluid strength of the nation may be poured when the time of danger comes. The mould that had been prepared for the nation's manpower was proved in the event to be inadequate: following the crisis of 1940, a stronger and more capacious mould had to be made. Industrial conscription was imposed and accepted then. Would it have been practical policy to impose it before the nation's danger was immediate and extreme? Even after September 1939, it was generally agreed in public discussion that British people 'go better led than driven'. And those departmental officials who understood the strong economic arguments in favour of industrial conscription had long since concluded that the psychological and political barriers were insuperable. It is for the historian of public opinion to explore the reasons for this conclusion: right or wrong, its economic effects were great. There could be no adequate manpower policy, declared a document of 1936, without 'a general recognition of the issue before the country, popular support of the Government, and a Government strong enough and decisive enough to make use of this popular support'. The same words might have been used to define the nation's basic need in every sector of the war effort.

(iii)

The Second Phase: Rearmament

By following one or two tracks rather further than was at first proposed, this narrative has already passed the milestone of 1935 and made reconnaissances in the territory of rearmament; but it must now return to 1932 in order to enter that territory by the main strategical highway, from which alone the general configuration of significant landmarks can be adequately observed. It was in 1932 that that the 'ten-year rule' was formally rescinded by the Cabinet. Before then, the rule had more than once been criticised. The Foreign Office in 1931 had ventured the opinion that the 'ten-year rule' had tended of late 'to become a speculation with hope still predominant, but with doubt shadowing the prospect'; the rule ought to be re-examined after the conclusion of the Disarmament Conference the following year. But the Chiefs of Staff refused to wait until then. In each of their annual reports from 1928 onwards they had expressed their growing anxiety

about the 'ten-year rule'; in February 1932 they exploded into a full-throated denunciation of it. They said that it was contrary to the lessons of history and that it had no counterpart in the policy of any foreign country. They said that it had produced terrible deficiencies of all Service requirements, had thrown the British armaments industry into decay, and had produced a state of military ineffectiveness which would make it impossible for the United Kingdom to honour its obligations under the Locarno Treaties and the Covenant of the League of Nations or to fulfil its responsibilities of imperial defence. After this devastating attack, they concluded, mildly enough, by recommending that the rule be cancelled forthwith and an immediate beginning made 'in providing for commitments which are purely defensive'. The Cabinet did not allow itself to be hurried, but it rescinded the 'ten-year rule' and appointed a Defence Requirements Committee with instructions to 'prepare a programme for meeting our worst deficiencies'. This body, in which the Chiefs of Staff were the preponderant element, submitted its first report in 1934. In July of the following year a broader and stronger body, the Defence Policy and Requirements Committee, was set up with ministerial representation and instructions 'to keep the defensive situation as a whole constantly in review so as to ensure that our defensive arrangements and our foreign policy are in line'. The summer of 1935—or perhaps the following winter, when the new committee produced its first comprehensive recommendations—marked the real opening of the rearmament period. What had happened during the previous three years was only an overture. Why had the overture dragged on so long? The Government's decision, or indecision, was among other things influenced by the opinion that the 'financial and economic risks' already besetting the nation were more dangerous than the military risks hanging over its head.

Nevertheless, some progress had been made between 1932 and 1935 towards the formulation of a realistic strategical hypothesis. The task of naming the enemies against whom the nation should prepare its defence was not really a difficult one; the enemies named themselves. It was the Japanese aggressions in Manchuria and Shanghai that had moved the Chiefs of Staff to their final outburst against the ten-year rule. In January 1933 Hitler had achieved power in Germany and begun at once to refurbish Germany's military strength. Hitherto, the Navy in its planning had taken one hypothetical enemy, the Army another, and the Air Force still another; but from 1934 onwards all defence plans were focused upon the Japanese and German dangers. Should not the Italian danger have been included also? In the mid-nineteen-thirties British statesmen and their military advisers were compelled to ask this question; but they asked it with extreme distaste. Their worst

