Rollings, N. (2001) *Whitehall and the control of prices and profits in a major war, 1919-1939.* Historical Journal, 44 (2). pp. 517-540. ISSN 0002-8762

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The Historical Journal, 44, 2 (2001), pp. 517–540 Printed in the United Kingdom
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WHITEHALL AND THE CONTROL OF PRICES AND PROFITS IN A MAJOR WAR, 1919–1939*

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ABSTRACT. *For much of the interwar period there was discussion in Whitehall of the policy to control prices and profits in any future major war. Opinion was divided between those who believed that the control of prices and profits would be necessary in return for controlling labour in the light of the experience of the First World War, and those who focused on the financial aspects of the issue, in which the control of prices and profits was seen to play little positive role. This second strand of thinking, rooted in the treasury, predominated, particularly once rearmament began: the co-operation of business and labour, it was argued, was best achieved by maintaining the status quo. As a result, once war did break out, legislation had to be enacted very rapidly to meet popular demands. More generally, this study throws light on the nature of interwar government in Britain and its attitude towards intervention.*

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.[1]

Sir Keith Hancock and Margaret Gowing made this perceptive point over fifty years ago in one of the volumes of the official civil history of the Second World War. They did not mean that there were no lessons to be learned, nor any mistakes to be avoided, from the experience of the First World War, merely that the past could do no more than provide the basis for any preparations for a future major war. Others have been far less sophisticated in their assessment: the conflict of 1939–45 was the *Second* World War and there was no excuse for makeshift policies.[2] In this respect, perhaps the most outstanding feature of the

* I would like to thank the British Academy for funding this research and the Controller HMSO and the British Library of Political and Economic Science for permission to quote from PRO and Beveridge papers respectively. I would also like to thank Anne Crowther, David Edgerton, Michael French, Rodney Lowe, George Peden, Richard Whiting, Alan Wilt, and two anonymous referees for comments on earlier drafts of this article.

[1] W. K. Hancock and M. M. Gowing, *British war economy* (London, 1949), p. 53.

[2] D. F. MacDonald, *The state and the trade unions* (London, 1960), p. 118; S. J. Hurwitz, *State intervention in Great Britain: a study of economic control and social response, 1914–1919* (London, 1968), p. viii; and E. Whetham, *British farming, 1939–1949* (London, 1952), pp. 21–3.

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experience of the First World War was the changed nature of war. In future, any major war would be a 'total war', in which the whole resources of the nation would be engaged, directly or indirectly, in the war effort.[3] Yet, while it is common to present the Second World War as another example of total war, it is surprising how little attention historians have given to the issues raised in organizing for total war when considering the preparations for the Second World War. Instead, they have tended to approach the subject from two related angles. First, the issue of supply and production, most notably the delay in establishing a ministry of supply has been given considerable attention.[4] Secondly, others have focused on rearmament, either making the treasury the scapegoat for military unpreparedness, or defending its approach to rearmament given resource constraints.[5] Little has been written specifically on the plans to establish a war economy in a broader sense since the series of official civil histories of the Second World War were published so soon after the war itself that broader perspectives were not yet possible.[6]

This article attempts to address this lacuna by considering interwar preparations to control prices and profits in a future Second World War. This offers a particularly illuminating case study since this was a crucial issue in the shift from a market economy to a planned wartime economy, raising issues of efficiency and equity. Also, the experience of the First World War had shown that the issue of prices and profits had emerged as a key concern. First, there had been the need to finance such a war and the search for suitable new sources of revenue if borrowing was not to be relied upon excessively. Not only were business profits regarded as able to bear the burden, but also the excess profits duty, introduced in 1916, proved a significant source of revenue.[7] Secondly,

[3] Hancock and Gowing, *British war economy*, p. 46; R. W. B. Clarke, *The economic effort of war* (London, 1940), p. 13. More generally, note A. Marwick, *Britain in the century of total war* (London, 1968).

[4] B. Bond, *British military policy between the two world wars* (Oxford, 1980); C. C. S. Newton, *Profits of peace: the political economy of Anglo–German appeasement* (Oxford, 1996); R. Higham, *Armed forces in peacetime: Britain, 1918–1940, a case study* (London, 1962); F. A. Johnson, *Defence by committee: the British committee of imperial defence, 1885–1959* (London, 1960); and G. A. H. Gordon, *British seapower and procurement between the wars* (Basingstoke, 1988).

[5] R. A. C. Parker, 'British rearmament, 1936–1939: treasury, trade unions and skilled labour', *English Historical Review*, 96 (1981), pp. 306–43; G. C. Peden, *British rearmament and the treasury, 1932–1939* (Edinburgh, 1979); R. P. Shay, *British rearmament in the thirties: politics and profits* (Princeton, NY, 1977); and S. Ritchie, *Industry and air power* (London, 1997).

[6] Hancock and Gowing, *British war economy*; R. J. Hammond, *Food volume 1: the growth of policy* (London, 1951); E. L. Hargreaves and M. M. Gowing, *Civil industry and trade* (London, 1952); M. M. Postan, *British war production* (London, 1952); W. Ashworth, *Contracts and finance* (London, 1953); J. K. Hurstfield, *The control of raw materials* (London, 1953); J. D. Scott and R. Hughes, *The administration of war production* (London, 1955); R. S. Sayers, *Financial policy, 1939–1945* (London, 1956); and H. M. D. Parker, *Manpower: a study of war-time policy and administration* (London, 1957), are the most relevant.

[7] J. C. Stamp, 'The special taxation of business profits in relation to the present position of national finance', *Economic Journal*, 29 (1919), pp. 407–27; G. Armytage-Smith, *Principles and methods of taxation*, ed. R. G. Hawtrey (11th edn, London, 1935), pp. 109–10; and F. Hirst and

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public opinion had increasingly vilified those 'profiteers' making money out of others' sacrifices and demanded a response from government.[8] Finally, the power of the labour movement had grown as manpower became an increasingly key resource in the war effort. This presented government with the dilemma of coercion or co-operation to achieve greater efficiency and productivity.[9] Wherever the exact balance lay between the two, some measure of compensation to labour had been necessary. Central to workers' concerns, and labour discontent, throughout the war and reconstruction period was the idea of equality of sacrifice and, more specifically, conscription of wealth.[10] Whether as a sop, or out of genuine concern, the government did respond. Building on the example of the munitions levy, the excess profits duty was introduced in 1915 as 'some compensation to trade unions for their agreement to the "dilution" of skilled labour'.[11] However, despite increases in the rate of duty from 50 per cent to 60 per cent and then to 80 per cent in 1917, and the view of most economists, including Labour ones, that the burden of the tax was not passed on to consumers in higher prices, workers remained suspicious that profits taxation was inadequate.[12] In tandem with frequent complaints over prices, especially of food, their preference was for the control of prices and profits.[13] Again the government responded, most famously in the form of the

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J. E. Allen, *British war budgets* (London, 1926), p. 101. For a more recent critique see A. J. Arnold, 'The Great War, government policy and financial returns in the liner trade', *Journal of Transport History*, 18 (1997), pp. 16–30.

[8] J. R. Hicks, U. K. Hicks, and L. Rostas, *The taxation of war wealth* (London, 1941), pp. 5–6; B. Mallet and C. O. George, *British budgets, 1913–1921* (London, 1929), pp. 331–2; R. McKibbin, *Classes and cultures: England, 1918–1951* (Oxford, 1998), pp. 54–5; and J.-L. Robert, 'The image of the profiteer', in J. Winter and J.-L. Robert, eds., *Capital cities at war* (Cambridge, 1997), pp. 104–32.

[9] K. Grieves, *The politics of manpower, 1914–1918* (Manchester, 1988); G. Rubin, *War, law and labour: the Munitions Acts, state regulation and the unions, 1915–1921* (Oxford, 1987); A. Reid, 'Dilution, trade unionism and the state in Britain during the First World War', in S. Tolliday and J. Zeitlin, eds., *Shop floor bargaining and the state* (Cambridge, 1985), pp. 46–74; and J. Melling, 'The servile state revisited: law and industrial capitalism in the early twentieth century', *Scottish Labour History Journal*, 24 (1989), pp. 68–85.

[10] *Commission of inquiry into industrial unrest* (Cd 8662, 1917); J. Cronin, *Politics of state expansion: war, state and society in twentieth century Britain* (London, 1991), p. 46; idem, 'Coping with labour, 1918–1926', in J. Cronin and J. Schneer, eds., *Social conflict and the political order in modern Britain* (London, 1982), p. 120; and K. Middlemas, *Politics in industrial society: the experience of the British system since 1911* (London, 1979), p. 130.

