

THE MANAGEMENT OF RECONSTRUCTION  
with particular reference to the housebuilding programme  
1942-9.

Thesis submitted in accordance with the requirements of the  
University of Sussex for the degree of Doctor in Philosophy  
by Stephen Edward Gilliatt B.A.(Hons.)

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ABSTRACT.

Despite extensive writing on Social Democracy in Britain, largely in the form of histories of the Labour Party and marxist state theory, few studies have undertaken, in depth, an empirical analysis of a particular period of social democracy as government, and even fewer using the extensive documentation available in the Public Archives.

Theories of the role of the state and those that manage it are often based on abstract, essentially deductive reasoning and over-influenced by a hostile attitude to their object of analysis. Such approaches have resulted in a neglect of the scope for discretionary behaviour in the management of the capitalist state by reducing it to that required for system maintenance.

The aim of this thesis has been to examine the nature of any such revealed discretion by opening up and 'dissecting' the black box of policymaking through a detailed examination of a government programme considered vital to the continuing relationship between politicians and the labour movement. Analysis was made of attempts to insulate and protect the programme from forces and interests that could be expected, on a purely deductive reading, to interfere with its success. Crucial in this respect was the way in which policies or programmes were related in an environment, often conceived as one where imperatives, stemming from the constraints of the international market, reduce or remove the degree of discretion and compel adjustment in domestic policy. The closing chapters outlined the key features of the discretionary behaviour apprehended in the study. Much of the conjunctural possibility of social democratic management was seen to lie in a series of 'policy spaces' achieved through a mix of administrative control and negotiation. Some of the contradictions and resulting costs of such a strategy were also revealed: the short term horizon in investment planning, known euphemistically at the time as 'make do and mend', leading to a neglect of long run and progressive accumulation.

PREFACE

I would like to thank my supervisors, Dr. Alan Cawson and Dr. Keith Middlemas for all the help and advice they have contributed. Other members of the Department of Comparative Political Studies particularly Teddy Brett were also kind enough to offer criticisms and suggestions during formal seminars and informal discussions and this proved an important stimulus.

Much of the primary source material for this thesis has been derived from the archives of the Public Record Office. I should like to acknowledge the friendly and diligent support of the staff who made every effort to maximize the use of my time at Kew. The library staff at Sussex University also offered invaluable assistance in the pursuit of incomplete and often obscure references.

From September 1979 I have been a member of the Department of Social and Political Studies at Plymouth Polytechnic and I am grateful for the support of colleagues in allowing me to complete this thesis. My parents have also recently offered much needed encouragement without which the completion date would have been further delayed. Special thanks must go to my ex-wife Valerie whose patience and understanding in the early stages of this enterprise will not be forgotten.

The manuscript was typed by Cynthia Dunn whose forbearance and skill has enabled references to be presented in the preferred form. Unfortunately any mistakes which remain are my responsibility.



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LIST OF ABBREVIATIONS

The following abbreviations occur in the text and in source material detailed in references.

|          |  |
|----------|--|
| CAB      | Cabinet Papers and minutes of Cabinet meetings and prefix for Cabinet Committees.  |
| CMND     | Command Papers of H.M. Government.   |
| ECA      | European Co-operation Administration of the United States.                         |
| EPB      | Economic Planning Board.   |
| EWO      | Essential Work Order.  |
| FBI      | Federation of British Industries.  |
| H.C. DEB | House of Commons Debates (Hansard).  |
| HLG      | Papers of the Ministry of Health (later Ministry of Housing and Local Government). |
| IMF      | International Monetary Fund.   |
| INF      | Papers of the Ministry of Information.   |
| LP       | Lord President's Committee (of the Cabinet).                                       |
| LPCR     | Labour Party Conference Reports.   |
| MEP      | Ministerial Committee on Economic Planning (of the Cabinet).                       |
| NEC      | National Executive Committee of the Labour Party.                                  |
| NEBTE    | National Federation of Building Trade Employers.                                   |
| NFRHB    | National Federation of Registered Housebuilders.                                   |
| NHS      | National Health Service.   |
| PLP      | Parliamentary Labour Party   |
| PRO      | Public Records Office.   |
| S.C.     | Official Steering Committee on Economic Development.                               |

LIST OF ABBREVIATIONS continued

- T Treasury Papers.
- TUC Trade Union Congress (and by extension to its  
General Council).
- WORKS Papers of the Ministry of Works.

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CHAPTER I.

The Framework for Analysis.

## INTRODUCTION

This research is devoted to an investigation of the planning and execution of British post war social and economic reconstruction, with particular reference to the housebuilding programme up to 1949. It concentrates on central government's allocation and control of resources in a period when equipped with a set of administrative powers, and an economic theory inherited from and tested in the war and retained for the peace. As a formative part of its history, this post war experience will contribute towards an understanding of the characteristic features of social democratic management. While being aware that this period possesses unique features absent or present in lesser degrees the further one moves from the 1940's, it is judged by the writer that, concentrated in these years is a sufficient aggregation of different problems and policy making responses to enable an evaluation of the nature of that management.

The focus on housing results from the apparent duality in social democratic practice where allegiance to constituency results in the construction of social programmes (the micro level), while at the same time attempting to influence the totality of relations known as the economy (the macrolevel). Housebuilding is judged to be especially revealing insofar as it illustrates the conflict resulting from interdependencies between the two sectors of policy making and thus provides significant material for an analysis of the allocative questions that constitute major problems for social democracy.

SECTION I: BRITISH SOCIAL DEMOCRACY: THE EXISTING ANALYSIS

Much of the existing literature on British social democracy centres on Party and faction and lacks detailed analysis of what is done with government office. A large part of it has undertaken the discovery of basic antecedents. There are studies which have looked at the integration of Labour into an already institutionalized Party system. The development begins with a social movement and ends with a structured organization exhibiting specific constitutional problems of internal government which derive from the uneasy relations between its bureaucracy and support base. These relations are regularly resolved in the electoral process where a premium is put on co-operation.<sup>1</sup> Antecedents of another kind are studied by those concentrating on the ideological ingredients of the Party. Some writers have pointed to the intellectual poverty of the British Labour tradition: its empirical and anti-theoretical posture. Such a poverty has implications for social democratic practice in government as it encourages leaders in the spirit of practical compromise with the interests of capitalism as opposed to a determined pursuit of socialist goals.<sup>2</sup> This type of analysis is complicated by factors such as the existence of many more areas of social provision which have fallen out of capitalist market control. in Britain, compared to parts of the continent

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1. Pelling, H., A Short History of the Labour Party. (London, MacMillan, 1972).  
MacKenzie, R.T., British Political Parties (London, Heinemann 1963).  
Mimkin, L., The Labour Party Conference, Revised edition (Manchester University Press, 1980).
  2. Saville, J., 'The Ideology of Labourism' in R. Benewick, R.N. Berki and B. Parekh (eds.), Knowledge and Belief in Politics, (London, Allen and Unwin, 1973), pp.213-226.  
Nairn, T., 'The Nature of the Labour Party' in P. Anderson (ed.) Towards Socialism, (London, Fontana 1965) pp.159-220.

where socialist parties were more theoretically self conscious and less subject to ideological hegemony. This 'practical' policy outcome cannot however be worked into any notion of 'degrees' of socialism since socialism is seen as a totally new set of social relations of production rather than a question of distribution.<sup>1</sup> Little account is taken of how far changes in the latter can affect the balance of power between classes in production since changes in distribution by piecemeal reforms are compatible with the continued existence of capitalist relations. These contentions lead to the conclusion in other writers that social democracy achieves the ideological containment of socialism.<sup>2</sup> The limited immediate demands of the proletariat are successfully satisfied through a set of material concessions, but the success is consistent with the stability of the capitalist mode of production. This line of argument then extends the mechanism of 'social control' from ideological hegemony to integration through institutionalisation and policy output. The forms of intervention - nationalization, administrative control, and policies of redistribution become part of the 'administration of capitalism'.<sup>3</sup> 'Reproduction' of capitalist relations is seemingly guaranteed by the transformative capacity of the decision making apparatus.<sup>4</sup> Much of this characterization of social democracy as a form of social control proceeds by way of a series of assertions, based on

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1. Anderson, P., 'Problems of a Socialist Strategy' IN P. Anderson and R. Blackburn (eds.), Towards Socialism, (London, Fontana 1966), pp. 221-90.
  2. for instance, Therborn, G. What the Ruling Class does when it Rules. (London, NLB 1978), pp. 209-218.
  3. ibid., p.217.
  4. ibid.



broad historical sweeps and cross national comparisons. The major contention that social democratic politics is positive sum as far as the capitalist process of expanded accumulation is concerned, assumes what needs to be demonstrated.<sup>1</sup>

Other writers take a slightly different position laying stress on the extent to which the practice of social democracy results in a succession of defeats even for the immediate material interests of the working class.<sup>2</sup> Rather than containment or social control the practice results in a series of confrontations between Party and class to the point where a continuing relationship between the two is threatened and new forms of socialist politics become possible as illusions are repeatedly shattered. The illusion of social democracy lies in the rhetoric of its leadership constantly emphasising the peaceful, parliamentary, classless road to socialism, but the recent record demonstrates that even the modest aims and objectives of the manifesto have been blunted and the interests of the working class sacrificed. There are two major problems with this sort of analysis. Firstly, the normative emphasis in that the behaviour of social democracy in government is examined with reference to its deviation from a concept of what it should be. A successful and genuine socialism lies through the pursuit of a revolutionary strategy which is the denial of social democracy. Since the latter relies on a parliamentary or constitutional road of reform within the existing system and real socialism is a

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1. Therborn, *What the Ruling Class does*, p.216.

2. Coates, D., *The Labour Party and the Struggle for Socialism*. (Cambridge, University Press 1975).

denial of the existing system, the necessary outcome of social democratic practice is bound to be a constant betrayal of its constituency. Having taken this position we cannot then really blame these writers for not examining in detail periods which appear to suggest some gain for the class since such periods of social reform are not relevant to the question of an alteration in the balance of power between classes.<sup>1</sup> In any case, constraints of working within the system overwhelmingly bias the practice towards a capitalist direction.<sup>2</sup> The main criticism of such empirical illustrations as there are in such accounts of bias is their selective and often surface treatment of critical crisis points in these earlier periods.<sup>3</sup>

The second major problem in the analysis is an under-estimation of the electoral, reformist tradition in the working class itself. Inasfar as this has consequences in terms of prediction it is assumed that disillusion will spread in a leftward direction rather than new forms of social democratic appeal.<sup>4</sup> Analysis of working class perceptions and the nature of their expectations cannot be shrugged off as a false start being essentially the fault of leaders who have caused them.<sup>5</sup> Neither can these expectations be assumed on scant evidence to be

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1. Coates, *The Labour Party* pp.46-7.

2. *ibid.* pp.65-69.

3. *ibid.* p.69. To a certain extent Coates has remedied this, Coates, D., *Labour in power? A Study of the Labour Government 1974-9.* (London, Longmans 1980), for a latter period but the account does not draw on classified Cabinet or departmental source material. In addition, as we will argue below, it is the early period which is crucial for understanding.

4. Coates, *The Labour Party*. pp.236-7.

5. *ibid.*, pp. vii-viii.

consistent, given different leadership behaviour, with a revolutionary strategy.<sup>1</sup>

Analysis of expectations, it will be seen in chapter 2, is an important ingredient in the analysis of the discretionary behaviour of social democracy, not only because it indicates the extent of demands, but because it illustrates how far the demands themselves are continually focussed on established institutions and leaders, even when trust is low. The self-activity of the class itself, in terms of an independent exercise of power, is preferred less than the very veiled threats in order to get leaders to act. Whatever variations exist in the degree of trust the very prior existence of such a legitimacy for Parliamentary politics is the only reason that leaders can have the capacity to act and be listened to and perhaps 'betray' in the first place. Such a leadership fetish may be the result of ideology, as the previous theorists maintained, and although that is another matter outside this research, it cannot be assumed not to exist or to be weakening in line with the weakening of recent social democratic governments. It can be argued that part of the trust, and therefore the success of strategies to get the movement to accept marginal changes in distribution, or even a postponement of them, derives either from the populism of the language,<sup>2</sup> or as we maintain from some formative experience in the socialization of rank and file. This may take the form of a political memory passed on from each generation, that,

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1. Coates, *The Labour Party*, p.ix.

2. Gyford, J. and Haseler, S. Social Democracy: beyond Revisionism (Fabian Research Series 292 March 1971).

success having been achieved in the past, it can, after another election victory, be yet seized again. The failure of this or that attempt may not destroy the faith that it is worth trying rather than jettisoning the past for an uncertain future with untried methods and groupings. The continual reference back to 1945 by British social democracy as some kind of 'golden age' requires a separate investigation, not least on that aspect of practice which figured high on working class expectations, yet when compared to health and income maintenance reform is considered to have been a relative failure, i.e. Housing.<sup>1</sup> If the 'golden age' is not a myth the process by which it was gained should be fully examined for what it reveals about strategy, practice and perhaps the appeal of this form of politics. A study of process may also reveal the extent to which any seemingly gratuitous social reforms in distribution altered what appears to have been left stable: namely, the balance of power between capital and labour in the dynamic whole which is the mode of production.

All of the various existing approaches to British social democracy classify it as a species of labour movement. All the critical arguments however, culminate in a conclusion that, whatever its apparent antecedents and consequences for the working class, it acts as a form of legitimation for bourgeois rule. What then of bourgeois parties that share similar policy positions and ideology as that of labour social democracy? In Britain such

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1. McKay, D. and Cox, A. The Politics of Urban Change. (London, Croom Helm 1979) pp.116-122.

a tendency is noticeable in the so-called pragmatic or 'one nation' branch of conservatism. For our period this faction was dominant in the Tory Party. Their share in office and basic policy assumptions with the Labour Party in the crucial planning period of the Coalition government means that, for purposes of analysing practice, we widen social democracy to include all those who subscribed to the idea of what became known later as the 'post war settlement'. The loss in precision by abstracting the phenomenon of social democracy from the history of the labour movement and socialist goals, together with the perhaps artificial distinction between social democracy as Party and social democracy as government, is compensated for, if, as a result, we can concentrate on the character of its practice; the discretion, the techniques, the constraints and the consequences that flow from 'middle way' management of the capitalist economy. This focus has not been as well developed as one would have expected. The one major work along these lines, concentrated on the pre-war period, contending that the 1929-31 labour government lacked the willingness to develop discretionary techniques and fell with various degrees of fatalism into an acceptance of prevailing constraints.<sup>1</sup> Post 1945 social democracy appeared anxious to remove constraints. This thesis will look at the extent and character of that management. Hopefully it will contribute not to the ever burdgeoning material on what social democracy is not, but to a much firmer empirically based analysis of what it has done and where its appeal lies.