bugbear was 'a three-power enemy'. In 1935 the Defence Requirements Committee declared bluntly that the size of the dangers already threatening from Japan and Germany rendered it impossible for the United Kingdom to make adequate additional provision during the next four years against Italy, the power which lay athwart the main artery of communication between west and east. In the following years, and indeed right up to the summer of 1940, the Chiefs of Staff urged that all possible steps be taken to prevent Italy from joining Germany and Japan in a tripartite attack which the British Empire, even if it were supported by France and possibly other allies, would have the greatest difficulty in beating off. It was, however, not at all easy to convince the Italian Government that a peaceful policy would best serve its interests. In 1937 the Cabinet felt obliged to instruct the Service ministries to include Italy alongside Germany and Japan in the list of possible aggressors, and to plan their defensive preparations accordingly.

Germany and Japan, nevertheless, were rated the two most likely enemies. A very great deal hung on the answer to the question: which of the two was enemy number one? If the answer pointed to Japan, it would carry with it consequences of particular comfort to the Admiralty: emphasis would of necessity be placed on the naval side of rearmament, because, according to the accepted strategical doctrine, a war against Japan would make full demands on British naval resources but would not require the employment of land and air forces on a national scale. If, on the other hand, the answer pointed to Germany, expert opinion would press strongly for the maximum preparation of each fighting service. In 1934, Germany was judged to be the larger danger but Japan the nearer one. The temporary weakness of British defences in the Far East might at any time tempt the Japanese to attack: whereas against Germany—'we have time, but not too much time, to make preparations'. When these words were written, the experts believed that the Germans would not be ready to launch an attack before 1942; but their forecast was soon belied by reported changes in the trend and *tempo* of Germany's war preparations. The 'ultimate potential enemy' might have to be reckoned the 'near enemy' also. In the summer of 1935 the Cabinet, in accordance with the expert advice submitted to it, authorised the Service ministries to work out their defensive preparations with a view to achieving a reasonable state of preparedness by 1939.

It now became a matter of supreme importance to forecast the manner in which the Germans would attack. Believing that British naval power could impose upon the Germans, despite their efforts to insure themselves by substitute production and stock-piling, stringent and steadily increasing economic pressure, the Government and its

expert advisers expected Germany to go all out for a quick victory: Britain therefore must be prepared to resist attack 'on a tremendous scale' in the early days of war. The attack might be delivered by all three arms; its objective might be Britain or France or both together; but the prevailing opinion—popular opinion no less than expert—laid special stress on the danger of direct air attack against British cities and ports. In these circumstances there was a strong temptation to neglect the Army and to concentrate the main effort of rearmament on the naval and air arms, particularly the latter. The Chiefs of Staff endeavoured to repel the temptation; they told the Government that in the future as in the past, war would have to be waged in all three elements, and that each of the three Services would have an essential part to play in the combined military effort of the nation. But it was not until the spring of 1939, after the German occupation of Prague, that this advice began to be embodied effectively in military preparations.

This chapter cannot attempt a detailed description of these preparations in terms of expenditure by the three Services and the corresponding industrial expansions;[1] it can tell no more of the rearmament story than is necessary as a background to general economic policy. To begin with the naval side: until 1936 British naval expansion remained cramped within the restrictions of the Washington disarmament system. When the United Kingdom had accepted these restrictions in 1922, there had existed no potentially dangerous European navy for her to reckon with: when she became free of them in 1936, she had to reckon with two dangerous European navies in addition to the Japanese. In 1922 a 'one-power standard' with America and a 5 : 3 superiority over Japan had seemed a reasonable provision for the safety of the British Empire; but in 1936 the Admiralty felt bound to propose a 'new standard' which would be in effect a three-power standard covering the Japanese, German and Italian dangers. This 'new standard' was defined in a building programme which the Cabinet judged to lie beyond the bounds of financial possibility. Even if the Cabinet had judged otherwise, there would not have been time enough to make the programme effective before the years of the German and Japanese onslaughts. In September 1939, although the French and British Navies were fighting in comradeship, and the American battle fleet was still intact in its base at Pearl Harbour, the Admiralty was well aware that it would have to 'balance risks'. Its plan under the 'new standard' had been to establish at Singapore a fighting force built upon eight capital ships; but in the summer of 1939 the Chiefs of Staff had ruled—and the Southern Dominions had been told—that under existing circumstances no more than two capital ships could be spared for Singapore. And yet, within the