[11] M. Daunton, 'How to pay for the war: state, society and taxation in Britain, 1917–1924', *English Historical Review*, 111 (1996), p. 896. See also R. C. Whiting, 'Taxation and the working class, 1915–1924', *Historical Journal*, 33 (1990), p. 911.

[12] Whiting, 'Taxation', pp. 913–14. For contemporary economists' views see Stamp, 'Special taxation', p. 423; and M. E. Robinson, *Public finance* (Cambridge, 1922), pp. 71–2. For a dissenting voice see A. W. Kirkaldy, ed., *British finance during and after the war, 1914–1921* (London, 1921), p. 206.

[13] S. Litman, *Prices and price control in Great Britain and the United States during the world war* (New York, 1920), p. 92; and B. Waites, *A class society at war: England, 1914–1918* (Leamington Spa, 1987), p. 68.

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1919 Profiteering Act.[14] Although the act was little more than 'window dressing' and has been seen as 'completely ineffective', it did illustrate the need for the appearance, at least, of government action to control, rather than just tax, profits.[15]

In addition, interwar discussions of this topic cast a penetrating light on the wider subject of the nature of British government at this time. It will be shown that there were two strands of thinking in Whitehall on the issue of the control of prices and profits in wartime. One view, prevalent in the various committees of the committee of imperial defence (CID) argued that war required the control of labour and that compensation to labour, in the form of price and profits control, was necessary. The other, based around the treasury, concentrated on the financial aspects of the topic, and was generally non-interventionist in nature, playing down the need to make detailed preparations for running a war economy. The rearmament programme ironically reinforced this preference for maintaining the status quo and appeasing both business and labour. Ultimately, however, key individuals involved in organizing Britain's economic preparations for war all made clear their belief that the concerns of business were more important than those of labour.

On the outbreak of war, action was limited to the control of raw materials, the regulation of some food prices and the taxation, not control, of excess profits. Yet, within two months the government was obliged by the pressure of public opinion to introduce a rushed and flawed piece of legislation, the Prices of Goods Act 1939, to control the prices and level of profits of other consumer goods. William Beveridge was scathing of government policy in a suppressed article: 'The Prices of Goods Act, it is obvious, has no bearing on any major problem of the war. Its introduction is one illustration of the Nemesis that waits on unpreparedness for the economic side of war.'[16]

I

In many ways the 1920s were not a propitious time to start planning for a future major war. One legacy of the First World War was a massive reluctance to contemplate participation in another similar war.[17] In addition in 1919 the

[14] W. H. Beveridge, *British food control* (London, 1928); F. H. Coller, *A state trading adventure* (London, 1925); E. H. M. Lloyd, *Experiments in state control: at the war office and the ministry of food* (Oxford, 1924); L. M. Barnett, *British food policy during the First World War* (London, 1985); and J. Harris, 'Bureaucrats and businessmen in British food control, 1916–1919', in K. Burk, ed., *War and the state*, pp. 135–56.

[15] A. C. Pigou, *Aspects of British economic history, 1918–1925* (London, 1947), p. 130; and E. V. Morgan, *Studies in British financial policy, 1914–1925* (London, 1952), p. 63.

[16] British Library of Political and Economic Science, London (BLPES), Beveridge papers, IIb/39 part ii, Beveridge to Sir William Brown, permanent secretary to the board of trade, 19 Oct. 1939. See also Public Record Office (PRO), CAB102/266, 'Outline of economic policy', K. Hancock, undated.

[17] M. Howard, 'The legacy of the First World War', in R. Boyce and E. M. Robertson, eds., *Paths to war: new essays on the origins of the Second World War* (Basingstoke, 1989), pp. 33–54.

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ten-year rule was established whereby it was assumed there would be no war with a major power in the following ten years. Indeed, the rule was extended in the late 1920s.[18] Brian Bond has suggested that in the 1920s 'there seemed little inclination to profit from the dreadful experience [of the First World War] by studying all the lessons ranging from tactics to civil and industrial preparedness'.[19] Contemporaries were, understandably, much more concerned about re-establishing peacetime stability following the war.[20] Economic policy-makers were busy containing threats to the legitimacy of the British state by rebuilding the image of a class-neutral and fair government.[21]

Nevertheless, within Whitehall the committee of imperial defence was resurrected in principle in 1919 and back 'in full swing' on British and imperial strategic planning by the summer of 1921.[22] It is clear that there were considerable problems facing the CID and its sub-committees in formulating plans, given 'an atmosphere of unrealism'.[23] Members of the various sub-committees were often busy elsewhere and the pace of decision-making was further limited by the search for interdepartmental consensus.[24] Yet the fact that Maurice Hankey, the secretary of the CID, was able to persuade the cabinet, against treasury opposition, to embark on such an exercise is illustrative of some desire to learn from the experience of the First World War.

Equally significant are the subjects covered by the CID machinery in the 1920s, since these represent the topics highlighted by that experience. Ehrman has noted that attention fastened upon the links between the military and civil parts of the defence mechanism.[25] One of the first two major inquiries focused on the issue of labour and conscription. The sub-committee on the question of national service in a future war was chaired by Sir W. Graham Greene, who had been secretary of the ministry of munitions from 1917 to 1920 and, before that, permanent secretary to the admiralty. He was officially retired but continued working for the government in this field for a further twenty years. In the sub-committee's final report, sent to the CID in June 1922, the central issue was set out clearly. Powers to issue instructions to make strikes illegal and introduce controls over wages and labour were viewed as 'essential if a proper use is to be made of available manpower in any future war'.[26] The report continued that one 'corollary of the existence of such powers is that if labour is to surrender many of its privileges and safeguards, a system of limitation of profits must be introduced'. This system could operate 'either by taxing any

[18] N. H. Gibbs, *Grand strategy volume 1, rearmament policy* (London, 1976).

[19] Bond, *British military policy*, pp. 33–4.

[20] McKibbin, *Classes and cultures*, p. 528.

[21] Daunton, 'How to pay', and idem, 'Payment and participation: welfare and state formation, 1900–1951', *Past and Present*, 150 (1996), pp. 169–216.

[22] M. Hankey, *Diplomacy by conference: studies in public affairs, 1920–1946* (London, 1946), pp. 96–7.

[23] Johnson, *Defence by committee*, p. 221.

[24] Ibid., p. 246; J. Ferris, *The evolution of British strategic policy, 1919–1926* (Basingstoke, 1989), p. 10; and Gordon, *British seapower*, p. 49.

[25] J. Ehrman, *Cabinet government and war* (Cambridge, 1958), p. 111.

[26] PRO CAB4/8, CID 350-B, para. 50.

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profit above a certain fixed rate, or more scientifically by a rigid control of material prices'. A bargain with labour was therefore seen as an essential element of any future war economy although the nature of the government's side of the bargain remained open.

Lord Weir, the industrialist, and wartime civil servant and minister, gave his support to this position when presenting evidence to the principal supply officers' committee (PSOC), often highlighted as a crucial committee in the CID machinery, in July 1925.[27] His views on the necessity of controlling labour in wartime had been made explicit on a number of occasions during the First World War.[28] He reiterated this view, but continued:

> If you are going to ask labour to make what it believes to be sacrifices in war time and to carry on really national work, then on the other side you must eliminate in some way or other the question of private profit. I would suggest that that is a most important thing to settle before the war comes off … I suggest it is an outstanding point.[29]

The PSOC respected and heeded Weir's advice, being 'unanimously of the opinion' that the question was so important that an ad hoc sub-committee of the CID should be appointed at an early date to examine the issue.[30] Thereafter, the PSOC repeatedly emphasized the importance of the topic and pressed for action in this field.[31] A further stimulus came from the manpower sub-committee of the CID. The sub-committee had noted in May 1927 that in the event of a 'Great War', bills on the control of industrial labour and the control of profits and prices would be required as an integral part of the legislative scheme.[32] As Greene pointed out, the ministry of labour's study of the control of labour could not make progress without knowledge of the policy on the control of prices.[33]

This notion of the need for a bargain with labour to ensure an equality of sacrifice during any future war remained central to thinking within the CID machinery and in the ministry of labour into the 1930s. As W StD Jenkins, the director of navy contracts, told the supply board of PSOC in 1932, the experience of the previous war showed that it was 'of primary importance to keep down prices and to restrict profits, which would automatically discourage a rise in wages'.[34] Indeed, it was felt that until the government's policy on the

[27] Johnson, *Defence by committee*, p. 245. The sub-committee on manpower was given the task of reviewing the problem of speedy procurement and the maximum utilization for war of the nation's manpower. The principal supply officers' committee (PSOC) was set up to draw up lists of munitions and war-like stores but was soon considering much wider issues. It was then reconstituted in 1927 to examine raw material and industrial needs in war, to plan for closing any gaps and to consider allocation of resources in war. See S. S. Wilson, *The cabinet office to 1945* (London, 1975), p. 71; and Johnson, *Defence by committee*, p. 246.