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1. Skidelsky, R., Politicians and the Slump: The Labour Government 1929-31. (London, MacMillan 1967).

## SECTION II: THE FORM OF ANALYSIS.

Those works written on social democracy which have seen their research task as one of testing for socialism have often proceeded by way of a commentary around a chronologically driven narrative. This has meant that major conjunctures receive partial treatment in order to facilitate a broad sweep of generalisation.<sup>1</sup> The other major thread of study is that which hopes to tell us something about social democracy through a study of representative politicians. Again these are essentially narrative or chronologically based and include as part of the 'life history' of the individual his participation in government, usually in order to illustrate impact or lack of it on crucial events. These events are only reconstructed to the extent that the participants or 'actors' and their contributions can be revealed, often apologetically; it not being the subject's fault if stage events outside his vision or immediate field of control set constraints on action.<sup>2</sup> Often the constraints are conceptualized in terms of opposing values and conflicts with other political actors. While we recognize the importance of such interpersonal effects we have taken the approach that focuses on a total government believing that this can reveal the extent of collective as opposed to individual discretion and calculation.

The thesis takes the form of a case study and for that reason appears subject to the same methodological problems that

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1. see for example, Miliband, R., Parliamentary Socialism (second edit. London, Merlin Press 1973), also Pritt D.N., The Labour Government 1945-51. (London, Lawrence and Wishart 1960). Howell, D., British Social Democracy. (London, Croom Helm 1976) and Eatwell, R. The 1945-51 Labour Governments. (London, Batsford Academic 1979).
  2. see for example, Donoughue, B. and Jones, G.W. Herbert Morrison: Portrait of a Politician. (London, Weidenfeld and Nicolson 1973), also, Marquand, D., Ramsay McDonald, (London, Jonathan Cape 1977).

attach to any casework, especially the problem of how far particular cases are unique events which cannot be used for generalization and therefore theory. While this is of major concern to positivists anxious to treat their object of analysis in a form in which it can contribute to statements about pattern and law like regularities, a more modest claim for the case study method is that it can contribute to a beginning in conceptual analysis. Its heuristic merit lies in its ability to advance propositions based on real events which may then be used to contribute to middle range theorizing.<sup>1</sup> At most cases may be able to undermine or falsify existing hypotheses but by themselves they prove nothing. Despite this, it is hoped this study may be of some importance in increasing the complexity in explanation of the phenomenon known as British social democracy, not least because the case possesses many 'deviant' qualities which qualify it for a position as a species of the genus or even perhaps the origin. While the deviant case study may suggest a more formalized test<sup>2</sup> this study is one of a 'configurative ideographic' type rather than a 'disciplined configurative study'<sup>3</sup>. Interpretive, rather than rule or pattern seeking, such studies of deviant cases are not necessarily the preserve of those using logical - deductive methods

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1. Hall, P., et al. (eds.), Change, Choice and Conflict in Social Policy. (London, Heinemann 1975).
  2. Sjoberg, G., and Nett, R. A Methodology for Social Research (New York, Harper and Row, 1968). pp.259-60.
  3. These terms can be found in Eckstein, H., 'Case Study and Theory in Political Science' in F. Greenstein and N. Polsby, (eds.) The Handbook of Political Science, Vol.7. (Strategies of Enquiry) (Reading Mass. Addison Wesley 1975) pp.96-9.

but also of those trying to establish a relationship of parts to whole.<sup>1</sup> This does not necessarily mean lack of methodological rigour. A particular need has been to adequately situate the social programme. One problem concerns the need to avoid abstracting out from the totality in order to concentrate on the development one is interested in. There is a need to relate it to concurrent, overlapping, and competing events, placing the boundaries wide enough to present oversimplification.<sup>2</sup> The boundary problem in studies using systems analysis is acute in so far as 'outcomes' are separated out and seen as side effects (such as starvation resulting from war). The analyst must look for goal related 'outputs' which can be specifically related to the intention of programmers.<sup>3</sup> Yet we maintain such unintended effects are crucial in studies establishing policy interdependence, especially where such effects are later recognised as part of the problem, or to use their vocabulary, constitute 'feed-back'. Such widening of boundaries can however lead to the opposite danger: the dissipation of effort over too wide an area.<sup>4</sup> This can be avoided, as this study hopes to do, by confining the period of analysis, i.e. restricting the number of years covered. The next section is devoted to showing the extent and importance of the ingredients that make up the case study.

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1. Sjöberg and Nett. *Methodology for Social Research*. p.263.
  2. Hall et al., *Change, Choice and Conflict in Social Policy*, p.17.
  3. Smith, B., *Policymaking in British Government - An Analysis of Power and Rationality*. (London, Martin Robertson, 1976). p.13.
  4. Diesing, P., *Patterns of Discovery in the Social Sciences*. (London, Routledge and Kegan Paul 1972) p.277.



### SECTION III: THE INGREDIENTS OF THE STUDY

At the micro level the research concentrated on a particular; a social programme, its origin, development and fate. Partly because many of the explanations were thought to derive from determinations outside the immediate field, and also partly because the immediate field itself, we suspect, may have been structured by the nature of the management of social programmes. We have opened up a macro level: the totality of events known as reconstruction. Thus it is hoped we can show the nature of the relationship between a special kind of social policy and a capitalist economy as managed by social democratic government, illustrating the more general problem of pursuing government programmes in response to the pressures of a constituency anxious for social security in its widest sense and an economic strategy, some of the implications of which involve insecurity. By focussing on rebuilding we do justice to one of the key aspects of social reconstruction envisaged for the period. Reconstruction cannot be reduced to reconversion, i.e. the restoration of British capitalism on a profitable trend of accumulation, partly because this underestimates the specificity of the objects of the whole, but also because it presumes what needs to be demonstrated. Our task is rather to trace the balance between social and industrial reconstruction, and since the focus is on rebuilding, to account for its placing in the whole, i.e. from its ambitious start to its eventual stabilisation. We do not therefore start from an assumed 'role' for the State, but seek to understand the nature of the political-bureaucratic management in the crucial post-war state of social democracy. We break

up 'the state' into its field, into different sites, in order to trace the interaction between policies: the mix and any contradictions between government programmes. By looking at policy combination through time we are in a position to trace the dynamic process which change or maintain priorities. If there are any definitions by participants or commentators on what overall strategy should be, we should test whether in fact such declarations are realised by an empirical investigation of how far displacements are effected on programmes by representatives or spokesmen of the structure as a whole (be they official planners or advisory economists). The occurrence of crisis appears to be the time in which such definitions are rife, and will be central to this thesis to undertake an examination of such points of decision.

The choice of building and in particular housing as the central social problem programme for this thesis is also, in part, governed by the way in which politicians saw it as a test case for the success of the second post-war reconstruction. However, unlike increased welfare benefits or the creation of the national health service financed essentially from the current revenue, the capital spending housing programme involved what Offe has called the 'productive activities of the State', where a policy has to be produced by manipulating a number of variables in the outside environment which, are not immediately available in the state apparatus itself as with tax revenue, staff, and legal power. The productive activities of the modern capitalist state, in so far as they involve intervention in the organisation of physical investment and labour power, involve a broader scope

of resource that cannot be standardised, routinised or channelled through a rigid hierarchy of bureaucracy. Such resources have to be produced outside of the administration.<sup>1</sup> This is especially true in housing where the product is assembled from a number of sources, and where the public and private sectors intersect, both in the provision of the commodity itself and also in the supply of materials and money capital. The same capital resources can be used for non-housing purposes. Where the State takes pre-emptive measures to skew resources in directions that, in a purely competitive market, they would not otherwise take, then the possibility is set up that the public and private sectors will be stabilised at some level which will lead one sector to a share of resources greater than the other. For distribution of shares to be accepted without conflict they must be seen as legitimate, and the creation of such legitimacy is as much a task of state management as is the decision of initial allocation itself.

Conventional political science, in so far as it deals with policy making, concentrates essentially on the mechanism or technology of decision making and implementation. Policy making is viewed from the point of view of the actor who can exercise choice. Of course there are constraints on choice such as the degree of value dissensus, information, and bureaucratic behaviour. Nevertheless (to whatever degree) these are constraints on what would be the free flow of political decision

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1. Offe, C., 'The Theory of the Capitalist State and the problem of policy formation' IN L.N. Linberg, R. Alford et al., (eds.) Stress and Contradiction in Modern Capitalism (Lexington Mass. D.C. Heath & Co. 1975), pp.125-144.

and thus bureaucratic inertia and other constraints can be reduced by aggressive clear thinking and administrative techniques.<sup>1</sup>

The idea that there are structurally determined constraints governed by the nature of production: that there are contradictions produced by fundamental incompatibilities in policies when their effects combine, is something that is very rarely studied by those concentrating on micro level decisions such as the siting of a third London airport, building an underground railway here or there, or the reform of social work.<sup>2</sup> Only by starting this research with the presumption of structurally determined constraint i.e. government in a capitalist economy re-entering a competitive world market, with X resources at its disposal, and X programmes to implement, can we correctly evaluate and understand the degree of political discretion and evaluate the strength, and indeed the novelty, of any choices taken in economic policy.

This thesis looks mainly at the determination of priorities within the policy mix. Devices or mechanisms to enforce and safeguard them are crucial to the period under investigation since they are related to the notion of social security, and the need to protect and insulate social reconstruction from vested interests and market forces. Part of this insulation is thought to be secured by planning and co-ordination. The development of house building was seen as part of the wider national building

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1. for different models of decision making and suggestions for improving choice and rationality see Dror, Y., Policymaking Re-examined (Scranton. Penn. Chandler, 1968).
  2. These are some decisions and 'outputs' studied by conventional 'policy analysis' schools. For a straightforward example concerning the underground link to Heathrow airport, see Smith, Policymaking in British Government pp.152-9.

programme, and that was part of the investment programme, a part of which was shared with allocations to private industry. Capitalist investment itself figured as part of the larger whole: that being the national economy wherein it shared resources with consumption and exports. The whole therefore is an integrated structure, where one can trace various weightings given to each programme according to the nature of the priority. Co-ordination is however dynamic, being related to adjustment, in the sense that 'corrections' in the balance between, and therefore the weighting of programmes, become advocated as a result of the imperfect insulation of the internal from the external economy, once the cash free mentality of the war economy has ceased. The external economy sets up structurally determined constraints which lead to the apparent necessity for adjustment. That necessity is transmitted through resident economists, who, represent to the state the objective needs and the industrial imperatives which must be handled if the state is to maintain the accumulation process of capital, and survive in a competitive environment. An economic and industrial logic seems to indicate the need for the greater supervision of social programmes, monitoring and stabilisation. The measures may also involve the requirement to transfer resources between programmes on a scale which threatens existing priorities.

Were such measures, deemed necessary by some, generalised as the dominant economic logic of politicians? To what extent did politicians embrace Keynesian arguments as a way of maintaining priorities and avoiding harsh alternatives? To what extent did social democratic government find its choice widened

or restricted by the use and nature of discriminatory and administrative controls? How far was the adjustment and stabilisation managed in favour of capital? Ultimately we are trying to gauge the degree of political discretion open to social democracy and the nature of that discretion in a formative period when the utilisation of state control was, for peacetime, at its maximum. In the next section we examine key background features of the period under study.

#### SECTION IV: THE NATURE OF THE PERIOD UNDER INVESTIGATION.

One of the foremost labour theorists at this time has written that one of the key aspects of British socialism consists in the use of the state for social ends by redistributing resources and wealth through modifications in the market mechanism.<sup>1</sup> Cole did not imagine that this would be a conflict free process. On the contrary, the Fabian strain in the Labour party has always believed in the necessity for administrative controls over private interest to supervise and regulate but, like the rest of the party, they shared certain assumptions about rational planning within which this administration would take place. The origins of policy would derive from needs as revealed by surveys and the advocacy of experts in each particular field, including economic policy. Transformation, - the means to effect ends, would be determined by the weight of votes and the resulting parliamentary majority. That possession would enable changes, drafted by experts and civil servants, to

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1. Cole, G.D.H., Building and Planning. (London, Cassell and Co. 1945). p.73.

be effected through the Cabinet, backed up by a framework of supplementary planning authorities, ultimately responsible to it. It would be their task to 'carry out the detailed and highly technical work of surveying the needs of economic re-organisation.'<sup>1</sup> Some sort of general economic plan would result, the primary purpose of which was to ensure the compatibility of various goals and devise priorities

to settle in the light a proper survey of the available resources and of the existing uses, what can be done and what cannot be done and among things that can be done what needs doing most.<sup>2</sup>

Lastly, underlying this, was the assumption that the 'nation' would continue to be the chief focus of policy; the problem of international market forces being regulated by their equivalent administrative form - protectionist trade.<sup>3</sup>

Compared with 1919-21 the novelty of the second reconstruction was the way in which capitalists, workers and their political parties had accepted many of the bureaucratic practices of the war economy in order to arrange and implement the transition to peace in a 'rational' and planned way. The parallel apparatus, whose job it was to regulate, allocate, and manage over the various sectors, would be retained for the peace in order to remove the anarchy from reconstruction characteristic of the period after the first world war.

Fundamental features of the British war economy were the suspension of the operation of the competitive process of

1. Cole, G.D.H., Plan for Democratic Britain. (London, Odams Press 1939). p.33.
2. ibid.
3. ibid. p.217.

accumulation, and a re-ordering of the relations between state and capital resulting from controls which intervened in the production as well as distribution. This resulted in a deviant form of capitalism. Although surplus and profit was still extracted privately by owners,<sup>1</sup> restrictions were placed on utilisation. The very existence of capitalists and their 'rights' were conditioned by their acceptance of a role as agents of the state. Their success was guaranteed, not by their competitive efficiency, costs having been tested in the market, and with expansion and contraction governed by movements in the rate of profit but because of the use value of their output for purposes of war.<sup>2</sup> The state was the main purchaser of commodities in markets extended or created, that otherwise could not exist on such a scale. Prices and costs became accounting devices as money flows and values become subordinate to physical planning for use. In short, choices in the structure of production were not decided by the market and movements in the rate of profit, but by bureaucracy. With regard to relations of production, whilst the war economy did not alter the subordination of labour to capital in the labour process, alterations were made in the terms of exchange through state sponsored changes in hours, maximum/minimum wage rates, regulation of employment conditions and moves to direct labour.