[1] This theme is thoroughly treated in Professor M. M. Postan's *British War Production*, in this series (H.M.S.O., 1952).

general framework of the rearmament programme, the Navy's claims had been proportionately well treated; the Admiralty could hardly complain that it had got less than its fair share of the money that was provided.

Nor could the Air Ministry complain that it had got too small a share. As far back as March 1934 Mr. Baldwin had promised the House of Commons that the Government would not accept in air power 'a position inferior to any country within striking distance of our shores'.[1] In the years that followed, the mystic word 'parity' was reiterated until it became almost an incantation. It was a word that eluded precise definition. It might mean numerical equality in all types of aircraft. It might mean numerical equality of bombers only: for should not British fighter requirements be assessed, not on the crude numerical basis of fighter against fighter, but in relation to the bombing strength of the enemy and the vulnerability of the targets which he would attack? Indeed, should not the crude test of numbers be discarded even for bombers? Were there not many qualitative elements—such as speed, structure, bomb load—to be included in any realistic comparative estimate of air strength? Gradually, the concept of parity gave place to the less pretentious concept of security. But in the pre-radar days, security itself was rather an ambiguous concept; in those days it was not so very far from the truth to prophesy that the bomber would always get through. If that were so, the deterrent of counter-bombing was the most likely guarantee of British security. Parity—if the word were to be resurrected at all—should be given the interpretation of 'bomb for bomb'. Along this path of reasoning, the Air Ministry built up programmes which, even after their bias had been in some degree corrected by decisions of the Cabinet, laid exceedingly heavy stress upon the production of heavy bombers. Simultaneously, and in contrast with the German programmes, they laid heavy stress on the building up of deep reserves. At the beginning of the war, the Royal Air Force was much inferior to the *Luftwaffe* in immediate front line strength, but superior to it in some at least of the foundations that the Air Staff had laid for the maintenance and expansion of its power.

Of the total sums made available for British rearmament, the Navy and Air Force between them were given so large a share as to rule out all possibility of an adequate Army programme. It was generally agreed that the Army had three functions to perform: to maintain the imperial garrisons overseas, to share the tasks of home defence, and to provide a well-equipped field force ready to proceed overseas wherever it might be wanted.[2] But the Army's efforts to fit

[1] H. of C. Deb., Vol. 286, Col. 2078.

[2] Cmd. 5107 of 1936. *Statement Relating to Defence.*

itself for this third function were progressively frustrated. In 1935 the Defence Requirements Committee had recommended a field force of seventeen divisions—five regular divisions, and twelve divisions of territorials to follow the regulars as reinforcements. The Cabinet accepted this recommendation in principle; but postponed to an unspecified date the equipment of the territorial divisions. By 1937 it had come to be accepted that only four territorial divisions, instead of the original twelve, would be made available as reinforcements; it was also decided that for the whole territorial army (excepting two anti-aircraft divisions) nothing more than training equipment at a total cost of nine million pounds would for the present be furnished. By 1938 the field force had in effect been given a ceiling of five divisions by elimination of all provision for territorial reinforcements. In this year—the year of Munich—the United Kingdom had no more than two divisions actually available for service on the Continent. The justification of all this was contained in the then-ascendant theory of 'a war of limited liability'. It was in the summer of 1937 that this phrase appeared for the first time in a British official document. A full-blown Ministry of Supply, the authors of the document contended, would not be necessary: a Ministry of Material Resources, together with expanded production departments in all three Service ministries, would be sufficient support for the United Kingdom's war plans, assuming that they were based '... on what may be termed a war of limited liability, i.e. for example, that there will be no such expansion of the Army, and consequently of military supply, as occurred in the last war . . .' —or at least, that such an expansion need not be anticipated in advance of war.