[28] W. J. Reader, *Architect of air power: the life of the first Viscount Weir of Eastwood, 1877–1959* (London, 1968), pp. 38–41.

[29] PRO CAB60/1, PSO 18th, 9 July 1925.

[30] PRO CAB60/6, PSO 65, 5 Aug. 1925. See Gordon, *British seapower*, p. 54.

[31] PRO CAB2/4, CID 219th, 16 Dec. 1926; and PRO CAB60/9, PSO 172, 31 July 1927.

[32] PRO CAB57/2, NS 12, 18 May 1927.

[33] PRO CAB21/323, 'Manpower sub-committee: control of profits and prices in war', 23 Feb. 1928.

[34] PRO SUPP3/47, supply board meeting, 16 Feb. 1932.

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control of prices and profits in a future major war was established it remained impossible to decide on the appropriate wages policy and degree of control over labour.[35] Accordingly, it was not until April 1931 that the ministry of labour was finally able to present its report on 'The organisation of manpower in a major war' to the manpower sub-committee, repeating the need for control of wages in war.[36] During the ensuing discussion at the manpower sub-committee it was agreed that a small sub-committee should be set up to consider the control of prices, rationing of consumable goods, and the control of imports, to be chaired by Sir Horace Hamilton, the permanent secretary to the board of trade.[37] At its first meeting Percy Ashley (board of trade) and Wilfrid Eady (ministry of labour) both stressed that if there was to be control of labour there also had to be control of prices and profits, and Hamilton added that excess profits duty did not rule out profit control in industry where prices were fixed. Greene, also a member, emphasized the point that control would be easier the more extensive and earlier it was in place. An interim report emphasized the importance of controlling food prices.[38] This was taken on in the sub-committee's final report which also referred to the need to consider the control of munition prices by a common contracts price policy. The report noted that since 'excessive profits, even if absorbed by taxation, may, through demands for increased wages, tend to destroy the basis of the control of industrial labour laid down by the manpower committee', the issue of a common pricing policy was 'of the first importance'.[39] When the report was considered at the manpower sub-committee, Sir Philip Cunliffe-Lister, the cabinet minister and chairman of the sub-committee, restated the importance of the need for effective and firm control during the first days of war and stressed the importance of the recommendation to the PSOC.[40] In its recommendations to the CID the meeting also drew special attention to the importance of an organization to deal with food. It was this that led to the creation in 1936 of the board of trade food (defence plans) department.[41]

The price control of other commodities in a future war, however, remained uncertain. In a progress report to the CID, Cunliffe-Lister stressed the importance of the close control of prices and materials in classes of production other than those covered directly in the two reports by the Hamilton sub-committee as well as the need for common action between the spending departments.[42] Then in May 1934 he pointed out to the CID that if manpower

[35] PRO CAB57/1, NS 8th, 23 Oct. 1928; and PRO CAB21/323, Greene to Longhurst, 22 May 1929.

[36] PRO CAB57/2, NS 27, Apr. 1931.

[37] PRO CAB57/1, NS 9th, 10 July 1931.

[38] PRO CAB57/2, NS 33, 23 Feb. 1933.

[39] PRO CAB57/2, NS 35, 22 Sept. 1933.

[40] PRO CAB57/1, NS 10th, 10 Nov. 1933. Cunliffe-Lister had worked in the ministry of national service during the First World War and as Lord Swinton was secretary of state for air 1935–8 and then held a number of wartime ministerial posts. At this time he was secretary of state for the colonies.

[41] Hancock and Gowing, *British war economy*, pp. 51–2; and Hammond, *Food*, pp. 13–48.

[42] PRO CAB57/2, NS 41, 19 Dec. 1933.

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policy was to be successful 'in the initial stages of an emergency complete co-ordination should exist between departments dealing with profits, prices and wages'.[43] As a result, the PSOC were directed by the CID to consider the question of a common contracts policy in a war. Even before the CID directive, steps were being taken to deal with the question of a common contracts policy. The contracts co-ordinating committee had been set up in 1920 'to secure economy and eliminate the forcing up of prices by competition'.[44] In January 1934 consideration was given to the subject of fixing prices of machine tools under emergency conditions in response to a letter from an engineering company.[45] Frederick Bovenschen, the director of contracts in the war office and, at that time, chairman of the contracts co-ordinating committee, noted that he had 'had in mind for some time the necessity of considering the question of fixing prices on mobilisation – particularly in the case of new firms who had had no experience of the manufacture of munitions or of the normal costing clause'. Once Bovenschen became aware of the manpower sub-committee's recommendation to the CID he circulated a paper suggesting draft terms of reference for such an inquiry.[46]

From this a new sub-committee of the contracts co-ordinating committee emerged. Chaired by Bovenschen, its terms of reference were 'to consider whether a workable scheme could be evolved for the control in emergency of prices of supplies of material for war purposes, assuming that control of wages and prices of raw materials would be exercised; also what form of tribunal would need to be set up for arbitration'.[47] Its membership consisted of the three service department representatives on the contracts co-ordinating committee, A. E. Watson, from the treasury, who had experience of the ministry of munitions during the war, and William Brown, from the board of trade, for his knowledge of the proposals for control of prices of raw materials. The sub-committee's report went to the supply board at the end of September 1935.[48] Once more it was proposed that control of wages should be general rather than confined to just controlled establishments. In the light of this, the control of prices was necessary at all stages of production and that, 'for price control to be of value it is essential that the government policy in this respect should be announced immediately on occurrence of the emergency'.[49]

The reception of the report was generally favourable: Sir Arthur Robinson, the chairman of the supply board, found it 'a very able and interesting paper', continuing, 'The control of prices and profits was a subject which should now be considered as part of our war policy.'[50] Jenkins, who had been a member of

[43] PRO CAB2/6, CID 264th, 31 May 1934. [44] Ashworth, *Contracts and finance*, p. 25.
[45] PRO T161/913/S.38961/1, CCC 72nd, 9 Jan. 1934.
[46] PRO T161/913/S.38961/1, 'Method of price fixing in emergency', by Bovenschen, undated; and PRO WO221/14, CCC 73rd, 17 Apr. 1934.
[47] PRO WO221/14, CCC 75th, 11 Sept. 1934.
[48] PRO CAB60/43, PSO(SB) 555, 31 Oct. 1935.
[49] PRO CAB60/43, PSO(SB) 555, 31 Oct. 1935.
[50] PRO CAB60/32, PSO(SB) 44th, 9 Dec. 1935.

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the sub-committee, described the report as 'the first real attempt since the Armistice to make practical proposals on the subject of "taking the profit out of war"', and that the report should go before higher authorities 'with the least delay'. In spite of this, and Bovenschen's opposition, it was first sent to the advisory panel of industrialists, which had been set up in 1933 to assist the PSOC, and consisted of Weir, Sir Arthur Balfour (later Lord Riverdale), and Sir James Lithgow.[51] Contrary to Bovenschen's fears, in general they concurred with the report.[52] Significantly, they assumed there would be full control of industry and manpower: complete control of wages was, to them, essential. Given this, they saw three main objects of controlling profits and prices: to control the production of munitions so as to ensure wage stabilization; to ensure enthusiasm in efficient production; and to prevent unreasonable rates of profit.