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1. But not in cases where the government built and owned the factories.
  2. Open tender contracting was replaced by fixed price contracts and cost plus arrangements.



It therefore cannot be maintained that war capitalism requires only marginal alterations in the theory of the capitalist state.<sup>1</sup> The state does not just maintain the common existence of fractions of capital according to relations of domination established by the accumulation process. It actively discriminates against sectors according to the non-capitalist criterion of 'priority'. In Britain, outlets for capital were severely restricted, and access to the money capital market was curtailed through the Capital Issues Committee. Firms were not allowed to build without a licence or instal new machinery. Some had to have licences to manufacture, while others had the quantity of their output curtailed. Intersectoral transfers of capital were effectively barred by severe restrictions over the entry in and out of industries, checks being kept by registers to ensure new entrants were eliminated and 'established firms' protected. Some capitalists, especially those in consumer production, were not allowed to keep their labour forces or recruit more, and had to confine their activity to utility ranges with the supply of raw materials cut. Import licencing was introduced in order to conserve foreign exchange. The result of all this was that choices between tanks and motor cars, uniforms and dresses, houses or munitions factories, were decided by bureaucratic allocation.

The particular form that bureaucratic co-ordination took for the war economy was also determined by the primary aim of

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1. as in Poulantzas, N. Political Power and Social Classes. (London, New Left Books 1973). p.294.

securing the transfer of the maximum volume of resources to war production. To have allowed the price mechanism to operate would have required the government to bid up wages and costs in the war sector. Since that would have meant huge profits and a politically unacceptable distribution of income (as was characteristic of the 'business as usual' phrase of World War One,<sup>1</sup> profits would have had to be taxed at such levels that would have blunted the incentive to transfer. Once the government had decided to intervene and skew the structure of production, underwriting it by fixed price contracts, it had to ensure that the supplies of inputs, - materials and components, specified in the contract, were also forthcoming in the right qualities and the right price, according to delivery dates phased in line with the demands of the service chiefs. By this means the net of intervention spread. The principal means of allocating resources became the manpower and material budgets, which, matched the working population/capacity with the number of workers/inputs required by each industry. The material budget was separate because a large proportion of materials came from abroad and therefore did not make a call on any proposed distribution of social labour. Each supply department was left to plan for expansion in the light of requirements put to it by the appropriate service chiefs. No central power for co-ordination reconciled at one and the same time the plans of all the departments in relation to all the factors which affected

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1. Marwick, A., The Deluge: British Society and the First World War. (London, MacMillan 1965). pp.39-44, 123-4.

them. Co-ordination was affected through the contracts themselves.<sup>1</sup> If the Manpower Committee reduced the tank programme in order to expand aircraft factory building, this would mean a reduction in the former's need for raw materials, a fact which would be taken into account by the Raw Material Committee in the next review when all the Departments put in their 'bids' for the next quarter. These general committees could ensure that new distributions and transfer were effective, by virtue of the fact that contracts would be reduced in one area and expanded in another, and that resources would not seep out into alternatives in the non-government sector because these had been cut off by the various mechanisms described above. The fact that the government possessed the reserve power to direct labour was a facility of the last resort. It was because most large firms worked for the government and not for private account, as in peace, that this could be so.<sup>2</sup>

Since the transfer of resources to the war sector would reduce the supply of consumer goods, demand had to be restrained to stop full employment (excess demand) from leading to an inflationary push on prices, with the richest getting the lion's share. Demand restriction was conceived in terms of 'fair shares', so that although the working class was penalized by increased purchase tax and post war credits, there was also the Excess Profits duty, a tax on dividends, rationing and price

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1. See Devons, E. 'Economic Planning in War and Peace', The Manchester School of Economics and Social Studies, Vol.XVI, No.1. (January 1948), pp.1-29.
  2. See Devons, E., 'The Progress of Reconversion', The Manchester School of Economic and Social Studies, Vol.XV, No.1. (January 1947) pp.1-25.

control.<sup>1</sup> Since food and raw materials were bulk purchased, either at home or abroad by state monopoly at high scarcity prices, and as they were to be sold to consumers by the distributors at less, food subsidies became a widespread practice. For manufactured goods the final price had to be agreed by a committee at the Board of Trade. The control price had, however, to be high enough to allow the high cost and perhaps inefficient producer to survive; his output being socially necessary to secure supply. But again, if the retail price was to be less, subsidies were essential.

There are two fundamental differences between the period of war economy and the period of reconstruction. Firstly, a large part of the private sector no longer works as 'agent' to government by contract. Neither does the government consume three-fifths of the national production.<sup>2</sup> It therefore cannot be controlled in the same ways. Secondly, if the 'economic' in war economy manifests itself only in the problem of shortages, bottlenecks, priorities, etc. with questions of value and cost relegated to subsidiary role, this is only because the government has effectively mortgaged the future, instead of paying for imports of food and raw materials by means of exports and for public expenditure by means of extensions in taxation. Forced saving, however, like the Post War Credits, had to be paid back and War Loans carried interest; over issues of a floating debt,

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1. Chapter 2 of the thesis will deal with the expectations of the labour movement in war economy. For a preliminary overview see Calder, A., The People's War: Britain 1939-45. (London, Jonathan Cape, 1969).
  2. Dow, J.C.R., The Management of the British Economy 1945-60. (Cambridge University Press 1970). p.7.

in the form of treasury bills, would carry inflationary dangers beyond a certain point. Other promises to pay, negotiated externally, took the form of sterling balances by which commodities were purchased from the dominions and other countries without an immediate equivalent being given in exchange but through a paper title to a claim on future production. Another type of mortgaging the future involved allowing the capital equipment of the country in a number of sectors to run down making it work longer hours and selling overseas assets. Above all the attempt at self sufficiency for a country dependent on imports was only possible because of the monumental delivery of free gifts (Lend Lease), which obviated the need for export and enabled productive capacity to shift to munitions. However, the negotiation of this also involved future commitments. Article 7 of the Mutual Aid Treaty saw Britain agreeing to pursue non-interventionist and therefore non-protectionist trade and exchange policies come the peace. These fundamental differences conditioned the future environment for reconstruction and yet they received little or no recognition in party pronouncements. What was emphasised was the rationality of war control, which would be retained and adapted to smooth the transition to peace and achieve certain objectives. These objectives involved a large scale building programme and a distribution of labour and capital to projects and activities deemed by government to be 'essential'. The very idea of state determined necessity in production was an echo of the war economy, as was the view that profit alone should be rejected as the sole determinant of whether a particular piece of investment should

or should not be undertaken. The retention of much of the war economy was deemed vital to the success of reconstruction: rapid decontrol being the cause of failure after 1918. The 1945 Labour manifesto was quite clear on this, Labour would undertake a planned reconstruction with such programmes as housing provided without regard to 'sectional invested interests'<sup>1</sup>: the experience of 1918 was instanced. The retention of controls would mean an ordered return to peace that would prevent economic 'blizzards and forces'. Planning would 'win the peace for the people'.<sup>2</sup> It would ensure that 'first things would come first (including houses for the people)'. Private industry would serve the nation, and planning would ensure a balance between the goals of social and productive reconstruction but:

The housing programme would be one of the greatest and one of the earliest tests of a government's real determination to put the Nation first. Labour's pledge is firm and direct - it will proceed with a housing programme with the maximum practical speed until every family in the island has a good standard of accommodation.<sup>3</sup>

As one enthusiast has summed up the feeling, the 1945 election was an indication of a

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1. 'Let us face the Future' (1945) IN Craig, F.W.S., (ed.) British General Election Manifestos 1918-66. (Chichester Political Reference Publications 1970). p.98.
  2. ibid.
  3. ibid. p.102.

sober judgement on how the National energy displayed in war could be turned to the work of peace; the very discipline of war could be used to buttress the necessary planning for the future.<sup>1</sup>

While many in the Party, like Foot, saw this as the embryo of socialism, the whole direction of the manifesto exhibits the practical heart of British Social Democracy: state power was going to be used to ensure provision of expanded services for the community and in particular for the working class. While there was much emphasis in the manifesto on full employment, health and welfare reforms, it was the Housing programme that was to be the test of the new government's management of Reconstruction and to provide a comparison with the period after the First World War.

#### SECTION V: THE PLAN OF THE THESIS.

The thesis begins with a more extended treatment of the plans made for peace. An analysis of the climate of working class expectations for social security in their widest sense and the government's fostering of reform sentiments are all placed in the context of wartime mobilization and the bargaining

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1. Foot, M., Aneurin Bevan: a biography Vol.2. 1945-60. (London, Davis-Poynter 1973). To the best of my knowledge, apart from Foot's biography of Bevan above, which mentions the need for more research, there are only two other works that deal extensively with the Housing and building programmes in this period, both written from published sources. The first concentrates largely on the financial cost of housebuilding, particularly materials, see Sabatino, R.A., Housing in Great Britain 1945-9. (Dallas Southern Methodist University Press 1956) while the second looks at the administration of building controls, rather narrowly as a technical exercise. see Rosenberg, N., Economic Planning in the British Building Industry 1945-9 (Philadelphia University of Pennsylvania Press 1961). Sketchy treatments are available in any general history text of the period, for instance, Pinto-Duschinsky, M., 'Bread and Circuses' IN V. Bogdanor and R. Skidelsky (eds.), The Age of Affluence 1951-64, (London, Macmillan 1970) pp.53-63.

of the labour movement, increased, as it was, in a fully employed war economy. A resulting configuration of bureaucratic power and priority control over a re-emerging capitalist economy is linked with these developments. Chapter 3 continues this theme by looking at the formation of the housing programme and target. This is a central, crucial and therefore lengthy chapter for a number of reasons. Firstly, it establishes the reasons for the government's undertaking commitments in the housing field. This was in part due to the undersupply caused by bomb destruction: a problem compounded by returning soldiers and their potential family size come the peace. The former's absence was equivalent to a temporary emigration abroad and made worse by the wartime ban on housebuilding. These facts were revealed in departmental surveys but the crucial questions are why and at what stage did that physical need become politically potent and why were promises made to improve on inter-war standards of housing? Chapter 3 also goes on to illustrate in some detail the determination and shape of the building programme both by the coalition and the subsequent Labour Government. The detail is necessary in order to show the contents of the 'black box'. The production of policy in this area was a complicated assembly product, the details of which can only be revealed by magnification. Success was judged to be dependent on the devising of measures to insulate the programme from potential challenge. This insulation was linked with the exclusion or 'management' of interests. How far resources could be protected for use in public housing was dependent on a system of licenced demand being instituted which covered calls on labour materials



and the supply of money capital. While much of this chapter suggests imperfect control to the extent that costs of building would still rise, the terms of subsidy arranged with the Treasury were sufficiently liberal to prevent the premature closing of the programme when such faults appeared. The success of the housing programme would also depend on how far the government could insulate the programme, not only from internal market forces and interests but from rival claims on what should be done during the 'transition' period and later from those seeking adjustment of controls and programmed assumptions. Chapter 4 looks at the way apparent external constraints were built into reconstruction as a result of negotiations centering on the international trade and exchange problem. Chapter 5 looks at the economic machinery and assumptions governing the overall allocation of resources and the nature of the balances chosen between consumption, investment and the revival of trade.

Chapters 6 and 7 undertake an analysis of crisis points in such management and the way they were handled hoping thereby to throw light, through a further magnification of detail, on the qualities of 'fine tuning', the extent to which priorities were adjusted and the rejected alternatives. Chapter 8 develops some of the costs and consequences of the chosen strategy in relation to post-war investment and the concluding chapter draws together the key aspects of reconstruction experience and relates them to the broader problem of the scope of discretion available in the management of the capitalist state by social democracy.

CHAPTER II

The Acceptance of Social Reconstruction.

## INTRODUCTION

The purpose of this chapter is to explain the adoption by government of reconstruction plans. It will be shown that such planning can best be understood in the context of the perceptions held of the future both by planners and those being planned for. Working class expectations of peacetime government policy, shaped through past experiences and revealed in opinion research, provided government with a map of public opinion which, given its nature, they felt unable to ignore. It was felt that there could be no basis for appeals to national unity, both in the context of the war or for the return to peace, unless previous Treasury reluctance to commit resources above what was compatible with likely trends in productivity, low taxation and a retiring debt, was replaced by extended and expensive collective provision for those who were required structurally to service the economy as labour power.

## SECTION I : THE PRESSURE FOR CHANGE.

Commentators on this period have operated with the concept of a 'post war settlement' or 'social contract' by which working class co-operation in the war effort was exchanged for enlarged participation in the government machine and investigations into social policy.<sup>1</sup> The Labour Party joined Churchill and the Conservatives in a Coalition and unions were given more

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1. Beer, S., Modern British Politics (London, Faber and Faber, 1965), pp.212-16. see also Pelling, H., History of Trade Unionism. (London, MacMillan 1963) Ch.11. Part of the origin of the Beveridge Report lies in the February 1941 TUC deputation to the Ministry of Health demanding improvements in social services, see Marwick A., 'The Labour Party and the Welfare State in Britain'. American Historical Review, No.73, (1957) pp.380-403, esp. p.397, and Addison, P., The Road to 1945: British Politics and the Second World War, (London, Jonathan Cape 1975), pp.168-9.

representation in the Civil Service machinery of consultation and various committees for reconstruction. This position was achieved because unions had become key 'instrumentalities' for the implementation of a war economy.<sup>1</sup> In war labour as the key resource becomes scarce rather than abundant, and in addition is required to be socially distributed in proportions fixed by munitions and other requirements. Such resource dependency alters the bargaining power of labour in the state and facilitates its ability to extract concessions on working conditions and social security during the war and promises about life come the peace.<sup>2</sup> This notion that reconstruction was produced by a negotiated exchange appears born out by the rhetoric of the actors themselves. The notion of a 'people's peace', as the quid pro quo for collaboration in the war effort, can be found as far back as the 1940 Labour Party conference. Discussion around of the National Executive Committee document 'Home Policy', talked of sacrifices being repaid in economic security and a good standard of living by the use of the organization of war for the social planning of peace, and building a 'New Britain'. Constituency delegates who had begun to characterize the struggle as an imperialist war were told by Morrison

When we have played our part fully we shall have won in this country a greater respect than we have today and a greater power grip over the capitalist system on the home front.<sup>3</sup>

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1. Beer, *Modern British Politics*, p.215.
  2. for a modern theoretical treatment of 'exchange power' and the resources associated with it, see Hamilton, M., 'An Analysis and Typology of Social Power', PART II Philosophy of Social Science 7, (1977), pp.51-65.
  3. *LPCR*, 1940, p.133.