The Munich crisis made this theory an untenable one. Two years before, military conversations had been initiated between British and French experts, but they had been held at a low level where the larger issues could not easily be examined.[1] After Munich, the French had a new measure of their need—the lost thirty-five divisions and the lost armaments industry of Czechoslovakia. The British also had a new measure of their own need; they were for the first time brought face to face with the fear that the much-vaunted Maginot Line might be overrun or turned and that the United Kingdom might be confronted with the German land, air and naval forces securely established across the Channel. A thorough review of British commitments and plans had now to be undertaken in preparation for new conversations with the French. The conversations began in March 1939, almost simultaneously with the German seizure of Prague.

[1] They were initiated in London in April 1936, following Germany's occupation of the Rhineland in violation of the Locarno Treaty; but they lasted only three days. After the German occupation of Austria in March 1938 they were resumed, and during the next twelve months 'pursued a somewhat desultory course at the Attaché level'.

Their upshot was a far-reaching agreement for Anglo-French co-operation on a three-Service basis in every important strategical sphere. The main British contributions of strength in the opening phase of war would still be through the naval and air arms; but the British Government engaged itself to prepare an army of thirty-two divisions and to have it ready for service wherever it was needed before the end of the first twelve months of war.[1] So ended limited liability.

The concept of total war, which in the days of leisurely study had been accepted as a matter of theory, began now to find practical embodiment in the rearmament programme. Despite the heavy pressure under which some of the planning staffs had been working since the winter of 1935–36, the total effort of rearmament had not hitherto been very large. This is shown by the figures of defence expenditure.

£ millions

	Defence Expenditure		*Total Defence Expenditure*	*Changes in Taxation (Estimated)*		*Total Tax Revenue*	*Surplus or Deficit*
	From Revenue	*Under Defence Loans Act*		*First Year*	*Full Year*		
1935–36	137	—	137	− 6	−11	739	+ 3
1936–37	186	—	186	16	20	783	− 6
1937–38	197	65	262	15	36	841	+29
1938–39	272	128	400	30	35	896	−13

The figures indicate a marked acceleration of the programme in 1938, the last calendar year of peace; but even in that year the total defence expenditure amounted to no more than seven per cent. of the national income.[2]

The contrast between this limited effort and the almost unlimited anxieties which have been already described demands explanation. The explanation is to be found, in part, in the conceptions of financial policy which were then prevalent. In 1934, when the newly appointed Defence Requirements Committee recommended a deficiency programme involving an expenditure of a bare £82 millions, spread over five years, the Cabinet decided to cut the programme by one third. The Chancellor of the Exchequer declared roundly that the Cabinet had been presented with proposals impossible to carry out. As the nation's economic recovery continued and its military

[1] Although the present book is not a military history, it may be of value to state more precisely the engagements towards France assumed by the British Government on behalf of the British Army. The Government had agreed: (1) to send over the Regular Army of four infantry and two mobile divisions within the first six weeks of war; (2) to have available the first ten territorial divisions in the fourth, fifth and sixth months after the outbreak of war: (3) to have available the last sixteen territorial divisions from the ninth to the twelfth months. The actual commitment to send divisions to the Continent related to the Regular Army only: it was agreed that the use to be made of the territorial divisions would be decided according to the circumstances of the time, in consultation with the French Government.