While the Bovenschen sub-committee had been studying the control of prices and profits, discussions on the intimately related question of the control of labour had also continued. In September 1935, at a meeting of the manpower sub-committee, Greene drew attention to the importance of completing legislative measures for giving the ministry of labour statutory powers to control labour and wages and it was agreed that a bill should be drafted.[53] Six months later the ministry of labour submitted a memorandum entitled 'Organisation of manpower in a major war'.[54] The paper made clear that the whole system of wage control depended on the control of prices and profits and its immediate introduction in an emergency:

> If the strain of the war lasts for a long time, say two or three years, the successful continuance of the manpower policy, with all its restrictions upon powerful industrial organisations representing, directly or indirectly, a large section of the community, will depend upon what may be called general 'labour atmosphere'. There is no difference, in practice, between the loyalty of the labour organisations and of any other section of the community. But that loyalty is closely woven in with a sense of fair treatment, the underlying cause and solidarity of the trade union movement. Suspicion as to economic exploitation in a time of emergency is easy to arouse, and it spreads. When the industrial organisations are asked to surrender so much of their power of economic retaliation, they will be insistent that a similar surrender is made effective and continuous, through some publicly stated and clearly enforced administrative policy. If that favourable atmosphere is secured at the beginning, it will be all the easier to begin the operation of manpower control.

This statement epitomized a clear strand of thinking amongst those involved in preparing for a major war. Consistently, from the early 1920s through to the

[51] PRO CAB60/32: PSO(SB) 44th, 9 Dec. 1935; and PRO CAB60/15, PSO 524, 'Control of prices and profits' by F. B. Webb, joint secretary of the supply board, 17 Dec. 1935. See G. C. Peden, 'Arms, government and businessmen, 1935–1945', in J. Turner, ed., *Businessmen and politics: studies of business activity in British politics, 1900–1945* (London, 1984), pp. 130–45.

[52] PRO CAB60/4, PSO 62nd, 13 Oct. 1936; and PRO CAB60/32, PSO(SB) 51st, 8 Dec. 1936.

[53] PRO CAB57/1, NS 12th, 24 Sept. 1935. [54] PRO CAB57/3, NS 51, 14 Mar. 1936.

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mid-1930s, it was assumed that there would be some control of labour and wages and that in return the government would have to take action against prices and profits. This was based on the belief that a bargain with labour would be required to illustrate the equality of sacrifice in the war effort in order to ensure the maximization of production. Over the course of these discussions two other points emerged. First, there was a need to be seen to be taking clear and decisive action in this field during the first few days of war. Secondly, increasingly the taxation of profits was viewed as insufficient for the purposes of this bargain. It was the *control* of prices and profits that mattered and this had to be general.

II

It is equally clear that progress in bringing these ideas to practical fruition was slow. In part this reflected the lack of immediacy about the issue. However, a second factor was the existence of an alternative strand of thinking in Whitehall, mainly in the treasury, about the issue of profits in war. Rather than approaching the subject from the position of requiring a bargain with labour or to be seen to be attacking profiteering, this strand focused on the financial aspects of the issue. Often this was presented as an economic approach, in contrast to the political approach of bargaining with labour.[55] The experience of the First World War spawned a vast literature on its financing and especially on the balance between government borrowing and increased taxation. Particular issues were the size of the floating debt, on whom the tax burden should fall, and the extent to which inflation was acceptable in war. From this perspective to control prices and profits seemed the least important element of policy and could indeed be extremely damaging in its effect on incentive.[56]

Given this, the treasury argued that the control of prices and profits was a part of the wider issue of dealing with inflation in a major war and as such was a treasury issue. In December 1926 the CID considered the proposal made by Lord Weir and supported by PSOC for a sub-committee of the CID to examine the issue of profits control. Sir Warren Fisher, the permanent secretary to the treasury, intervened in the discussion. He stressed that 'it was most important that the question of the control of profits in a future war should be examined', but that a treasury committee (and not a CID committee) should be set up for that purpose. This was accepted and progress was stymied. Sir Richard Hopkins, then the controller of finance and supply services in the treasury, later explained to Warren Fisher that, having found out that the PSOC had only been alluding to the taxation of excess profit rather than the fixing of prices or general questions of currency policy, the subject had been handed over to Sir Ernest Gowers, the chairman of the inland revenue.[57]

[55] For example Hicks et al., *Taxation of war wealth*, pp. 5–6; and J. H. Jones, *Josiah Stamp: public servant* (London, 1964), pp. 92–7.
[56] J. Stamp, *Taxation during the war* (London, 1932), pp. 214–15.
[57] PRO T175/27, Hopkins to Fisher, 19 Mar. 1928.

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The treasury only started to take action when stimulated by fears of the outcome of the deliberations of the manpower sub-committee in 1928. Hopkins believed that the sub-committee's work plunged into discussion of the control of prices without consideration of questions of currency and general taxation policy which were both sensitive and central to the treasury.[58] To Hopkins, the first question was whether, on the outbreak of war, inflation could be prevented by central banking and currency policy. The importance of general taxation and excess profits taxation and any other measures, such as the manpower sub-committee's proposals, depended on the answer to that first question.[59] Asked to set out the treasury's views, Hopkins could submit just a single page in July to the sub-committee simply repeating this point and noting that it was hoped to take up the task more formally that autumn.[60] In October Hopkins told the sub-committee that when the treasury report was ready, it was likely to set out the ways by which price increases could be totally eliminated in theory but that it was doubtful whether these would be practical politics.[61] The report would also contain proposals for a duty on increased profits arising in individual cases from increased turnover, although another committee would be required to consider the control of prices of munitions. The sub-committee were unhappy with the slow progress and the refusal to set down policies that would allow planning to advance. Concluding, Cunliffe-Lister urged that consideration of the question should proceed without delay. Hopkins responded that the treasury 'would expedite as much as possible the examination of this question'.[62] Progress in the treasury, however, remained slow. This was due not only to the difficulty of the subject but also to 'the more immediate preoccupations at the treasury'.[63] Hopkins therefore proposed a brief report setting out the measures available to counteract inflation in time of war. Again this was to be from a theoretical perspective and it was not to be assumed that the measures could be applied effectively in an actual war. This, he felt, would then allow the other inquiries to begin.

The promised report finally emerged in May 1929 as 'The course of prices in a Great War' along with a second memorandum by the inland revenue on 'Taxation of the increased profits of trade and business in time of war'.[64] The treasury paper set out in an expanded form what Hopkins had predicted. It began by explaining why prices were likely to advance on the outbreak of war and distinguished between external gold inflation and internal government borrowing leading to an expansion of credit.[65] The mechanisms of these two

[58] Ibid. [59] PRO CAB21/323, note of a meeting by Hopkins, 25 Apr. 1928.

[60] PRO CAB57/2, NS 17, 'Control of profits and prices in war', by Hopkins, 26 July 1928; and PRO T175/27: Hopkins to Frederick Leith Ross, 26 July 1928.

[61] PRO CAB57/1, NS 8th, 23 Oct. 1928; and PRO T175/27, 'Control of prices', by Hopkins, 23 Oct. 1928. [62] PRO CAB57/1, NS 8th, 23 Oct. 1928.

[63] PRO CAB21/323, Hopkins to Longhurst, 15 Jan. 1929.

[64] PRO CAB57/2, NS 25, 15 May 1929, and NS 26, 21 May 1929.

[65] PRO CAB57/2, NS 25, 15 May 1929.

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types of inflation were then set out, followed by an analysis of why inflation was dangerous. Seven measures adopted in the First World War were then listed and discussed very briefly.

For Hancock and Gowing in the official history, *British war economy*, the treasury paper '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.'[66] To them, 'It was the formulation, by treasury initiative, of policies to combat war inflation that most attracts the historian's attention' in this period.[67] The paper did set out the treasury's thinking and can be seen as the key statement of this second strand of thinking in Whitehall. It illustrated the ways in which treasury thinking had developed in the light of the experience of the First World War. First, as had been acknowledged during that war, some degree of inflation during the war was not only inevitable but could be 'a very effective means of enabling a government to secure for the time being a larger proportion of the national production without appearing to take anything from the taxpayer'.[68] Secondly, borrowing remained central to financing the war, given the limits to which taxation could be increased. This was especially true at the outbreak of war when the government would require large sums of money very quickly.

However, there were great dangers attached to both of these policies and to the so-called 'McKenna principle' of raising new taxation only sufficient to cover the interest and sinking fund charges on loans.[69] The 1929 memorandum made clear that the key problem in war was the rapid growth of demand for goods at a time when supplies would become constrained. Taxation, it was argued, had to be 'increased to the maximum point which can in practice be maintained' in order to make as large a contribution as possible to the reduction of the excess purchasing power.[70] The paper concluded:

> 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 … 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 artificial creation of credit.