On a theoretical level the isolation of twentieth century war organization and the required degree of public support and participation in war as important casual factors in the growth of state intervention and social policy, have been ambitiously stated by Andreski.<sup>1</sup> In return for organization and support social privileges and income levelling take place.<sup>2</sup> This, however, will only follow, according to Andreski, if the population mass involved in the war reaches a certain critical level.<sup>3</sup> This 'Military Participation Ratio' is determined by the objective technical requirements of war such as the necessary cost and extent of weaponry and an accompanying level of social mobilization.<sup>4</sup> This hypothesis was applied and found wanting for the period of the first world war by Philip Abram<sup>5</sup>. He criticizes the vagueness of the concept of participation without a specification of its nature and therefore the social gain that it may bring.<sup>6</sup> Participation in the war is in no sense a valuable indicator of real access to the decision making levels at which social policy is made. The labour movement, although heavily involved in the first world war, did not gain or seriously seek access until after 1939.<sup>7</sup> Andreski cannot explain why, when the second world war was drawing to a close, social commitments showed not only a quantitative but a qualitative increase. Our own findings suggest the need to recognize government per-

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1. Andreski, S., Military Organization and Society. (Second edit. London, Routledge and Kegan Paul 1968).
  2. ibid., p.29.
  3. ibid., p.33.
  4. ibid.
  5. Abrams, P., 'The Failure of Social Reform:1918-20'. Past and Present 24 (April 1963), pp.43-64.
  6. ibid., p.59
  7. ibid., p.61

caption of possible social conflict that would arise in peace-time if nothing was done in terms of social and economic concession. The attempt to neutralize social forces by catering to perceived expectations was developed firstly, with reference to the bitter phase of class struggle between 1918 and 1920 and secondly, with the possibility in mind that political support might increase for those appearing to threaten normal political institutions and culture.

Both Calder<sup>1</sup> and Addison<sup>2</sup> have noted, in their respective works, Churchill's early desire to postpone consideration of reconstruction until after the war, by refusing to consider specific war aims on the grounds of possible interference with military objectives and the later concern that the future, and possibly tight, post war economy should not be mortgaged.<sup>3</sup> This, however, became increasingly difficult to sustain when the intelligence agencies of the government revealed opinion, common to troops and civilian workers, that this prospect was considerably unpopular.<sup>4</sup> The Ministry of Information summing up a whole spate

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1. Calder, A., The People's War: Britain 1939-45. (London, Jonathan Cape 1969), p.98.
  2. Addison, P., The Road to 1945, p.126.
  3. ibid., pp.220-1.
  4. Weekly 'Home Intelligence Reports' were produced for the government by the Ministry of Information. Parallel with Mass Observation, subjects of 'concern' were not included unless a percentage of the topics had been raised in all regions. Checks were made to see if they were constant over time. Regional Information Officers (R.I.O.s) would nominate secret listeners such as publicans, who were valuable by being in contact with a wide number of people. The regional officers would compile a report and the reports from all regions would be collated in London where the common elements were drawn out, supplemented by material gathered from postal censorship and a final weekly report sent to the Minister. For more information see Cab. 66/31 Cabinet Paper WP(42)548 25th November 1942 'Assessment of Public Feeling at Home' 25th November 1942. Memo by Minister of Information. A well researched but rather narrowly focussed study of the Ministry of Information published after this chapter was drafted utilizes the same documentation that the author of this thesis gleaned from the files and applied here. See McLaine, I., Ministry of Morale: Home Front Morale and the Ministry of Information in World War II. (London, Allen & Unwin 1976)Ch.6.

of early Postal Censorship and Home Intelligence Reports, noted that there was a contradictory feeling amongst the public that while things would probably 'never be the same again' many feared that the post war situation 'may be as bad as the last one'. 'There is a declining belief in political parties, party programmes and even Parliament itself'. People were demanding full employment, protection against unfair dismissal, old age pensions, i.e. 'occupational and economic security', a 'levelling up of income with a higher minima and a lower maxima' and 'an equal chance for all children'. Such opinions

seem to be fairly widespread amongst the more reflective members of all classes throughout the country, not least members of the armed services and sometimes they are associated with an admiration for Russia.

The officials were worried that the government, judging by the Paymaster-General's recent speech were not going far enough. Good intentions should be supplemented by planning and progress reports.<sup>1</sup> The unemployment issue figured again and again in reports not only with those who had memories of the 1930's but also with younger men.<sup>2</sup> The argument, which had been stressed by Churchill in Cabinet<sup>3</sup> and which had been reflected in public statements that we must concentrate on winning the war was not appreciated.<sup>4</sup> The unpopularity of a goalless war was believed to be affecting the war effort in terms of morale, and therefore of output, in the munitions factories where apathy and indifference

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1. INF1/864. Post War Aims and Reconstruction Problems, October 1941-3. Notes for Minister of Information, 21st April 1942.
  2. INF 1/292. Home Intelligence Weekly Reports, 26th February 1942 and 24th November 1941.
  3. Cab 66/33. Cabinet Paper WP(43)18, 12th January 1943. Promises about Post War Conditions. Note by Prime Minister.
  4. INF 1/292. Home Intelligence Weekly Report. 24th November 1941.

were commonplace.<sup>1</sup> In addition, and more importantly for the future, the absence of government response was seen as stimulating ideas and organizations outside the accepted framework.

Cynicism towards established politicians regarding intentions on the implementation of the popular Beveridge Report on social insurance was evident; people remembered what had happened to the 'land fit for heroes last time'.<sup>2</sup> This cynicism was mixed with anger, 'Things would be unpleasant and there would be hell to pay'.<sup>3</sup> Some feeling for what the Ministry of Information called 'Home grown socialism' was also prevalent. While some of this was associated with the Communist and Commonwealth Parties : the latter having some impact at by-elections,

it does not owe allegiance to any particular party but expresses a resentment of the system which has given so much power to so few people<sup>4</sup>

In the Eastern Region there was a "desire among the working classes for some sort of post war new order, aimed at reducing the gulf between the 'haves' and the 'have nots' ". There are references to the need of 'socialism in its purest form in this country after the war' and 'to this end they mean to make their voices heard when the opportunity presents itself'.<sup>5</sup> While some of this socialist 'feeling' can be seen as a spin off from the popularity of Stalin, the Russian war effort and that, however crudely conceived, their's was a 'People's Government' which did

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1. INF 1/292. Home Intelligence Weekly Report. 16th March 1942, see also INF 1/284. Report on Home Morale No.51, 'Complacency in the Factories', 24th September 1943.
  2. INF 1/292. Home Intelligence Weekly Report. 8th December 1942.
  3. INF 1/292. Home Intelligence Weekly Report. 1st December 1942.
  4. INF 1/292. Home Intelligence Weekly Report. 18th February 1942. (RIO Midlands).
  5. ibid. see also INF1/282. Home Intelligence Weekly Report. 28th October 1943.



not offer a return to economic and social insecurity after the war<sup>1</sup> it was also perceived as the result of war economy itself.

While Churchill wanted to consider

what action is required to counter the tendency of the present public to forget the dangers of communism in their enthusiasm over the resistance of Russia.<sup>2</sup>

The Ministries officials noted how far the management of the home front had engendered the socialism. Their expression that it was 'home grown' was particularly apt given their analysis

The Russians are operating against the Germans beyond expectation, so that we cannot call communism in itself inefficient. The control by the government in this country of industry, the levies made on earnings and upon capital are all integral parts of Bolshevik theory and the combination of these factors is bound to educate the public into assuming that communism is either a reasonable alternative to the pre-war system of democratic theory or is a logical sequence to the wartime system of control.<sup>3</sup>

There were limits to combatting this sentiment by 'managing' the Communist Party's second front campaign as there were other reasons why such 'home grown socialism' should arise and this was identified endlessly by the Ministry as a 'dislike of vested interests', the policy of 'fairshares', the fear of a post war slump and the apparent lack of social reform. There was a need

To convince a suspicious and highly sceptical public opinion that the government was in earnest and that in spite of the blanket that had been put on discussions of the subject, a great deal had in fact been done and was being done . . . . the belief that nothing was being done was likely to have dangerous consequences.<sup>4</sup>

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1. for this popularity see INF1/292. Home Intelligence Weekly Reports. 11th June 1942, 20th May 1942, 11th February 1942, 11th March 1942.
  2. Addison, The Road to 1945, p.135.
  3. *ibid.*
  4. INF1/683. Post War Reconstruction: Ministry Planning and Policy 1942-4. Minutes of meeting between representatives of the Ministry of Information and the Reconstruction Secretariat 15th July 1943.

Nothing in the reports indicate that the 'socialism' spoken of by officials was systematized and articulated but rather a vague hostility to unbridled capitalism without social responsibility. The growing demand for guarantees that capitalism be 'controlled', that people ought 'to be told what they are fighting for' and that 'privilege' should not lose them the next peace was something 'that can be heard wherever working men gather together'.<sup>1</sup> This overwhelming demand for social security in its widest sense, comprising full employment, price control 'fair shares' and improved housing, and welfare assistance, was all the more potent for it actually existing during wartime, on the home front and in the forces, and was reinforced by the increased representation of organised labour at the centre.<sup>2</sup> Full employment had swept away one mode of industrial discipline, and although there was agreement to compulsory arbitration and a ban on official strikes, there was no freeze on wages.<sup>3</sup> While direction of labour had been used, industries applying for scheduling under the 'Essential work Order' were obliged by Labour Minister Bevin to recognize and institute joint negotiating machinery on rates of pay and improved working conditions:<sup>4</sup> shop stewards gaining increased recognition in line with this development.

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1. INF1/679. Ministers Memorandum on propaganda 1942. Southern Region to Headquarters. 28th April 1942.
  2. for the paternalism involved in armed forces life, see Thornton, A.P., The Habit of Authority: Paternalism in British History. (London, George Allen and Unwin 1966), pp.358-9.
  3. Calder, A., The People's War: p.115. see also Burrige, T.D., British Labour and Hitler's War. (London, Duetsh, 1976).
  4. Calder, The People's War, pp.235-8.

Extensive rent control, rationing and food subsidies were also introduced with an eye to the reaction of labour and the experience of the industrial unrest of 1916-1917 which had been caused by rising rents, inflation, rising food prices and 'profiteering'.

At the centre tripartite bodies grew up with roughly equal representation for capital and labour, such as the National Joint Advisory Committee (1939) for manpower distribution problems under the Ministry of Labour, and the National Production Advisory Council on Industry in 1941.<sup>1</sup> Each government department covering an industry set up similar 'Consultative Councils'. A Reconstruction Joint Advisory Council comprising representatives of the F.B.I. and the T.U.C. was set up in December, 1942.<sup>2</sup> With this network of corporate representation so widely spread the government was continually reminded of the claims of labour. While employers and industrialists were not shy in using such machinery to back up their own claims they, too, would argue for labour. Some weaker sections of industry, such as the cotton manufacturers, opposed the expense of social reform as a tax on enterprise, but others such as I.C.I. were more sympathetic.<sup>3</sup> Sam Courtauld thought unless men in possession are prepared to adapt themselves and compromise there was no alternative to a complete socialist revolution.<sup>4</sup>

Attlee's early complaint that we were in danger of fighting a negative 'conservative war'<sup>5</sup> was evidenced in June 1942 when

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1. Marwick, A., Britain in a Century of Total War. (London, Bodley Head 1968).
  2. Cab 117/203. Reconstruction Advisory Council Papers.
  3. Addison, The Road to 1945, pp.214-15.
  4. Calder, The People's War, p.294.
  5. Addison, The Road to 1945, p.121.

a letter addressed to the Prime Minister was received from one of the largest centres of concentrated munition workers, the Woolwich Arsenal Shop Stewards Committee.<sup>1</sup> If apathy and low output were to be removed workers must have assurances that the war was their concern - memories of the false promises of 1918 and the depression were 'all too poignant'. 'The one desire of the working man is for security.' What would winning the war mean in terms of the future? The whole object of government policy in the post war period should be 'economic security for the working population'. The civil servants who appraised the letter thought that, despite its 'communist inspiration', it was generally representative of the feelings of workers and suggested there was need for assurances on many of the points raised. The early and rather vague aim of the initial Committee on Reconstruction problems of

perpetuation of the National Unity achieved in war through a social and economic structure designed to secure equality of opportunity and service among all classes of the country.<sup>2</sup>

was later backed by the warning that any promises should not be 'false promises' which would raise hopes and provoke bitter disillusionment if they could not be carried out.<sup>3</sup> The result predicted was one of social unrest.

If we don't do these things we are committing ourselves to class warfare for a long time to come and we are committing our policy for the future into the hands of those who will not be fitted to exercise a sound and balanced judgement.<sup>4</sup>

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1. Cab 117/201. Reconstruction Secretariat. (Royal Ordinance Factories) letter from Woolwich Arsenal Shop Stewards Committee, June 1942.
  2. Cab 87/1. Committee on Reconstruction Problems, 24th February 1941, Terms of Reference.
  3. H.C. Deb, Vol.385, Col.1075. December 1st 1942. Debate on Reconstruction.
  4. H.C. Deb, Vol.389, Vol.62-3. May 4th 1943. Debate on Housing.