[2] See Table I (a) on p. 75.

danger increased, this notion of the financial possibilities was subjected to revision: the rearmament programme accepted early in 1936 contemplated an expenditure in the next five years of £1,047 millions, and by the following year the expenditure forecast had swelled to £1,500 millions. At the same time, additional burdens were being imposed on the taxpayers; there were small increases of income tax and extensions of customs and excise duties; in 1937 national defence contribution, the mild ancestor of excess profits tax, made its first appearance. More significant still was the passage through Parliament in 1937 of the Defence Loans Act, authorising the Government to borrow to meet defence expenditure up to a limit of £400 millions—a limit which by an amending act of February 1939 was extended to £800 millions. By now the Government had at last broken through the barriers of its own financial doctrine. But the process had been a slow one. At the end of 1936, when the German economy was already in the stage of full employment or at least very close to it, the Minister for Co-ordination of Defence warned the House of Commons: '. . . Remember that we depend upon the resources of finance for the successful fighting of a war as much as upon the production of munitions'.[1] In so far as this warning referred to the financing of essential imported supplies, it was a salutary one; but in the sphere of home-produced supplies the antithesis between finance and production was false. There existed in 1936 a crying national need to use finance as an instrument for accelerating the production of munitions by bringing into the sector of defence economy, resources which were employed elsewhere, or were not as yet employed at all. When war broke out in September 1939, there still remained in the United Kingdom over a million unemployed men and 300,000 unemployed women.

A parallel doctrine of economic practice, which may be called 'the doctrine of normal trade', was operating simultaneously to impede the mobilisation of economic resources in the war sector. Believing that 'industry ought not to be interfered with', the Government was attempting to impose rearmament upon recovery within an uncontrolled economy. In consequence, the Service departments discovered that their increased votes of money were inadequately reflected in additional supplies or additional productive capacity for the expansion of supplies. Sometimes they found themselves unable to expend the full sums allocated to them because

[1] H. of C. Deb., Vol. 317, Col. 744. This conception of finance as a 'fourth arm', a full and equal partner with the Navy, Army and Air Force in the nation's military effort, found expression even after the outbreak of war. Cf. the speech of Sir John Simon introducing the special war budget of September 1939 (H. of C. Deb., Vol. 351, Col. 1362, 27th September 1939.) 'Finance, as has been sometimes said, is the fourth arm of Defence . . . for if finance failed, then the prop that sustains the whole of our war effort would collapse.'

British firms, being already choked with orders for the home and export trades, were unable to give prompt attention to government orders. In September 1937 the Secretary of State for Air declared that continued adherence to the doctrine of normal trade would postpone completion of the aircraft programme for two whole years —from 1939 to 1941. Next month the Foreign Secretary came to the support of the Air Ministry by submitting a memorandum which called for 'some more deliberate national effort than that upon which we are now engaged'. Similar complaints and demands came from the Admiralty and the War Office, and in February 1938 the Chiefs of Staff declared roundly:

> . . . We are attempting to carry out an armaments programme on a scale never yet attempted except in war, in peace conditions, and subject to a policy of non-interference with normal trade, which cannot fail to be a serious handicap with potential enemies whose whole financial, social, and industrial system has, in effect, been mobilised on a war footing for at least three years.

At last, on 22nd March 1938, the Cabinet took the decision to cancel the assumption on which the reconditioning of the Services had hitherto been based, namely that the course of normal trade should not be impeded.

The financial and economic ideas which have been discussed above were not the only impediments, perhaps not even the main ones, to speedy and adequate rearmament. Intermingling with them and often governing them were the unresolved contradictions of leadership and the national will. An agreed statement of the national interest and duty emerged very slowly out of the long debate between Government, Parliament and people: clarification of mind and concentration of will were not unshakably achieved until the great testing time of 1940. The historian of the United Kingdom's war economy will recognise this deeper historical theme. He will recognise it, but will not himself pursue it; he must keep within the boundaries of his own more measurable task.