It was also concluded 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', and that the fixing of wages and prices were a necessary part of any programme of action.

[66] Hancock and Gowing, *British war economy*, p. 47. [67] Ibid., p. 45.

[68] PRO CAB57/2, NS 25, 15 May 1929. On the First World War see Mallet and George, *British budgets*, p. 378; and E. Johnson, ed., *The collected writings of John Maynard Keynes*, vol. XVI: *Activities, 1914–1919: the treasury and Versailles* (London, 1971), pp. 125–7.

[69] For criticism of this principle see Sayers, *Financial policy*, pp. 23–4; and Morgan, *Studies*, pp. 92–5. [70] PRO CAB57/2, NS 25, 15 May 1929.

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Yet the treasury's thinking remained quite distinct from that in the CID machinery and the ministry of labour. These measures were part of a programme to control inflation not to gain the support of labour in the war effort. The discussion of price control was perfunctory: the sub-committee on manpower was simply told to refer to the relevant chapter in Pigou's *Economics of welfare* to acquaint themselves with the problems of price control in war.[71] Finally, it was made clear that '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'.[72] This clearly illustrates the completely different approach of the treasury. Even ignoring the treasury's tardiness in producing this paper, its eventual content was very different from that requested by the CID machinery at various points since 1925. The treasury paper side-stepped the issue of gaining the acquiescence of labour in order to avoid disruption to production and contained no practical and immediate steps of action, although the inland revenue paper did set out a scheme for controlling excess profits. Sir Graham Greene, having previously 'besought [Hopkins] to buck up',[73] did not view the treasury paper favourably: 'The tendency of the report is to the effect that any absolute government control of prices and profits is impracticable and therefore some well considered scheme of taxation will have to be adopted, but it still remains vague how far government control can be applied and how far taxation can be imposed.'[74] The CID, Greene believed, would not, as a result, be able to consider the subject for some time to come and were 'still rather far from receiving a definite basis on which the question of the control of labour and wages can be dealt with'.

It was not until July 1931 that the two papers were finally considered by the manpower sub-committee. The inland revenue paper was dealt with quickly: legislation should be drafted.[75] Attention then turned to the treasury paper. Hopkins introduced the paper by suggesting that five subjects emerged from it. On two of these, increased taxation and sound borrowing out of actual savings, he felt no further action could usefully be done. The three remaining subjects, the control of prices, rationing of consumable goods, and the control of imports, he argued, should be studied by what became the Hamilton committee.[76] Hopkins rejected the opportunity to chair this study, arguing that a board of trade official would be more appropriate.[77] In so doing Hopkins also made clear his view that there was a clear distinction between the control of prices

[71] A. C. Pigou, *Economics of welfare* (London, various editions). It is interesting that elsewhere Pigou, professor of political economy at Cambridge between 1908 and 1943, argued for price control instead of taxation of profits in war. See idem, *The political economy of war* (London, 1921), pp. 116–17; and idem, *Aspects of British economic history, 1918–1925* (London, 1947), p. 128.

[72] PRO CAB57/2, NS 25, 15 May 1929.

[73] PRO T175/27, Hopkins to Longhurst, 17 May 1929.

[74] PRO CAB21/323, Greene to Longhurst, 22 May 1929.

[75] Sayers, *Financial policy*, pp. 29 and 85–90.

[76] PRO CAB57/1, NS 9th, 10 July 1931.

[77] PRO T175/27, Longhurst to Hopkins, 1 July 1931.

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and the control, or taxation, of increased profits.[78] Thereafter the treasury continued to maintain the line taken by Hopkins since the 1920s. When Bovenschen proposed his new committee on the control of prices of war supplies the treasury made clear its concern that it would overlap with the treasury's more general concerns in this field.[79]

There was, therefore, a clear split in thinking in Whitehall over how to deal with profits in war. The two approaches remained distinct throughout this period. As Horace Hamilton told his sub-committee in 1932, he perceived two objectives for their work: first, 'financial – to delay and restrict inflation by keeping down prices as far as possible', and secondly, 'political – to prevent unrest by avoiding undue rises in prices at a time when wages were controlled'.[80] Both approaches, and their implications for policy, did develop over time but the fundamental differences remained. As Bernard Gilbert, a treasury official, put it in 1938:

> It is of course vitally important to restrict and, if possible eliminate, profiteering, but the reason is not so much financial as political and social in the sense that the good name of government for efficient administration and for fair distribution of burdens between capital and labour is involved. From the financial point of view the complete elimination of profiteering would not secure any appreciable abatement of the enormous defence bill of today.[81]

III

Once rearmament became a reality, the issue of the appropriate policy for dealing with profits during war was no longer a matter confined to endless discussion in Whitehall committees. The highly contentious issue of private profit from the manufacture of armaments once more became a topic of general concern. The early 1930s had seen the revival of the controversy over 'merchants of death' and the government felt obliged to respond to the public outcry over this sensitive issue by establishing the royal commission on the manufacture and trade in armaments in February 1935.[82] Thereafter the issue of profits and their treatment remained one that caused popular disquiet.[83] Ministers responded by repeatedly announcing their determination to remove profiteering from the industry.[84] In addition, in 1937 the government introduced the National Defence Contribution (NDC). Originally proposed as

[78] PRO T175/27, memorandum by Hopkins for the meeting on 10 July 1931, undated.
[79] PRO T161/913/S.38961/1, Rowan to R. A. Grieve?, 17 May 1934.
[80] PRO CAB57/14, NS(PW) 1st, 8 Jan. 1932.
[81] Gilbert to Hopkins, 16 Feb. 1938, quoted in Shay, *British rearmament*, pp. 252–3.
[82] D. G. Anderson, 'British rearmament and the "merchants of death": the 1935–1936 Royal Commission on the manufacture and trade in armaments', *Journal of Contemporary History*, 29 (1994), pp. 5–37. See also P. Noel-Baker, *The private manufacture of armaments vol. 1* (London, 1936).
[83] Gordon, *British seapower*, p. 235.
[84] For example Baldwin in 1935 quoted in Shay, *British rearmament*, p. 103, and Chamberlain in House of Commons, *Parliamentary Debates*, 346 (1939), cols. 1350–1, 27 Apr. 1939. See also R. A. C. Parker, *Chamberlain and appeasement: British policy and the coming of the Second World War* (Basingstoke, 1983).

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a tax on the growth of profits, it was simplified into a 5 per cent tax on all profits. The NDC was not just a response to public pressure: it was also meant to be a signal to trade unions.[85] The notion of a bargain between the government and labour was even more pronounced by April 1939 with the introduction of the Armaments Profits Duty (APD), nominally a 60 per cent tax on the profits of firms engaged in rearmament.[86] The duty was announced by Neville Chamberlain to compensate labour for the introduction of conscription.[87] In addition, he proposed that in the event of war there would be measures to control the rise in prices of necessities, a system to deal with all profits arising out of war, and a post-war levy on wartime increased wealth. Building on his experience as minister for national service during the First World War, Chamberlain seems to have believed strongly in the importance of conciliating labour and gaining its support in the event of conscription.[88]

It might appear, therefore, that during the period of rearmament, and the closer Britain came to war, political considerations came increasingly to the fore in the way the profits issue was dealt with by government. Neither the NDC nor the APD were large sources of revenue, and the NDC caused a large furore amongst business circles on its announcement.[89] The APD was less contentious but was still 'viewed mainly as a political measure'.[90] One recent study has suggested that with the APD and the Second McLintock Agreement 'the government came dangerously close to placing the political needs to limit profits before the military necessity of increasing production'.[91] However, in practice financial considerations remained vital. This reflected not only the position of the treasury within Whitehall but also the argument that finance was the 'fourth arm of defence'.[92] Sir Thomas Inskip, the minister for the co-ordination of defence, famously made this point at the end of 1936, and Sir John Simon, the chancellor of the exchequer, was still repeating it after war had broken out.[93]

The rearmament programme also reinforced a tendency towards maintaining the status quo and, in particular, the belief that rearmament was more important than planning for war. As historians have widely argued, re-

[85] B. E. V. Sabine, *British budgets in peace and war, 1932–1945* (London, 1970), p. 103.

[86] APD had a relatively high exemption limit (turnover from armament activity had to be in excess of £200,000) and, as income tax and NDC were allowed as deductions, the real rate was just over 40 per cent).