On 6th March, 1943, the Lord President, John Anderson wrote to Brendan Bracken, the Minister of Information that Home Front Ministers had been worried about

The extent to which in matters of Post War Reconstruction the field of public discussion has been left open to extremists

these 'seem to be catching the public imagination' and it was

high time that the balance should be redressed by gaining of far more moderate and realistic views

Ministers should speak more on Reconstruction.<sup>1</sup>

That such a realisation had reached Churchill was evidenced by the fact that he took time off on the 21st March, 1943, to make a long radio speech, which, although qualified by questions of cost and warnings of 'easy promises', outlined a four year plan in five or six broad practical areas which included rebuilding towns and improved housing, a National Health Service compulsory insurance from cradle to the grave, and full employment.<sup>2</sup> The government had received great interest in its earlier move to investigate housing standards, design, and equipment. The Dudley Committee, set up 20th April 1942, had been extended to take in small women's consultative groups, who had contacts with women's organisations in working class areas.<sup>3</sup> The use of questionnaires and responses to press articles.

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1. INF1/864. Post War Aims and Reconstruction Problems. Note: John Anderson to Brendan Bracken, March 1943.
  2. Calder, The People's War, p.534.
  3. Women's Housing Advisory Committee nominated by various women's organisations up and down the country, (for instance South Wales mining areas). HLG 37/62 Design and Dwellings Committee especially Note 30th April, 1943.

showed a widespread desire for the guarantee of three bedrooms, greater self contained facilities, cupboards, built in wardrobes, hot water heaters, kitchen, electric power points and laundry facilities, two w.c.'s, (to avoid bathroom/w.c. combination), increased living space, and two rooms on the ground floor, (one for meals and one for family activities). The overall size of the houses should therefore increase as necessary.<sup>1</sup> Mass observation had found similar feeling independently through interviewing.<sup>2</sup> Asked by Sir Seymour Williams, one of the building industry's representatives, whether costs should be considered, one of the women's official representatives, a Fulham housewife and Justice of the Peace who had lived in a slum,<sup>3</sup> spoke for many when she replied 'we have never considered the expense of the war so why should we be particular about housing'.<sup>4</sup> The final Dudley Report stressed that the

experience gained by the vast numbers of women now in industry and services will influence their attitude to housing: for wartime factories and hostels often provide high standards of services and equipment, which will make such women intolerant of inferior conditions in their own house.<sup>5</sup>

Throughout 1943 and 1944, the Ministry of Information had been gathering information from up and down the country that post war housing, along with employment, was becoming the number one issue in the public mind with the existence of

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1. HLG 37/63, Design of Dwellings Committee.
  2. INF1/284, Reports on Home Morale Special Report No. 39, 11th March 1943. 'Public feeling about Housing', Note submitted by Mass Observation.
  3. Daily Telegraph, 21st April, 1942, (quoting a Mrs. Maggie Dollar).
  4. HLG 37/64, Design of Dwellings Committee verbatim comments June 1944.
  5. Design of Dwellings, Report of the Sub-committee of the Central Housing Advisory Committee of the Ministry of Health (H.M.S.O. 1944), p.6.

'apprehension and scepticism about government intentions'. 'Unrest is expected if returning servicemen find no houses available. People it seemed wanted permanent traditional houses and depreciated the idea of temporary housing.<sup>1</sup> Earlier press statements that the Russians had began house building had been widely noted.<sup>2</sup> Opinion polls in 1945 election revealed that housing was still the strongest issue of concern.<sup>3</sup> The Ministry of Health had received in December 1943, a deputation of representatives from the L.C.C., the Association of Municipal Corporations, and bodies representing urban and rural district councils reporting an 'insistent demand for houses without any power to meet it.'<sup>4</sup> The Minister of Reconstruction noted that the situation in London was particularly acute and predicted that the temper of the people would not be improved and an ugly situation would arise. 'Mass deputations could be expected'. The V bombs had made this situation worse

of all the problems facing us on the home front, housing is the most urgent and one of the most important from the point of view of future stability and public contentment.<sup>5</sup>

This view was backed up when he received a deputation from the London Labour Party and Trades Council urging a controlled programme.<sup>6</sup> Charles Key, an East End M.P. talked in Parliament

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1. INF1/291, Reports on Home Morale. Home Intelligence Weekly Report, 30th November 1944 and 7th December 1944.
  2. INF1/282, Home Intelligence Weekly Report, 14th October 1943.
  3. McCallum, R.B. and Readman, A., The British General Election of 1945, (London, Oxford University Press 1947), p.237.
  4. HLG 101/252, Housing Finance, (Costs, Rents and Subsidies), 1942-6, Reports of deputation.
  5. Cab 124/469, Minister of Reconstruction - Secretariat files, 5th September 1944, Memo on Housing by Minister of Reconstruction.
  6. Cab 124/469, Minister of Reconstruction - Secretariat files, Note to Minister of Reconstruction, 5th September, 1944.

of

seeing volcanoes of social discontent ...  
no local authority would be able to sit on  
that problem and keep its people quiet.<sup>1</sup>

That this was not idle speculation was manifested in the housing militancy and direct action that occurred throughout 1945 and into 1946. Vigilante groups organised squatters of homeless families and ex-servicemen, first, taking over empty military buildings and then empty private flats in Brighton and other major cities. The most notable being the communist led 'Sunday Squat' in Kensington, Chelsea and St. Johns Wood. The result of this was a strengthening of the retained wartime requisitioning powers available to local authorities, with the threat of further direct action compelling the local authorities to use these powers. At the height of the movement 45,000 people were squatting in various forms or other.<sup>2</sup>

Since the housing programme was formed before the outbreak of this militancy, we cannot interpret government policy in this or over the whole field of reconstruction as being the result of 'class struggle'. From the evidence, however, on the relationship between social demands, government perception of them and public perception of government, it seems that the state, possessing a system of opinion intelligence, decided to anticipate, and thereby hopefully frustrate, militancy from a class whose key position in the economy enabled it to disrupt and destabilize. This strategy was possible because the revealed

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1. H.C. Deb, Vol.409, Col.111, 22nd March 1945, Debate on Housing.

2. For further details on the 1945/6 squatting movement, see Bailey, R., The Squatters, (Harmondsworth, Penguin 1975).



negative and vague anti-capitalism had not developed into a positive desire for the replacement of existing power structures, either at the point of production, or at the level of the stage. The anti-capitalism was judged to be manageable, by the declaration and construction of policy programmes, because discontent centred on the market effects and insecurity engendered by peacetime capitalism, rather than the general question of ownership and control in production itself. What seemed to unify the demands into a manageable whole was the apparent desire for the continuation of many of the social features of the war economy into peace. What seems to have made politicians anxious to respond was the fear that the small growth in support for 'home grown socialism' would increase if there was decontrol on prices, an absence of social reform and unemployment. These were the experiences of the period after the First World War: people it seemed would not tolerate repetition. The second incentive to respond was the link between peace plans and morale in the conduct of the war itself. While we have found it impossible to construct any measures which would adequately link the publication of policy documents with improved output figures in munitions factories or enthusiasm for battle on the front, politicians belief that there was a relationship was reflected in their discussion of war aims propaganda. The lectures given by and the disputes surrounding the Army Bureau of Current Affairs, (A.B.C.A.) and the very existence of such unofficial bodies of political discussion like the 'Cairo Parliament' in the British Army indicated a widespread interest in reconstructions questions that civilian planners could not ignore, despite their distaste

for this type of activity.<sup>1</sup> The last factor motivating politicians was their belief that their actions stood some chance of success in the aims of staving off discontent. While not articulated at any length, the oft mentioned desire to cater for the 'moderate', 'sensible' majority reveals a basic trust in the reformist character of the British working class, which, had been handsomely demonstrated in the extent of regulation and control in the labour market during the war. These were of course a few exceptional experiences that ought to be mentioned viz. the unofficial disputes in 1943 and 1944 that broke the no-strike agreement. Despite these no significant movement developed among workers that indicated any positive desire for the kind of socialism that required self-activity and administration by the workers themselves. While this appears to have been the case during the First World War, the issues that led to support for shop stewards both then and in the Second World War were issues about wages and the infringement of traditional trades union rights.<sup>2</sup> Despite being led by avowed Marxists in the former period, and in the famous 1944 coal and shipbuilding strikes by supposed Trotskyites, such grievances did not widely mobilize the class but were spatially concentrated on certain renowned militant enclaves and in the latter period were sporadic and short lived.<sup>3</sup> The government's

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1. Addison, The Road to 1945, pp.217-9. For the 'Cairo' Parliament, see Harrington, W., and Young, P., The British Revolution, (London, Davis Poynter 1978), pp.116-17.
  2. Marwick, A., The Deluge; British Society and the First World War, (London, McMillan 1965), pp.72-3.
  3. Wigham, E., Strikes and the Government 1893-1974, (London, McMillan 1976), Ch.6, esp. pp.92-3.

opinion research, indicated the scope for the management of discontent: an apparent distrust of politicians, yet a willingness to renew trust given some concrete evidence of plans and action being taken in the short term. Promises would not be enough given the memories of such broken pledges after 1918: such memories, the opinion research revealed, were all too poignant. Any attempt which in 1918 had been successful of running a patriotic election to confirm the existing leadership was believed inappropriate, even by Churchill who was persuaded to run against a background of social policy. The key difference between 1918 and 1945 was the extent to which concrete plans and assumptions about Reconstruction and its finance were made, and in many cases partially implemented, during the war..

Thus there appears to be some justification in talking of the working class as a social force in the determination of policy. The fact that changes and new programmes were made with reference to what people 'wanted', 'would stand' or had come to 'expect', and that such sentiments were believed to be commonly held as a class of feeling is evidence of the government's implicit recognition of the potential power of workers and soldiers without its explicit exercise by the class itself. This power is not of a type that requires an empirical manifestation so that we have an equation of reform produced by the intended effects of militancy. Such a classical stimulus-response view of the origins of social policy has been subject to critical appraisal, even in areas where it appears most neatly

applied - for instance, the early rent control and housing legislation.<sup>1</sup> In so far as interpersonal classifications of power can be validly utilized here, an instance of power often characterized as 'reactional power' seems appropriate. Thus power accrues to A over B when it is a function of B's beliefs about A's reactions.<sup>2</sup> Since these beliefs concern effects that are always prospective there are a number of problems about attributing implicit as opposed to manifest influence, not least the fact that B may be utterly mistaken about A's resources, his willingness to use them, his preferences and perhaps even his existence.<sup>3</sup> Whether such workers and soldiers were prepared in the 1940's to back up their demands by actual militancy, in the absence of government response, is not something that can be demonstrated conclusively one way or another. The real point is that the government believed they would and, since they acted on that basis, we call the phenomenon of working class power real since it had the consequences of reality. This should not however be exaggerated. We cannot deduce from this anything other than a continuation in the basically reformist nature of those class demands. The fact that such social forces at the time found electoral and parliamentary rather than violent rank and file expression reinforces the contention made in chapter 1 that the working class still looked to the centre for paternal-

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1. Dickens, P., 'Social Change, Housing and the State - Some Aspects of class fragmentation and incorporation 1915-46 IN M. Harloe (ed.) Papers presented at the Conference on urban change and conflict, University of York 1977, (London Centre for Environmental Studies 1978), pp.336-396.
  2. de Crespigny, A., 'Power and its Forms' Political Studies, Vol.16, No.2, 1966, pp.192-205.
  3. Dahl, R., Modern Political Analysis, (New York Prentice Hall, second edit. 1970), pp.30-1.

istic leadership demanding changes in policy rather than alterations in the shape and distribution of institutional power. Even those 'home grown' socialist parties were committed to working through existing institutions and much of their potential support may have been exaggerated by social democratic opinion anxious to convince those not concerned with the home front. Socialism in the middle 40's was rarely defined concretely. For many in the Labour Party it seemed to be synonymous with a continuation of war controls and a maintenance of the environment of social security in its widest sense. It is difficult to estimate whether such demands for improved housing, health and full employment were perceived by the working class as necessitating radical changes in the relationship between state and economy merely because they were clothed in the rhetoric of anti-capitalism and 'socialism'. Certainly it seemed the public was under no illusion that a different peacetime economic policy was required but the basic contours of the new relationship between state and economy that would make it possible was believed already to be in place with the kind of administrative capacity and financial facility existing at the time, with marginal alterations and extensions as required by the conditions of peace. This was the view of the trade union leadership<sup>1</sup> and of the Labour Party.<sup>2</sup> But these organizational leaderships took

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1. T.U.C. Interim Report on Post War Reconstruction (1944) quoted p.127 Harrington and Young, The British Revolution.
  2. Labour Party, 'Let us Face the Future' (1945) in Craig, F.W.S. (ed.) British General Election Manifestos, 1918-1966 (Chichester Political Reference Publications 1970), p.98.

this view from the movement as a whole. There is no evidence that these bodies spent any time manipulating and shaping the views of their members to get them to abandon some more ambitious preference. The extent of the movements attraction for its traditional vehicle can be gauged in the scale of electoral support for a Party which had in the 20's and 30's, repeatedly demonstrated its inability to implement the objectives of its manifesto. The chosen course in 1945 was clear for all those who could read and listen. It was the voice of those whose experience in war had taught them the techniques of a regulated and controlled capitalism, and the virtues of planning. Private enterprise would survive so long as it served the people's peace as it had the people's war and not the vested interests of a few. The Housing programme would be the 'real test of the government's real determination to put the nation first'.<sup>1</sup>

## SECTION II : DECISIONS ON CHANGE

Many of the commitments on reconstruction were made, however, long before the election. The Beveridge report published in 1942 became a symbol for the advocates and opponents of change. The Cabinet had agreed to publish it but to postpone commitment until full consideration had been given by the new Reconstruction Priorities Committee.<sup>2</sup> In this, the Treasury view was stated strongly. Extended social services of this type involved a large

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1. Labour Party 'Let us Face the Future' (1945) IN Craig, F.W.S. (ed.) British General Election Manifestos, p.102.
  2. Cab 65/28 Cabinet Meeting WM(42)159, 26th November, 1942.

and continuing commitment which would be an extra burden on industry when considered alongside large peacetime defence costs, the need to restore trade and exports and the already high level of taxation. The plan should therefore be deferred until after the war when we would have a better appreciation of our position.<sup>1</sup> The Cabinet agreed. While it might be necessary to accept the principle of family allowances, a comprehensive National Health Service and full employment, no firm commitments could be made. As for employment policy it should be pointed out there was no final solution. These views were to be put to Parliament.<sup>2</sup> Spurred on by the T.U.C., a determined revolt of ninety-seven labour back-benchers led the Labour Party ministers in the Coalition to push further on this and other Reconstruction issues.<sup>3</sup> In June they put forward a joint submission on the 'need for decisions'.<sup>4</sup> They argued that to wait until the end of the war would mean that finance for the post war building programme would be held up. Could not provisional estimates of the National Income be made before then? Churchill was able to postpone full discussion until October when the Cabinet went into special secret session to discuss the issue.<sup>5</sup> His main argument was that no coalition government should bind its