Even within these boundaries, he must resist the temptation to explore too far the comparative measurement of British preparations against those of other nations, whether hostile or friendly. A genuinely comparative study of war economy as a non-national phenomenon would have great scientific value, and will in later years become achievable; but it cannot possess a sound basis until the separate national war economies—each in its own special context of economic and political circumstance—have been reliably investigated and explained. Subject to this reservation, some brief reference to what is already known about Germany's economic preparations for war will throw into sharper relief the main features of the

rearmament period in the United Kingdom.[1] By the end of 1936, Germany had achieved what may fairly be called full employment. Moreover, in the interests of the armaments programme, the German Government imposed controls stringent enough to prevent the accelerated economic effort of the nation from producing, at most, anything more than a small fraction of its natural effects in the improvement of consumer standards. In 1938, the last calendar year of peace, the German Reich, by Professor Brown's calculation,[2] was spending on armaments the equivalent of £1,710 millions out of a total national income at market prices of £7,260 millions. For the United Kingdom, the figure of armaments expenditure in the same year was £358 millions out of a total national income at market prices of £5,242 millions. In the aggregate, German expenditure on armaments in 1938 was nearly five times as large as British expenditure and it was absorbing nearly a quarter of national income as against a bare seven per cent. in the United Kingdom. This striking statistical contrast, although it falls short of exact statement, goes far to explain military events in the first period of the war. It is, of course, chiefly a product of the contrast in policy; the economy of the Reich, fully employed and firmly controlled, was already geared to war, while the economy of the United Kingdom was still far from full employment and only beginning to disentangle itself from the doctrine of 'normal trade'.

There was, however, a second contrast of more hopeful significance in long term—if long-term views were justified. As has been seen, British war studies had from a very early date defined a great war as one which would engage and absorb all the resources of the nation. They had assumed the steady unfolding of an economic effort which, however hesitant it might be in its beginnings, would in its conclusion demand the maximum of civilian sacrifice and achieve the maximum of military striking power. This was the concept that had governed the rearmament programmes of the Air Staff, with their deliberate sacrifice of immediate front line strength in order to build up for the future deep reserves of strength; the same concept expressed itself elsewhere in plans for large expansions of capital equipment. Left to itself, the German General Staff would have chosen to build on the same strong and deep foundations. But such

[1] A preliminary short survey of Germany's economic effort, based on German documents and the interrogation of German officers and officials, was published in 1946 by the United States Strategic Bombing Survey in a volume entitled *The Effects of Strategic Bombing on the German War Economy*. A very good beginning in the international comparison of national rearmament and war-efforts, measured by the statistics of national income, has been made by Professor A. J. Brown. See his *Applied Economics* (London 1947), Chapters I and II.

[2] See Table V in Brown, *op. cit.*, p. 23. The United Kingdom national income figures have since been revised; the proportions, however, remain much the same as in Professor Brown's table.

a policy—failing the will to impose immediate heavy sacrifices upon the German people[1]—would have postponed, possibly until 1945, German preparedness to wage aggressive war. Hitler therefore imposed upon the General Staff a different policy, 'rearmament in width' instead of 'rearmament in depth', the mobilisation of preponderant front line strength at the earliest possible date.

When war broke out, the British and German Governments both continued to forecast the course of its events according to the contrasted concepts which were already in their own minds. The British Government based its 'assurance of victory' upon an estimate of the long-term superiority of combined British and French economic resources over enemy resources. It assumed that time would be vouchsafed to the British and French Empires to translate their potential power into effective war-making power. 'The Allies are bound to win in the end,' declared Mr. Chamberlain, 'and the only question is how long it will take them to achieve their purpose.'[2] The natural sequence of strategical phases in a war against the Axis powers had been defined in advance by the French and British war-planners: first, defeat of the enemy's attempt at a knock-out blow and the beginnings of Allied economic pressure; secondly, the building up of Allied offensive power and the launching of it against Italy; thirdly, the great offensive against Germany, and her final defeat. This conception of the war was destined to fulfil itself in 1945; but in 1940 it almost collapsed in the very first phase. According to Hitler's strategical conception, that phase was to be the all-important one—and for the western powers, the only one.

[1] There is, of course, a difference between preventing the improvement of consumer standards (as explained above) and heavily depressing them. As later chapters will show, the British Government imposed on British civilians during the war much heavier sacrifices than the German Government was willing or able to impose on German civilians.

[2] This sentence from a speech of 26th November 1939 was quoted on the title-page of the pamphlet *Assurance of Victory*, published in the winter of 1940 by the Ministry of Information.