[87] House of Commons, *Parliamentary Debates*, 346 (1939), cols. 1349–51. See P. Dennis, *Decision by default: peacetime conscription and British defence, 1919–1939* (London, 1972).

[88] See Grieves, *Politics of manpower*, pp. 78–9; and D. Dilks, *Neville Chamberlain vol. 1* (Cambridge, 1984), p. 225.

[89] Cronin, *Politics of state expansion*, p. 109; and N. J. Crowson, 'The Conservative party and the call for national service, 1937–1939: compulsion versus voluntarism', *Contemporary Record*, 9 (1995), pp. 512–13.

[90] Hicks et al., *Taxation of war wealth*, p. 91.

[91] Ritchie, *Industry and air power*, p. 210.

[92] Bond, *British military policy*, p. 243; and Dennis, *Decision by default*, p. 109.

[93] Inskip, quoted in Dennis, *Decision by default*, p. 109; House of Commons, *Parliamentary Debates*, 351 (1939), col. 1362.

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armament was not simply for the purpose of preparing for war but was also, if not more so, for the purpose of avoiding the horrors of war. Rearmament was being used as a deterrent.[94] Horace Wilson noted at the time, appeasement was 'never designed just to postpone war, or to enable us to enter war united', but 'to avoid war altogether, for all time'.[95] In this context, Chamberlain was aware that any measure hinting at conscription of labour would be unpopular with trade unions and could well lead to industrial unrest. As a result, he was keen to avoid compulsion for as long as possible in order to maintain rearmament production.[96] Richard Hopkins went further: 'In war conditions', he wrote in 1936, 'it is possible to divert and dilute labour to a high degree without grave political and social consequences: in peacetime it is not.'[97] If compulsion could be avoided in the rearmament period it would be unnecessary to appease labour to the same extent; once war began the whole atmosphere would be different and fewer concessions would be necessary.[98] This desire to maintain voluntarism spread to the issue of collective bargaining, where opinion gradually moved away from the control of wages.[99] The ministry of labour believed that wage inducements and other economic incentives would suffice, although the ministry did continue to highlight the importance of the control of prices and profits to wage restraint.[100] Hancock and Gowing have argued that the removal of the 'foundation stone' of wage control also removed the drive to control of prices and profits.[101]

However, the pressures from the rearmament drive went wider than just the desire to avoid confrontation with labour. The government had similar, if not stronger, feelings with regard to business. At the outset of rearmament both government and industry made clear their support for 'business as usual'.[102] Warren Fisher opposed the inspection of company books in January 1936 while Maurice Hankey, the secretary of the CID, emphasized the importance of private manufacture to the rearmament programme.[103] As a 1936 government statement put it, 'For the government in a competitive country like Great Britain, which depends on the profits of industry ..., to put difficulties in the way of industrial enterprise is to place on its shoulders a great responsibility.

[94] Parker, *Chamberlain*, pp. 96 and 290; Dennis, *Decision by default*, p. 142; Ritchie, *Industry and air power*, p. 43; and Newton, *Profits of peace*, p. 87.

[95] Quoted in S. Aster, '"Guilty men": the case of Neville Chamberlain', in Boyce and Robertson, eds., *Paths to war*, p. 250. See Parker, *Chamberlain*, p. 290.

[96] Dennis, *Decision by default*, p. 152.

[97] Quoted in R. A. C. Parker, 'British rearmament, 1936–1939: treasury, trade unions and skilled labour', *English Historical Review*, 96 (1981), p. 310.

[98] K. Middlemas, *Politics in industrial society*, p. 262; and Parker, 'British rearmament 1936–9', pp. 309–10.

[99] PRO CAB57/3, NS 72, 11 Mar. 1937, and NS 82, 16 Nov. 1937. See also PRO SUPP3/47, 'Record of a conference on the control of prices and profits', 27 May 1938.

[100] M. Gowing, 'The organisation of manpower in Britain during the Second World War', *Journal of Contemporary History*, 7 (1972), pp. 148–9.

[101] Hancock and Gowing, *British war economy*, pp. 49–50.

[102] Shay, *British rearmament*, pp. 94–8.

[103] Peden, *British rearmament*, p. 47; and Anderson, 'British rearmament', pp. 25–7.

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The course of wisdom and truth is that the government must at all costs avoid compulsion.'[104] More than this, it was feared that even increased taxation, let alone direct control, would hamper the economic recovery which was occurring in the late 1930s.[105]

Given this climate of opinion it is unsurprising that proposals to control prices and profits made little progress. Indeed, the commitment to controlling prices and profits in a future war began to be watered down. The Italo–Abyssinian war had increased British fears of being drawn into a war. One consequence was the establishment of an interdepartmental committee late in 1935 to consider the legislation required to take emergency powers. This committee reported in April 1937: regulation 59 of the attached draft defence regulations gave government extensive powers over industry, including controls over prices.[106] The report noted that industrial conscription, if adopted, should be taken under separate legislation and that work on the control of prices had already taken place, which should lead to 'a fully co-ordinated scheme of price control'.[107] 'Far-reaching proposals of this kind', the report continued, 'will require special legislation' and this might allow the defence regulations to be modified, a conclusion accepted by the CID.[108] Thereafter, a draft bill to control prices remained on the list of war bills to be drafted until February 1939, when representatives of the treasury and of the board of trade told the war legislation sub-committee that, in view of the provision within the draft defence regulations, the proposed bill to deal with the control of prices was no longer necessary and should be deleted from the list of outstanding legislation.[109] Apparently accepted with little discussion, this was a significant change and one not repudiated prior to the outbreak of war. The purpose of separate legislation for price control was to show explicitly to the general public, and labour in particular, that the government was acting in this politically sensitive field. This opportunity was removed by taking powers to control prices as part of a series of general defence regulations.

The board of trade's opposition to the control of prices in war became increasingly firm as war neared. In April 1938, the advisory panel of industrialists had a discussion with Sir William Brown, the permanent secretary to the board of trade, and William Palmer, also of the board of trade, on that department's preparations for war.[110] The two officials were asked about the arrangements for the control of prices and profits. That, to Brown, was 'perhaps more difficult than any other' question. He then went on to outline

[104] Quoted in Peden, *British rearmament*, p. 83.

[105] *Times*, 3 Apr. 1939, p. 15, 17 Apr. 1939, p. 8, and 24 Apr. 1939, p. 13. See also, Sabine, *British budgets*, p. 142 and Cronin, *Politics*, p. 109.

[106] PRO CAB52/3, WEL 99, 24 May 1937. See also N. Stammers, *Civil liberties in Britain during the Second World War* (London, 1983), pp. 7–11, and Hancock and Gowing, *British war economy*, p. 84.

[107] PRO CAB52/3, WEL 99, para. 22.

[108] PRO CAB2/6, CID 295th, 1 July 1937.

[109] PRO CAB52/5, WL 9th, 10 Feb. 1939.

[110] PRO CAB16/225, 40th meeting, appendix A, 25 Apr. 1938.

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the proposed policy. Crucially, he suggested that control of materials was a more effective control of general prices than close legislative control of the price of an individual good, and that some increase in prices was inevitable. In other words, he rejected the need for the control of prices of consumer goods from the outbreak of war. At a meeting in May 1938 to consider preparations for price control in war, board of trade officials reiterated that they planned to let the price of some commodities, for example, clothing, run their course at the outbreak of war.[111]

Following this meeting the task of reviewing price control was given to the newly formed CID sub-committee on the central control of business, chaired by Brown himself, and set up 'to consider the arrangements to be made for the control of business in time of war in case the necessity should arise'.[112] The other members were Palmer, as deputy chairman, Hopkins, Frederick Phillips, Sir Thomas Phillips (ministry of labour), and Sir Leonard Browett (ministry of transport).[113] At the first meeting of the committee, Palmer again noted that with regard to the control of prices of essential goods:

> It was hoped to exercise control of the finished articles through the control of raw materials. If a manufacturer charged too high a price he was to have his raw materials cut off. As regards the production of standard clothing at a fixed price, the experience of the last war showed that such a scheme was unsuccessful. People did not buy standard clothing, though no doubt they would do so if there was no other kind to be had.[114]

At the next meeting the use of the control of prices and profits was attacked further. Papers had been circulated setting out the plans already in existence in this area.[115] Brown introduced them by saying that, having seen the papers, the problem did not seem too bad and the question was whether any additional requirements were required. Hopkins, however, disagreed. He was concerned about the degree of government control envisaged and the adverse reaction to it from business which might result: he 'feared that these controls, with all the inconvenience they involved, would lead to a general stoppage both of essential and non-essential production' and that the 'most dangerous situation was one in which a manufacturer apprehended a loss of profits'.[116] Hopkins clearly believed in the maintenance of 'business as usual' as far as possible.