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1. Cab 87/3 Committee on Reconstruction Problems, January 11th 1943, Memo by Treasury, see also Cab 87/12 Reconstruction Priorities Committee meeting 22nd January 1943.
  2. Cab 66/34 Cabinet meeting WM(43)28, 12th February 1943.
  3. Harrington and Young, *The British Revolution*, p.187.
  4. Cab 66/38 Cabinet Paper WP(43)255, 26th June 1943, 'Need for Decisions' Joint Memo by Morrison, Bevin and Attlee.
  5. Cab 65/36 Cabinet meeting WM(43)140, 14th October 1943, see also confidential annexe, Cab 65/40.

successor and in the absence of firm promises by the labour leadership to continue the coalition no commitments should be made. Bevin and Morrison were on difficult ground here. They wished to make no promise of continued coalition. Instead they argued that there were many issues which raised no party controversy and the building programme was one of these which would be held up unless the financial go-aheads were given. The Prime Minister agreed to review the position and five days later produced a paper which stated that plans and decisions on food and employment should be taken 'whether or not they are controversial'. Whatever government was elected post war society would consist of a large amount of 'progress and reform' on which preliminary legislation must be planned in order to be ready.<sup>1</sup> A 'transition' period of two years was outlined in which longer term problems including the restructuring of industry would be held over. The immediate difficulties in the transition would be food, employment, exports and reconversion of industry to peace. The implication that the building programme and new housing would be one of the items on the long term list drew criticism from others in the Cabinet that this would leave ex-servicemen and young married couples without anything to look forward to in the short term and it was the sense of the meeting that these too should be included among the schemes for which action had to be reported and decisions of principle taken if

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1. Cab. 65/42 Cabinet Paper WP(43)467. 19th October 1943.  
'War Transition and Peace'. Memo by the Prime Minister.



necessary.<sup>1</sup> Yet some doubt remained about the decisions taken that day and we shall see in the next chapter on the formation of the programme that the issue was far from settled with regard to the provision of new housing. Nevertheless the vagueness of Churchill's formula about short term and long term objectives - i.e. that 'in the war we should plan for the transition and in the transition we should plan for peace', meant that in effect, planning would begin in the implementation of most of the social measures (including Beveridge and the housing programme) before the war ended, since the short transition stage was the stage at which many ministers agreed the public would be most concerned with evidence of government intentions. Once some sort of green light had been given at the October meeting, ministers and departments proceeded on the basis of their autonomy and the pressures bearing in their respective fields. The experience of 1918 was that the separate Ministry of Reconstruction planning its own schemes and only using the Departments as tools had broken down as the departments resented a policy being imposed on them.<sup>2</sup> In the circumstances of 1943, this would have been the most rational policy if Churchill's objective of keeping plans phased according to his scheme was to be achieved. The seriousness of this intention however must be questioned in view of the fact that his appointment of Lord Woolton as 'Minister of Reconstruction' with a staff of five was no more than a formalisation of the previous posts of 'responsibility for reconstruction' held by the ministers without Port-

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1. Cab 65/36 Cabinet meeting WM(43)144, 21st October 1943 (Confidential Annexe).

2. for a full account, see Johnson, P.B., Land Fit for Heroes: The Planning of British Reconstruction 1916-1919 (University of Chicago Press 1969).

folio. There was to be no central department of Reconstruction and even the aim of this minister was to 'push stragglers' and inspire departments rather than one of exercising caution.<sup>1</sup> The real co-ordination function was reserved for the Reconstruction Committee on which Labour Party ministers in the coalition exercised equal influence owing to their command of some of the key home front ministries. Even in ministries they did not control, action was pushed by decisions on majority vote in the main committee. By the end of 1944 White Papers on a National Health Service, full employment and Social Services (largely based on Beveridge) had been published and draft implementing proposals were being prepared at official level. An Education Bill reached the statute book and in March 1945 the Housing proposals were ready. That Churchill had made a long retreat on the question of Reconstruction from the very first days of the 'War Aims' discussions is not in doubt. But this opposition cannot be located simply at Churchill's door. The Prime Minister was backing and supporting the opposition of one of the principal Departments of State, the Treasury. There was a dualism in the policy of the Prime Minister at this time. The state of the public mood demanded real Reconstruction yet the argument of cost seemed to qualify the response to it. This can be seen in Churchill's 1943 radio speech, where, having mentioned a four year plan of real practical measures on the social services, housing, education, health and full employment, he treated the

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1. Cab 66/43 Cabinet Paper WP(43)538, 26th November 1943, Minister of Reconstruction. Memo by Prime Minister.

public to a homily on 'housewives budgeting'. But while the Treasury's position was strong historically, its power to influence was less owing to the de-emphasis in the war economy on financial constraint and the replacement of a concern with money values and flows with physical units, such as labour and shipping space.<sup>1</sup> Keynesian economics within the Treasury meant that the purely budgetary question of burden and debt involved in public expenditure could always be argued from the alternative perspective of maintaining effective demand; the Beveridge proposals tending to increase working class income and therefore the propensity to consume and the building programme by virtue of the multiplier effect of state induced capital investment. This new Keynesian rationale, strengthened by its successes in the macro-management of war finance<sup>2</sup> gained greater influence over Treasury thinking<sup>3</sup>, and seemed to make the reformed capitalism, that everyone agreed was necessary, and the intrinsic merits of particular social reforms in themselves, possible. Yet the critical factor was never the possibility of change but its social necessity. In the middle of June, 1944, the Treasury made

1. Pollard, S., The Development of the British Economy 1914-67, (London, Edward Arnold Second Edition 1969) pp.322-30.
2. see Sayers, R.S., Financial Policy 1939-45, History of the Second World War Civil Series, (London H.M.S.O. 1956).
3. This should be qualified. The traditionalists in the Treasury led by Sir Richard Hopkins, its permanent head, fought a strong rear guard action against Keynesian thinking, as the drafting of the full employment proposals 1941-44, in its various forms (in the many Reconstruction Committees) reveal. The final white paper in 1944 Employment Policy Cmnd. 6527, (London, H.M.S.O. May 1944), bears the mark of compromise especially in the section on deficit financing. Despite this, the change since the 1920's/30's was considerable. Then the 'Treasury View' was very strongly entrenched, see Skidelsky, R., Politicians and the Slump : the Labour Government 1929-31 (London, McMillan 1967), esp. the Appendix, Treasury Memo 1931 'State Borrowing'.

one of its last ditch attempts to halt the momentum and to prevent the publication of a social insurance White Paper. It complained of 'long term, continuing and expanding scale of commitments' which would leave 'little room for remission of taxation, paying off the national debt and encouraging the revival of enterprise'; it would effectively 'mortgage the future'.<sup>1</sup> Such arguments were banished by the Cabinet vote not to go against the trend by which industrial efficiency was seen as much in terms of providing an 'element of stability' through contentment. The Chancellor was told that there was 'considerable public interest in the scheme particularly among the fighting forces'. Delay would be misinterpreted.<sup>2</sup>

We have argued in this chapter that particular pieces of social reform were occasioned as much by their general and common relation to the question of social stability and political cohesion as to their intrinsic merit as discrete policy reforms. Since their financial possibility depended on the adoption of a new economic policy which was also, by virtue of its full employment objectives, itself intended to maintain support,<sup>3</sup> the whole future of reconstruction was inextricably linked to the question of the relationship between state and economy.

In the conditions of the immediate post war period it was predicted that the likely economic situation would be one of shortages and inflation.<sup>4</sup> In such a situation claims on resources

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1. Cab 66/52 Cabinet Paper WP(44)353, 28th June 1944, Post War Financial Commitments memo by the Chancellor of the Exchequer.
  2. Cab 65/43 Cabinet Meeting WM(44)87, 4th July 1944.
  3. One of the very first drafts of the eventual White Paper on Employment Policy on 8th July, 1941, referred to the 'prevention of social insecurity and unrest'. Cab 117/23 Reconstruction Office Council Papers.
  4. See Section III.

would be sorted out by the power of money, the rich having the largest say by virtue of their ability in such inflation to command the 'effective demand'. The intervention of the state would have to go that one step further in this situation, for the only way of enforcing the social priorities and political imperatives of Reconstruction was by the decision to retain substantial administrative controls over the market. These controls had been used relatively successfully in the war economy, their purpose now in the minds of their strongest supporters, it seemed, would be to insulate the nation from indiscriminate economic forces<sup>1</sup>, to create the stability and security through which social reform would survive and for public contentment to be retained. The mechanism of control would help effect, like in the war, a weighted hierarchy of objectives in which 'first things shall come first'.<sup>2</sup>

### SECTION III : THE FRAMEWORK OF CONTROLS

A number of separate but related issues surrounded the retention of controls. Firstly, as we shall see in chapter 3, there were devices to direct resources for particular programmes insulating reconstruction and creating a climate of extended social security. Secondly, there was the problem of how to achieve full employment without inflation. With the return to peace both workers and capitalists would try and spend the savings they had been forced to hoard in the war. A consumer and

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1. Controls would control 'economic blizzards and forces' see Labour Manifesto 'Let us Face the Future' IN Craig, (ed.) British General Election Manifestos, p.98.

2. ibid., p.101.

investment boom would develop at the same time the state itself wished to command resources. Controls would ease the inflationary pressure. Lastly it was felt that the controls could be utilized in transfers where priorities and consequently the distribution of resources needed to be changed between the major claimants of consumption, investment and exports.

In this section we will expand on the rationale for continued controls, the importance of the consensus that surrounded that rationale and some built in limits to their effectiveness.

Bevin made extravagant claims for what could be achieved. If we could keep the controls for five years 'we need not fear for the next one hundred years'. He stressed that their aim would be to prevent a short inflationary boom crashing into a slump. If we allowed that to occur 'we should have lost the war'. The immediate problem after the war was likely to be inflation. A major part of consumer production had stopped during the war. The result was (encouraged by voluntary methods and increased indirect and direct taxation) a high level of saving that would want to be turned into post war spending. Businesses had similar accumulated funds as a result of war damage compensation, excess profits tax repayments, (20% on the 100% profits duty), undistributed profits and accumulated depreciation allowances. Thirdly, the government wanted to push ahead with its own extended expenditure, current and capital, coming under the head of social reconstruction. The implication driven home again and again in committee was that any sudden withdrawal of wartime controls would have meant a huge purchasing power and then a massive aggregate demand relative to the supply of goods.<sup>1</sup> The

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1. Cab 87/55 Official Committee on Post War Internal Economic Problems, 26th May 1942. 'The Post War Relation between purchasing power and consumer goods'. Memo by Treasury

resulting rising price level would hit the necessary revival of the export trade, and, although rising prices would cancel out the excess demand, it would do so in a way in which supplies would be skewed towards the rich. Fiscal policy for the clawing back of purchasing power by indirect and direct taxation would not work by itself and taxes were already high. The only other alternative was to use monetary policy: dear money and cuts in public expenditure and raising of interest rates with cuts in government debt. Yet such a deflationary move would go against the implied settlement with the working class: for the indiscriminate effects of dear money would tend to cut back on 'priority' as well as capital projects that were not immediately profitable, while cuts in current budgetary expenditure would put all the welfare reforms promised in jeopardy. If deflation went so far as to cause static or falling selling prices there would be attempts to match this by reducing costs including wages leading to the sort of industrial unrest of the 1920's that had ended in the general strike. To the extent that costs could not be reduced unemployment would re-appear.

Yet the government did have a choice at the end of the war. There had been no decision, as in 1918, to return to the gold standard or at a parity that would make deflation vital. So it was eventually decided that direct controls could balance aggregate demand with supply. Rationing would prevent excess consumer expenditure and encourage saving to be maintained. Building licences, limitation of supply orders, standardisation (utility models) and material licences would keep investment and production down to the capacity expected to be available for

both claims of the state and private sectors on immediate post war resources. Licensing would be a mode of allocating which would enable the politically decided non-market category of 'priority' to be imposed and 'essential' production to go ahead at the expense of 'inessential'. A similar mechanism could be applied to imports, given the shortages of foreign exchange, and an import licence would be needed before foreign exchange could be withdrawn. Labour could be allocated on the basis of priority by some measure of labour regulation.<sup>1</sup> We shall see, in more detail, the connection between the need for control and the provision of the necessary basis for the government induced building programme in the next chapter.

The consensus on controls emerged from discussion of the past as well as the probable state of the future. From the very beginning the Reconstruction Committee took lessons from the experience of World War One, utilizing the researchers at Nuffield College, Oxford, who were surveying the past with an eye to the future.<sup>2</sup> One of the seminal memorandums the Reconstruction machinery digested was Tawney's 'Abolition of Economic Controls' which was later published in article form.<sup>3</sup> This argued that the government after the First World War had never judged the utility of controls in any other way than as

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1. The notion of 'essential priorities' enforced by licenced allocation and price control can be found in 'Employment Policy' Cmnd. 6527, esp. para.18.
  2. See papers in Cab 117/39 Committee on Reconstruction Problems. Nuffield Reconstruction Survey.
  3. Tawney, R.H., 'The Abolition of Economic Controls 1918-21'. Economic History Review, xiii Nos. 1 & 2, pp.1-31.



measures evolved piecemeal for wartime problems and as such they came under challenge from industrialists, who argued they were inappropriate for the revival of peacetime trade and industry, and who were anxious to take advantage of the post war boom. The inflation and the boom eventually broke in 1920, but meanwhile the controls (existing principally as defence regulations) had been allowed to lapse as their war time limits ran out. It had not even been necessary to argue for their repeal. The lesson was clear. If there was a clear rationale for controls, as Tawney agreed there was, then the government would have to take positive steps to retain and operate them by converting them from defence regulations into a new statute. This is what the ministers who sat on the industrial sub-committee of the Reconstruction Committee recommended on 18th September, 1944.<sup>1</sup> To secure exports and reconstruction projects, such as the housing programme, building licences, capital issues control, imports licensing and modified labour directions were to be retained. The priorities, were, first of all, the completion of the Japanese war; second exports; thirdly 'the re-establishment of a decent standard of domestic comfort in this country and in particular a rapid progress with a government housing programme'; fourthly, the re-equipment of industry; fifthly, fair shares of necessary consumer goods by rationing so long as shortages exist; and lastly, avoiding inflation by stabilising prices and costs.

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1. Cab 87/13 Ministry of Reconstruction (sub-committee on industrial problems) Paper, 18th September 1944. Economic Controls in the Transition.

The committee agreed that 'doing something for the working population' was a 'condition precedent' for the export trade<sup>1</sup> and on 27th October, agreed that restoring exports should come second in the draft after 'improving standards' at home in justifying the controls'<sup>2</sup>. When it was proposed to make this public Churchill urged caution at a Cabinet meeting<sup>3</sup>: any public statement should be more vague and should confine a firm commitment at the moment only to a period between the defeat of Germany and the defeat of Japan: the ultimate aim being to relax 'by organized steps' once shortages were over. This was largely a reaction to Labour Party ministers, who had argued strongly that controls should be retained even after this in order to cope with 'surpluses' as well as shortages - the implication being that they should be used to regulate employment and production if there was over-production in a slump.<sup>4</sup> Churchill's move however was never intended to further immediate decontrol as subsequent events proved. It was a last minute hesitancy on what officials and his ministerial colleagues had taken three years to prepare without his active involvement. In April 1945, Herbert Morrison's draft Supply and Services (Transitional Powers) Bill was agreed in principle by the Cabinet<sup>5</sup> and less than a month later the Prime Minister sanctioned the

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1. Cab 87/14 Ministry of Reconstruction Industrial Sub-Committee meeting, 16th October 1944.
  2. Cab 87/14 Ministry of Reconstruction Industrial Sub-Committee meeting, 27th October 1944.
  3. Cab 65/44, Cabinet Meeting WM(44)145, 2nd November 1944.
  4. ibid.
  5. Cab 65/50 Cabinet meeting WM(45)52, 25th April, 1945.

retention of all controls specified for two years after the war with power to extend them for each year after that if Parliament agreed.<sup>1</sup> The Bill was lost during dissolution but was resurrected after the Labour Government took Office. The powers were amended to last for a five year period before renewal was to be required.<sup>2</sup> Ministers agreed to include powers to make entirely new regulations if necessary.<sup>3</sup> Aneurin Bevan, the new Minister of Health had agreed this might be required in order to ensure building labour was effectively concentrated on new permanent housing.<sup>4</sup> The relative continuity existing between the Conservative led coalition and the majority Labour government reflected the consensus that existed on the rationale that lay behind the retention of controls. The de-control rhetoric of Conservative electoral politics should not be taken as evidence of intention.

The consensus on control also existed in private industry. The director of the Federation of British Industries, Sir Guy Locock, wrote to Jowett, the Minister responsible for reconstruction recording a 'general assent' among his members for 'the inevitability of control for some time after the war'<sup>5</sup> and the president, Lord Dudley Gordon, reminded the Annual General Meeting that controls will avoid an inflationary scramble and boom that would not last long.<sup>6</sup>

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1. Cab 65/50. Cabinet meeting WM(45)58, 4th May 1945.
  2. Cab 128/1. Cabinet meeting CM(45)23, 16th May 1945.
  3. Cab 75/21 Home Policy Committee Meeting, 22nd August 1945.
  4. Cab 128/1. Cabinet meeting CM(45)24, 20th August 1945.
  5. Cab 124/204. Report of Steering Committee on Post War Employment letter, 7th April 1943, Locock to Jowett.
  6. The Times, 15th April 1943.

In a letter to Jowett he said that he had impressed on industrialists in Manchester that this attitude should not be 'reversed' as soon as peace came.<sup>1</sup> Apart from their changed perception of the merits of immediate de-control: the fact that inflation would mean a rise in costs and a devaluation of their accumulated capital savings, many industrialists had no reason to feel apprehensive that the controls would be used to prevent them from earning a return on their employed capital. Many of the war controls had worked through existing trade associations who negotiated 'controlled prices' high enough to cover the cost of the average producer, (the average including the inefficient; their output being necessary for reasons of supply). The distribution of materials had also utilised trade associations. Government departments designated as 'Production Departments' would also 'sponsor' the industries they were responsible for controlling. The Cabinet's Materials Committee would share out, according to broad strategic priorities, the available materials giving a quota to each sector of industry via the department. The latter would then issue licenses up to their allocation via trade associations who would then deal them out to the individual firms. The fact that trade associations were intermediaries in the distribution of materials complemented the policy of revoking the extensive use of Production Control by which industries had statutory limitations placed on supply and manufacture. Those controls would only be kept for

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1. Cab 124/204. Report of Steering Committee on Post War Employment letter, 5th May 1943, Gordon to Jowett.

sectors forced into utility ranges where the raw materials were in short supply, such as the furniture trade.

With regard to the question of labour control, opposition was expected from the Trade Unions. Government policy, with the benefit of the advice of Bevin, had anticipated that exclusive labour direction, with fines and prosecutions, extended into the peacetime, would not be acceptable. More fundamentally however, the question could not be considered outside of chosen assumptions about the type of economic system that was to prevail. The officials working as a backup to the Reconstruction Committee were in little doubt.

If competitive private industry is to be restored as the prevailing economic system after the war, it is hardly conceivable that there should remain any substantial degree of control over labour since it is inherent in any competitive system that employers should be free to engage and dismiss their staff at their own discretion.<sup>1</sup>

This would gain added force when many more employers entered the market for labour come the peace with the cessation of production and supply control.

The government's eventual strategy in this field involved reliance on the Control of Engagement Order by which employees could only be engaged via a labour exchange and not by open advertisement. The Labour Exchange would then offer 'priority' jobs first. The problem here was that the priority sectors: coal mining, textiles, building and building materials were dirty, unpopular

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1. Cab 87/55. Official Committee on Post War Internal Economic Problems. 10th February 1942. Note on the Future of Labour Controls by Ministry of Labour and National Service.

jobs, and, with direction largely abolished, the best means to ensure men went to these industries was if they had nowhere else to go. The problem was that in an environment of full employment the engagement order would only deal with those who presented themselves for registration at the exchange. It could not affect transfers by compulsory shifts of men and women already employed. Attempts to limit private industry's intake of labour through production controls (Licences to manufacture and limitations on supply) would be bound to create the general unemployment that the government was trying to avoid as munitions demand declined.

The Labour Cabinet inherited the Coalition's plans for the relaxation of major directive labour controls and reviewed the position. Ministers were divided on the question.<sup>1</sup> Morrison, Bevin and Isaacs, the Minister of Labour, stood out for relaxation keeping only the Engagement Order. Shinwell and Bevan wanted the retention of some reserve powers of direction for the whole of industry. Ernest Bevin, although Foreign Secretary, was still the effective head of the Transport and General Workers Union and stressed that the government could not play the 'Patriotism Card'. The public had not been 'educated' to expect extensive direction in peace and it would be unpopular with the unions. The Cabinet agreed<sup>2</sup> that the Essential Work Order (E.W.O.) by which workers could not leave or be sacked from industries without permission should be relaxed. The majority view in Cabinet was to make labour control effective over a

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1. Cab 128/2. Cabinet meeting. CM(45)48, 1st November 1945.

2. Cab 128/2. Cabinet meeting. CM(45)54, 20th November 1945.

limited field of essential or 'designated' industries. The Building Programme would receive top priority in the retained Engagement Order. E.W.O.'s would apply only to coal mining, textiles (and later permanent housing). The use of compulsory powers (for E.W.O. purposes) would be limited to men under thirty on the assumption that it was right to apply 'conscription' right across the board here if military service was compulsory. Compulsion for the over thirties was only to be used for the limited purpose of redistributing within one industry by requiring men already in the building industry to transfer to permanent house building work. Bevan and Shinwell's point that to apply compulsion in only a few areas would leave other unpopular priority industries like building materials without protection was answered by the argument that they could be made more 'attractive' by improved wages and conditions. Yet this was dependent ultimately on a new differential wage policy on which there had been no real discussion and only a vague hope at the previous meeting.

Labour controls were therefore not conceived as a planning mechanism to effect an economy-wide distribution of labour to fit a set of definite input/output programmes for each industry since the great bulk of industry was now going to work, not on government contract, but for private account, where the scale and distribution of output would be varied according to private decision. What the government aimed for was not to supervise each sector allocating and controlling its labour force but to

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protect certain sectors who were thought to be 'undermanned' in the national interest, and as such they had to wait slowly for surplus labour to arrive from demobilisation and then induce it to those areas. Compulsory powers were used largely to maintain labour in the areas it identified as important and occasionally to redistribute within industries but never to compulsorily transfer workers from existing jobs despite the view expressed by civil servants that this was the only way to increase manpower in the building materials industry.<sup>1</sup>

### CONCLUSIONS

Controls, as we have seen in this section, were largely evolved in the war economy, carried over into the peace to ensure stability in the macro-economy, and the furtherance of the government's social objectives, in particular the government building programme. Yet the requirement of an economy in which the substantial part was to be operated by private enterprise with free labour meant that the controls would be limited by the extent they could operate with the support of business and labour. Differences between the parties in government centered largely on the question of how long they were to operate for. We shall see in the next chapter how both Coalition and Labour accepted that the most extensive controls would operate in the field of building and that the reasons for this were largely to effect a priority for the Housing Programme. In this field we shall show that within the assumptions about

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1. Cab 129/4. Cabinet Paper CP(45)260, 30th October 1945. Appendix to Report of Official Committee on Controls Memo by Lord President.



control there lay a tension between those who wanted the controls to maintain and function for fixed priorities and those who argued that a rational investment policy required that such devices and the assumptions behind them be used flexibly in order to further objectives which required a change in those priorities. In large measure the arguments which surrounded the fate of the House Building Programme mobilized and reflected the arguments about how far the social priorities of reconstruction were to survive.

CHAPTER III.

Reconstruction and the determination of  
Priorities - formation of the Housing Programme.

## INTRODUCTION

Having located the importance of Housing in the thinking about Reconstruction, this chapter details the specific organisation of the house building programme with respect to its extent and its cost. Both these factors are extensively treated in order to show how, despite initial criticism, housing achieved a priority which led to it receiving a large share of resources. This chapter therefore deals with the issues surrounding estimates of housing need, the priority allocation of labour and materials, the role of private enterprise and the subsidy negotiations, together with decisions involved in construction as a whole. We shall show how the government evolved a discrete and relatively insulated building programme which, it was hoped, would avoid the failures of Reconstruction after 1918 and safeguard itself from challenge both from market forces and interests in housing and construction and from those, who later, would try to alter the allocation of resources at the expense of housing.

Once the state decides to intervene in a sphere of output whose scale and distribution is previously determined by market criteria, political-bureaucratic decision over the question of social need and requirement replace the price system as the allocator of resources. The type and extent of need that the latter system considers is that of money or effective demand, by which production is only pursued at a price high enough to cover cost and profit. This logic of production, reflected in distribution, means that the higher an income the higher and more extensive the command of resources.

If the outer boundaries or limits no longer result from the operation of market forces then it follows that collective, or state provision, can consider including in the calculation of need elements that would either not be covered or would be reduced under market incentives. The objectives, once programmed, can then be backed by inducements, sanctions or powers deriving from the states monopoly of organised and legitimate force. This chapter will describe how this was operationalised during and after World War II.

The experience of housing policy in the inter-war period was that house building, if left to private enterprise, would result in the erection of houses mainly for sale rather than letting and mainly at prices which those with the greatest need could not afford. Working class housing, given the wages of that class, was not an attractive proposition for the speculative builder as long as there was unsatisfied demand from persons with a greater ability to pay. During the inter-war period the government had been prepared to induce the production of houses to let through intervention and subsidies<sup>1</sup>. The difference between these initiatives and the experience of the forties lay in the extent, duration and control of the programme. Rather than selecting one facet of the housing problem and cutting back on others, largely on grounds of cost, so that general needs was followed by slum clearance and thence by an emphasis on overcrowding, the coalition government was prepared to consider including in its programme all these aspects. For general needs, major demographic variables were

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1. For a discussion of the programmes of the 20's and 30's see Bowley, M., Housing and the State 1919-44. (London Allen & Unwin, 1945.)

studied such as the birth rate, likely to increase with full employment, and the consequent rate in the formation of households. In addition to the recouping of losses occasioned by bomb damage, destruction, and depreciation produced by the war-time ban on building, there were to be allowances for overcrowding, slum clearance and subsequently the age of housing stock, with replacement at a higher standard. The other innovation lay in the control of production and distribution by which private housbuilding for sale was to be restricted by license. Housebuilding for rent was to be provided exclusively by Local Authorities who it was felt could select tenants according to need.

#### SECTION I : ESTIMATES OF NEED AND THE FORMATION OF A TARGET

Before the clamour of reconstruction reached a peak in 1943 civil servants at the Ministry of Health had made some tentative and modest assumptions. They had been thinking along the lines of an immediate post war programme of War Damage Repair, the rebuilding of war destroyed houses and some slum clearance.

overcrowding could be left alone for the time being, as could improvement of standards

This was despite the recognition that a large number of new homes would be needed to accommodate wartime marriages. Sir John Wrigley laid out the aim as the 'revival of building as a self supporting industry'. Local authorities could be confined to war damage repair and rebuilding as this would be less open to objection than building by public authorities on a wide scale to meet general needs. They would therefore be concentrating on that part of housing important 'from a health

point of view'. If the problem of wartime marriages exceeding dwellings with the cessation of new building existed this could be looked at after the war in the light of the state of private enterprise. Only if the private sector could not be relied on would a short programme of council building for general needs be necessary.<sup>1</sup> The assumption was that it could. The Ministry of Health's consultative body The Central Housing Advisory Committee on which representatives of Local Authorities, builders, and building societies sat, had on 16th October 1942, set up a sub-committee to investigate what part private enterprise might best play in post war housing, the conditions in which it might effectively operate and the methods of finance and organisation required. Chaired by Sir Felix Pole, it included the same interests as the main committee.<sup>2</sup>

Meanwhile a sense of urgency was developing among some Ministers of the Coalition which contrasted with the cautious approach of the Ministry. The Minister of Labour, Ernest Bevin, in particular, drawing on the lessons of the previous experience in 1919-21, wanted the building industry well prepared and subject to close state control over the volume of building work. A large expansion in the building labour force was necessary, he argued, not only for necessary building projects but in order to maintain full employment. To obtain the necessary workers there should be a guarantee of security by fixing the duration of the programme, the scale of which would

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1. HLG 101/316 Departmental Committee on Post War Housing. Undated Papers 1941. H. Symon and J. Wrigley.
  2. Including Sir Harold Bellman of Abbey National and David Smith of Halifax Building Societies, see HLG 37/67 C.H.A.C. Sub Committee on Private Enterprise Housing minutes & papers.

be determined largely by our housing requirements expanded as they were by an increase in marriages. The demand for houses and improved standards was everywhere in evidence and it was

highly important for the morale of the troops and of the munition workers that the government should demonstrate early that it intends to meet the demands.<sup>1</sup>

A similar argument about morale had been advanced by the Minister of Health, Ernest Brown.<sup>2</sup> The Committee on Reconstruction problems having received these papers decided to push the issue internally.<sup>3</sup> As a result the Official Committee on Postwar Economic Problems had, by the end of September 1942, decided to ask all Departments about demands for building.