A week later Chamberlain announced the introduction of conscription and the APD, and even previous adherents of a softly-softly approach to business began recommending the adoption of more coercive interference.[117] In parliament Harold Macmillan called for a plan to control prices and profits in

[111] PRO SUPP3/47, 'Record of a conference on the control of prices and profits', 27 May 1938.
[112] PRO T161/913/S.38961/2, Hopkins to Fisher and Woods, 17 Jan. 1939.
[113] PRO CAB16/218, CCB 1, 30 Jan. 1939.
[114] PRO CAB16/218, CCB 1st, 14 Feb. 1939.
[115] PRO CAB16/218, CCB 2, 3, 4, 6, 7.
[116] PRO CAB16/218, CCB 2nd, 18 Apr. 1939.
[117] Parker, Chamberlain, p. 289; and Peden, *British rearmament*, p. 102. On Weir's earlier views see Gordon, *British seapower*, pp. 53 and 143–6.

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time of war.[118] Despite this change in atmosphere, discussions in Whitehall moved, if anything , even further away from the idea of controlling prices and profits. The consideration of price control now became dominated by Lord Stamp, first in his role as chairman of the economic advisory council's committee on economic information, and then in what became known as the Stamp survey of economic and financial plans in case of war.[119] This had particular significance for the control of prices and profits, given Stamp's role as the 'father' of the excess profits duty during the First World War.[120] In line with Hopkins, Stamp was convinced of the importance of maintaining economic incentives in war. He saw little value in controlling prices and was concerned that even plans to tax profits might be too severe: 'The psychology of the prevention of profiteering which dominates many plans may make some of the controls so rigid as to be obstructive and to need relaxation in emergency.'[121]

In May 1939 Stamp's committee on economic information had agreed to consider 'the extent to which the expansion of defence expenditure would soon necessitate the use of abnormal methods of controlling demand, for and prices of, selected goods, and how this control would have to be extended either in event of war or should defence expenditure expand still further'.[122] The resulting paper by the economist, Piers Debenham, who was the committee's secretary and also assistant secretary to the economic advisory council, argued that taxation and credit policy would have to be supplemented in war by other measures, including price control of consumer goods, standardized consumer goods, rationing, and the enforced investment of excess profits in government securities.[123] The purpose of price control was quite explicitly to deter wage increases. The committee agreed to use the paper as the basis of a draft report but thought that it needed to be rearranged 'to distinguish between the full war organisation which was proposed to control prices, and the intermediate steps which would require to be taken even though war did not break out, during the period of heavy defence expenditure'.[124]

When Debenham submitted the draft report, in which the recommendations on price control were little changed, the committee rejected it because it was increasingly interested in rearmament and not economic organization in

[118] House of Commons, *Parliamentary Debates*, 346 (1939), col. 1224. See also *Times*, 24 Apr. 1939, p. 13.

[119] S. Howson and D. Winch, *The economic advisory council, 1930–1939: a study in economic advice during depression and recovery* (Cambridge, 1977), pp. 148–52; Peden, *British rearmament*, p. 97; A. K. Cairncross and N. Watts, *The economic section, 1939–1961: a study in economic advising* (London, 1989), pp. 10–14; and A. Booth, 'Economic advice at the centre of British government, 1939–1941', *Historical Journal*, 29 (1986), pp. 656–8.

[120] Hicks et al., *Taxation of war wealth*, p. 72; and Jones, *Josiah Stamp*, p. 82.

[121] PRO CAB89/1, P(E & F) 24th, annex, 'Plans for the economic life of the country during war', 3 Aug. 1939.

[122] PRO CAB58/17, EAC(EI) 91st, 3 May 1939.

[123] PRO CAB58/23, EAC(EI) 210, 15 May 1939. See Howson and Winch, *Economic advisory council*, for consideration of Debenham's role in the council.

[124] PRO CAB58/17, EAC(EI) 92nd, 17 May 1939.

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war.[125] As a result, later drafts and the final report contained no mention of the control of prices. Instead, the focus was much more on the level of savings and investment. Measures were 'to mitigate the rise in prices generally' rather than prevent price increases of essential consumer goods.[126] It was only as 'an additional merit' that it was suggested that this might 'have a psychological effect in dissuading trade unions from demanding wage increases'. The financial approach to the control of inflation remained the dominant consideration.

By the time the final report was submitted to the prime minister, Stamp, aided by the economists, Henry Clay, Hubert Henderson, and Francis Hemming, had already begun work on the Stamp survey.[127] The survey worked by means of a series of interviews with civil servants. Brown and Palmer, for the board of trade, repeated the departmental view that control of prices could be operated by means of the complete control of raw material supplies.[128] When Stamp submitted a short interim report to Horace Wilson, who had taken over from Warren Fisher as the permanent secretary to the treasury, no mention was made of the control of prices.[129] Given that Stamp asked for two months to digest the material gathered in the interviews, no further action on the control of prices had been taken by the time war was declared on 3 September 1939.

Thereafter change was a kept to a minimum so as not to upset either labour or business. As William Ashworth put it, 'empiricism became a deliberate choice': policy remained reactive and limited.[130] Oliver Stanley, the president of the board of trade, noted on the 12th, 'All departments agreed that, save in respect of commodities actually controlled from production to sale by one department or another, it was impossible in present circumstances to establish a price control.'[131] Reliance was to be placed on finance as the fourth arm of defence. In the emergency budget of 27 September a general increase in taxation and a new excess profits tax, to replace APD and to be imposed at 60 per cent on any excess of profits over a pre-war standard, were announced. In addition, the chancellor raised the possibility of a post-war capital levy, just as Chamberlain had in April.[132]

This approach and the resulting measures to tax profits did not impress public opinion sufficiently.[133] By 20 September Stanley's views had changed radically: agitation about increased prices was such that 'it was imperative to

[125] PRO CAB58/17, EAC(EI) 93rd, 6 June 1939, and EAC(EI) 94th, 13 June 1939.
[126] PRO CAB58/23, EAC(EI) 219, 20 July 1939.
[127] Booth, 'Economic advice', p. 657.
[128] PRO CAB89/1, P(E & F) 4th, 12 July 1939, and P(E & F) 9th, 21 July 1939.
[129] PRO CAB89/1, P(E & F) 24th, annex, 'Plans for the economic life of the country during war', 3 Aug. 1939.
[130] Ashworth, *Contracts and finance*, p. 230. See also A. Calder, *The people's war: Britain, 1939–1945* (London, 1969), p. 79.
[131] PRO CAB75/2, HPC(39)6, 12 Sept. 1939.
[132] House of Commons, *Parliamentary Debates*, 351 (1939), cols. 1349–51.
[133] Hancock and Gowing, *British war economy*, pp. 158 and 163.

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take some action in advance of, not behind, the situation as it developed', and by the end of October the government had enacted separate legislation, the Prices of Goods Act, to control the price of non-food consumer goods.[134] As Hargreaves and Gowing put it, 'Politically … it was recognised by the government that something more would be required to reassure public opinion … An Act of Parliament must be passed in order to convince the public that the government was taking the matter seriously.'[135] The legislation was rushed, and, being based on the 1919 Profiteering Act, was also flawed. Beveridge, with his experience of the First World War controls and of that 1919 legislation, was scathing:

> To anyone who lived with eyes open through the last war, or tried to plan for a new war, it has long been obvious that one of the cardinal necessities of such planning was to frame in advance a general policy covering money, prices and wages … A policy on this matter could have been thought out to the last detail of alternative action to meet changing circumstances and with all the measures necessary to make it effective in every field of life, two years or more ago … Actually it is now obvious that the prices and wages policy of the country is being improvised from day to day, taking up the time of ministers, parliament, and officials, partly in trivialities, like the Prices of Goods Act, and partly in thinking about problems which should have been thought out long ago.[136]

IV

It has been shown that throughout the interwar period there were two strands of thinking about preparing for a future war. One recognized that total war required state intervention across the economy, including price and profits control. This view was prevalent amongst the service departments and elements of the CID committee machinery. This seems close to David Edgerton's notions of 'liberal militarism' and the 'warfare state' with the government perceived as playing a highly active role in production.[137] The other strand, located in the treasury in particular, but also increasingly apparent in the board of trade and the ministry of labour as war neared, emphasized the importance of non-intervention, co-operation and maintaining economic incentives. G. A. H. Gordon has argued that there was a 'narrow unmarked channel' between these two approaches which was successfully found, based on the lessons learned from the experience of the First World War.[138]

Nevertheless, much to Beveridge's disgust, there were no proposals for controlling the prices of non-food consumer goods on the outbreak of war, despite lengthy discussion of the topic and the recognition within days that such action was urgently required.[139] While there were some measures of control

[134] PRO CAB75/1, HPC(39)2nd, 20 Sept. 1939.
[135] Hargreaves and Gowing, *Civil industry and trade*, p. 78.
[136] BLPES, Beveridge papers, IIb/39 part ii, Beveridge to William Brown, 19 Oct. 1939.
[137] D. Edgerton, 'Liberal militarism and the British state', *New Left Review*, 185 (1991), pp. 138–69.
[138] Gordon, *British seapower*, pp. 144 and 283.
[139] Hargreaves and Gowing, *Civil industry and trade*, p. 13.

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introduced, these were always limited forms of activism, usually when few other options existed. Government had little desire to intervene in the civilian economy and thus policy developed reactively and ad hoc. The preference was for the maintenance of economic incentives. Rearmament merely reinforced this preference to avoid disruption and maintain the status quo in the hope that war could be avoided.

Why was there such a preference? First, it would be wrong to ignore the extent to which the treasury dominated Whitehall in the interwar period. Under Warren Fisher the treasury became the central department of government.[140] The treasury's approach to the control of prices and profits was always likely therefore to predominate and, as we have seen, their interest was in the financial aspects of war not the political. Direct controls of prices and profits were regarded with distaste: if more general measures to control inflation failed then these should be supported by the taxation of excess profits, thereby raising revenue and reducing demand.[141] Richard Hopkins, implicitly justifying his interwar position, later wrote of his surprise at the effectiveness of the control system imposed during the Second World War and its reliance on goodwill to work, 'a goodwill which went beyond – in my judgment much beyond – any forecast which could reasonably have been made before hostilities began'.[142]

Secondly, there were political constraints. As Gordon has noted, the problem of preparing a capitalist democracy for total war was extremely difficult.[143] Certainly, there were constraints on the degree of government control and intervention which did not exist in Germany.[144] However, it would seem that there were also constraints particular to Britain in the interwar period. Britain had a particular style of government–industry relations where government was against intervention which limited the domain of the private sector. Thus, during the depression intervention only shifted from being facilitative to supportive.[145] This reflected a third, and wider, factor, that is the position of the state with regard to capital and labour. It has been argued in recent years that capital and labour in Britain operated in relatively autonomous spheres from government. Frank Trentmann has suggested that there was a division between Britain's economic and political systems.[146] Despite the increasing

[140] K. Theakston, *Leadership in Whitehall* (Basingstoke, 1999), pp. 41–68.

[141] PRO T175/27, Hopkins memorandum for meeting 10 July 1931, undated; and Waley quoted in Peden, *British rearmament*, p. 98.

[142] R. Hopkins, 'Introductory note', in D. N. Chester, ed., *Lessons of the British war economy* (Cambridge, 1951), p. 2.

[143] Gordon, *British seapower*, p. 164.

[144] Peden, *British rearmament*, p. 105.

[145] A. Booth, 'Britain in the 1930s: a managed economy?', *Economic History Review*, 40 (1987), p. 501. See also R. Middleton, *Government versus the market* (Cheltenham, 1996), pp. 305–10; and W. R. Garside and J. I. Greaves, 'The Bank of England and industrial intervention in interwar Britain', *Financial History Review*, 3 (1996), pp. 69–86.

[146] F. Trentmann, 'The transformation of fiscal reform: reciprocity, modernization, and the fiscal debate within the business community in early twentieth century Britain', *Historical Journal*, 39 (1996), pp. 1005–48.

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organization of business, such a division offered little room for corporatism, let alone state interference. Daniel Ritschel has recognized this by illustrating how in the 1930s business preferred informal self-government to limit state involvement in the economy.[147] Similarly, Martin Daunton has argued that the fiscal settlement after the First World War is crucial to understanding the interwar period.[148] The war had increased the tax burden and this threatened to politicize the tax issue and overthrow the appearance of equity and fairness in the tax system and, with it, the legitimacy of the state. Although business was not successful in getting government to adopt its policy proposals – profits taxation, in the form of excess profits duty and then corporation profits tax, continued into the 1920s – this was not a sign of government imposing itself on business. It was widely acknowledged at the time that only business could bear the burden of additional taxation: profits tax was chosen as the least worst option. A profits tax avoided more radical attacks on capital, for example in the form of a capital levy, was temporary, and, as Tony Arnold has shown, could still offer generous support to companies through tax repayments.[149]

Indeed, while there was support for the maintenance of economic incentives for both labour and capital, ultimately it was the maintenance of the latter which continued to be seen as more important. In this sense the individual businessman was identified as more important than his counterpart, the individual worker: 'maximum effort is if anything even more necessary in the national interest among the leaders of industry, higher paid officials and professional workers than among manual workers and clerical ranges', was how one economist put it after the war.[150] The consequent belief that there should be less interference in business than in labour seems to have been held quite widely and certainly by key individuals in the development of price and profits policy. Richard Hopkins's views have already been expounded above: he was clearly more concerned with appeasing business than appeasing labour. Richard Toye has recently shown that John Maynard Keynes made considerable efforts to sell his idea of deferred pay, set out in *How to pay for the war*, to labour but largely failed because of his fundamentally different approach to theirs.[151] He was shocked by Ernest Bevin's outrage at the perceived inequality of sacrifice between capital and labour on the outbreak of war and still presented the negative and highly controversial image of workers alone as *the* war profiteers in *How to pay for the war*.[152]

[147] D. Ritschel, *The politics of planning* (Oxford, 1997); and idem, 'A corporatist economy in Britain? Capitalist planning for industrial self-government in the 1930s', *English Historical Review*, 106 (1991), pp. 41–65.

[148] Daunton, 'How to pay', pp. 882–919. See also idem, 'Payment and participation', *Past and Present*, 150 (1996), pp. 169–216.

[149] Arnold, 'Great war', pp.16–30.

[150] U. K. Hicks, *Public finance* (Cambridge, 1947), p. 222.

[151] R. Toye, 'Keynes, the labour movement, and "How to pay for the war"', *Twentieth Century British History*, 10 (1999), pp. 255–81.

[152] P. Addison, *The road to 1945* (London, 1977), p. 59; J. M. Keynes, *How to pay for the war* (London, 1940), p. 21.

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Finally, Josiah Stamp was consistent in peace and war in his concern about the disincentive effect on businessmen of 100 per cent excess profits taxation, but responded to concerns about wage inflation by suggesting wage control.[153] As he bluntly put it in 1932:

> While men can be compelled to go into the firing line, and compelled to advance, instead of retreat, by force, and by force of example, it is impossible to make a businessman work harder or think more sensibly or clearly – in short, to be a better business man – by standing beside him with a revolver.[154]

If this was Stamp's insight into the historical experience of the First World War then perhaps the most crucial figure in the economic preparations for the Second World War does not appear to have illustrated a 'forward-looking quality of mind'.[155] The idea of the equality of sacrifice in war as espoused by labour was clearly at odds with Stamp's vision of a war economy. This is not to suggest that policy should have been dominated by the need to appease labour and that a fully worked-out scheme to control prices and profits should have been introduced on the outbreak of war: financial considerations were fundamental to the war effort. The issue was much more complex and difficult; there were many institutional forces which justified or caused inaction, and rearmament reinforced the pressure for not upsetting the existing order. Rather, it is to suggest that there was a failure, or an unwillingness, on the part of key treasury officials and advisers to appreciate and comprehend the labour movement's potential power in a war. In their eyes, Britain was a capitalist economy, rather than a democracy, going to war.

[153] Stamp, *Taxation of war wealth*, p. 215; Sayers, *Financial policy*, p. 86; Parker, *Manpower*, pp. 80–1; and Hancock and Gowing, *British war economy*, p. 164.
[154] Stamp, *Taxation of war wealth*, p. 215.
[155] Hancock and Gowing, *British war economy*, p. 53; and Gordon, *British seapower*, pp. 283–90.

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