The Ministry of works had already anticipated the need to expand the building industry labour force for rebuilding and war damage repair. In August 1941, it commissioned the Education Committee of the Central Council for Works and Buildings to produce a report on postwar training and entry into the industry.<sup>4</sup> The members of the Council included such prominent radicals as G.D.H. Cole, Barbara Wotton and Sir Edward Simon. On 19th November, 1942, the Cabinet saw the first draft of the scheme and asked Bevan to conclude an agreement with the building industry.<sup>5</sup> The spirit of the report derived from the

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1. Cab 117/25 Reconstruction Secretariat Postwar Building and Housing Programmes. Proposal for National Housebuilding Corporation. Note by the Minister of Labour later summarized in Cab 87/2 Committee on Reconstruction Problems. 17th June 1942. Proposals for National Housebuilding Memo by Minister of Labour.
  2. Cab 87/2 Committee on Reconstruction Problems Paper. 17th June, 1942. Postwar Housing Memo by the Minister of Health.
  3. Cab 87/2 Committee on Reconstruction Problems Meeting 25th June, 1942.
  4. Report of the Education Committee of the Central Council for Works and Buildings on Training for the Building Industry. (London H.M.S.O. 1942).
  5. Cab 65/32 Cabinet Meeting WM(42)155. November 19th 1942.

first postwar experience when no plans had been made for an increased supply of labour. As training took time, advance preparation was essential. Since the building workers unions remembered the 1920 boom, the scramble for labour and materials, the high prices and the resulting cuts which put 40% of the men on the dole, only a long term guaranteed programme could get the necessary co-operation. The reports recommendations envisaged 'dilution' or special training schemes for adults and the relaxation of trade union rules: to allow boys to complete training in a shorter period than the normal union-backed apprenticeship. Cole argued, in another place, that it was necessary to have 'a solemn declaration' by all parties on the necessity to maintain a twenty year programme embodied in legislation.<sup>1</sup> Such a 'solemn declaration' was given by Bevin when he announced to both sides of the industry he was planning for 'security and continuity for employers and operatives', a policy in line with full employment and an economic system of 'fair returns to employers with stability and good prospects for the workers'. The building programme would not be looked at in terms of money but of the number of people who could be given employment. 'The human problem first ... actual consideration of materials and foreign exchange second'. The departments would work on the principle that work could be found for 12 years.<sup>2</sup> The existence of such a labour intensive programme would, through the multiplier effect, maintain demand in the economy as a whole and would therefore

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1. Cole, G.D.H., Building and Planning. (London, Cassell & Co. 1945). p.163.

2. WORKS 45/63. Advisory Council on Building and Civil Engineering Industries meeting. 1st March, 1943.



contribute to full employment generally. These secondary effects were also advocated at the 1943 Conference of the Town and Country Planning Association with Joan Robinson putting across the point that consideration of narrow money cost should not deter Reconstruction planners.<sup>1</sup> That however, was precisely the issue that came before the Cabinet as it pondered whether to accept the recommended target of 1,400,000 men in the building industry by three years after the war to be maintained for twenty years on programmes of construction work. Even at the end of the private enterprise housebuilding boom of the thirties and the drive to re-armament in 1938 the industry was only 1,050,000 strong. Yet Bevin demanded a quick decision in order to get early union co-operation for dilution and training.<sup>2</sup> Meanwhile the Treasury made a bid to stop the momentum, claiming as its authority a report by the Economic Problems Committee on which such respected economists as Lord Robbins sat. This committee had come to the conclusion that no guarantee of employment should be given in case a rise in building costs increased the financial liabilities of the programme<sup>3</sup> and it was finance to which the final report drew attention to.<sup>4</sup> A building programme employing 1,400,000 would require according to this estimate, an annual capital expenditure of £600 m. and a large new

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1. Tyerman, D., (ed.) Ways and Means of Rebuilding. Report of the London Conference of the Town and Country Planning Association 1943. (London, Town and Country Planning Association 1944). pp.9-26.
  2. Cab 71/11 Lord Presidents Committee meeting. 18th January 1943, discussing the proposed White Paper on Training for the Building Industry.
  3. Cab 87/55 Official Committee on Postwar Internal Economic Problems meeting 27th November 1942.
  4. Cab 87/57 Official Committee on Postwar Internal Economic Problems. January 14th 1943. Report on the Economic background of the Postwar Building and Construction Programme.

housing programme would take £315 m. (at 1939 prices plus a 35% inflation allowance). Accumulation or savings of £700 m. to £800 m. would not be able to support this together with other forms of investment such as new capital for shipbuilding, railways, roads, new plant and equipment to cure any obsolescence in British manufacturing industry, together with investment for colonial development and public utilities such as gas and electricity. To spend more in the National Income than savings provided would lead to inflation, and an investment programme of the size envisaged could not be carried out without depriving other industries of their capital and compelling labour which might be employed in industry, to transfer to building.<sup>1</sup> Robbins wrote to Lord Norman Brook, the head of the Civil Service that a larger issue was involved.

I doubt very much the wisdom of any proposal which appears to give special guarantees of security and continuous employment to particular industrial groups. They constitute a claim to an economic position which, in years to come, it may not be prudent to provide - a position of privilege which other industrial groups will envy, and will no doubt in due course demand.<sup>2</sup>

The Treasury had already won a concession in the setting up of the Reconstruction Priorities Committee, a body whose duty it was to cost the various claims on the National Income. At the first meeting on financial aspects of the Beveridge plan they had already sought to reintroduce part of the old Treasury argument of the twenties and thirties about the scale of expenditure, current and capital, which would be revenue

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1. Cab 87/57 Report on Economic background of Postwar Building ... loc.cit.
  2. Cab 123/123 Discussions on Postwar Building Programme 1943-5 Robbins to Norman Brook 28th January 1943.

producing, ultimately reducing charges to the exchequer, and that part which would be a burden. The most the Treasury could achieve on social services however, was to get the government to delay a final commitment.<sup>1</sup> On the building programme however, it was not so successful. The Chancellor repeated the arguments of the Official Committee's report.<sup>2</sup> but given the support ranged against him by Ernest Bevin and Lord Portal (the Minister of Works) backtracked and advocated only that there should be no commitment on a fixed allocation of labour to building; they should merely agree to a 'substantial amount of building'. Bevin and Portal however, pressed their case, even after the Minister of Health had agreed that so long as housing was given priority he had no objection to a smaller total building labour force. A compromise was reached where it was agreed to publish a fixed target of men, but 1,250,000 rather than 1,400,000, to be reached three years after the war, but to be maintained for twelve and not twenty years. The Cabinet met<sup>3</sup> and agreed to publish a White Paper.<sup>4</sup> The White Paper would include that figure, aiming 'to maintain stability in the industry for the period of the programme' with a system of control and registration of building companies requiring them all to observe the terms and conditions of employment agreed in the war including the guaranteed week. It would outline an adult

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1. Cab 87/12 Reconstruction Priorities Committee meeting 22nd January 1943.
  2. Cab 87/12 Reconstruction Priorities Committee meeting 28th January 1943.
  3. Cab 65/33. Cabinet meeting WM(43)34 February 23rd 1943.
  4. Training for the Building Industry. Cmd 6248. (London, H.M.S.O. February 1943).

training and youth apprenticeship scheme and the building of training centres, all of which the government was to pay for. It was hoped that these methods would provide an extra 200,000 men for the industry, together with normal and special releases from the forces and transfer from war industries. With this crucial commitment to building, the government began the process of hiving off a building plan into a discrete area relatively insulated from the quarterly allocations of the Manpower Committee. The question of allocations within building however, remained to be decided.

In December, 1943, and March, 1944, the government were making statements about their estimates of housing need and a tentative programme of provision for it. At this stage, Ernest Brown the Health Minister, was envisaging 3 to 4 million houses in ten to twelve years of which  $1\frac{1}{2}$  to  $2\frac{1}{2}$  million would be to replace slums or those deficient in modern amenities and  $1\frac{1}{2}$  million to provide separate houses for each family and to eliminate overcrowding. He outlined the position of 300,000 families living in slums which had it not been for the war would have been condemned.<sup>1</sup> The government's target roughly

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1. H.C. Deb Vol.395. Col 391-2 1 December 1943. Oral Answer. H.C. Deb Vol.398 Col 269-278 15th March 1943. Oral Answer. For an independent estimate see Richardson, H.W. and Aldcroft, D., Building in the British Economy between the Wars (London Allen & Unwin 1968). They write that with the backlog from the thirties slum campaign its ungenerous subsidy related to the number of persons rehoused rather than of houses built, there were still over 260,000 unfit houses in the U.K. at the end of the war (see table 21 p.181). The overcrowding subsidy that followed (which again was ungenerous - persons being allowed to sleep in living rooms and not be classified as overcrowded p.186) made little impact. In addition to all this there was a housing shortage of 800,000 in 1939 (p.196). If one includes war marriages, war destruction and the fact that the shortages were heavily concentrated in the big cities, the extent of need was even greater.

matched the Labour Party's demand for four million over ten years<sup>1</sup> and according to the government was based on the need to replace slums, and overcrowding, house those persons married since the war, meet bomb destruction, house those on the waiting list since 1938 and meet the prospective demand during the next ten years arising from population increases and needed improvements in standards.<sup>2</sup> The Reconstruction Priorities Committee's report on housing in May<sup>3</sup> was pessimistic regarding the achievement of such targets after the war. First of all it went back to the Treasury inspired report which it appended, warning that the rate of progress would depend on the extent we were prepared to use accumulated savings extracted either voluntarily or forcibly by taxation to finance the programme. Secondly, given the massive arrears of maintenance and repair work that would be demanded in housing, the expected output of new houses per annum could only be 50,000 given its share of building labour (and this figure included Scotland). The Ministry of Health was still pursuing a cautious policy envisaging little new house building because of high building costs and rent control. Unless private enterprise could be tempted into action, via such suggestions as building society lending on houses built to let, the gap would have to be filled by some local authority building for general needs in the

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1. Housing and Planning after the War. (London, Labour Party, 1943). op.cit.
  2. H.C. Deb. Vol.395. Cols 391-2. 1st December 1943, Oral Answer.
  3. Cab 87/3 Reconstruction Problems Committee Paper May 25th 1943. Post War Housing Policy, memo by the Minister of Health.

interim. But for the longer term, which, it seemed, according to Brown's statement in March, was to commence after a transition period of one year, private enterprise would provide for everything except slum clearance now reserved by tradition for local authorities. While the ministry recognised the importance of controlling excess demand in building and was willing to consider the licencing of building work and control of the allocation of materials in short supply, there was no attention to the types and origin of work that would be regulated, hence the generous allowance for labour to be employed on repair and maintenance even after war damage was cleared up. With regard to cost, prices could best be kept low by eventual re-entry of cost-competitive private enterprise, aided through the de-control of rents and a moderate wages policy by building workers, which, would otherwise lead to the 'suspension' of housebuilding. This threat of the question of cost echoed the events of 1920's.

When in May Lord Portal, the Minister of Works produced a tentative allocation of building labour it became clear that his ministry was thinking in much more expansive terms. An immediate housebuilding programme of 200,000 houses over two years instead of the Health Ministry's 50,000 in a year. This was the 'maximum number to satisfy public pressure'.<sup>1</sup> He therefore asked that the government consider the extent to which it would be necessary to control demand in the industry

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1. Cab 123/123 Discussions on Post War Building Programme  
6th May 1943. Building Requirements Memo by Minister of Works.

by licensing of private work. The Lord President of the Council, who acted as co-ordinator of home policy received strong advice from his resident economist (D.N. Chester) not to mount a big housing drive just after the war. Priority decisions were clouded by the political judgements of 'two vigorous Ministries', a reference to Bevin, the Minister of Labour and Portal, Minister of Works. There was no fear of unemployment given the state of post war aggregate demand and therefore we should try and spread our building over a long period. Labour could not be found for 200,000 houses unless there was the strictest control on other building work. He advocated the government 'abandon its optimism and communicate the pessimism to the public'<sup>1</sup>. But this was just what the government was not keen to do. It preferred instead to give a priority to housing. When the Reconstruction Priorities Committee met on the 30th July, 1943, it had a revised copy of the memo by the Ministers of Works and Labour before it, stating the likely capacity of the industry, with the likely demands on it.<sup>2</sup> In September this was considered in depth<sup>3</sup>. Of the amount available for new construction the share for new housing could be increased to cater for two hundred thousand houses in two years by cuts in other new building including new factory construction. Maintenance and repair could also be reduced by licencing restrictions on all but the smallest jobs so that wages and prices would not rise

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1. Cab 123/123 loc.cit. 28th July 1943. Note by D.N.Chester. Chester, like Robbins and others, was resident economist in the Economic Section of the Cabinet Office.
  2. Cab 87/12 Reconstruction Priorities Committee meeting 30th July 1943.
  3. Cab 87/12 Reconstruction Priorities Committee meeting 20th September 1943.

attracting labour away from permanent house building. The pull of demand would be dulled in order to satisfy social need. The Minister of Health pointed to the acute difficulties of those re-united families with no houses of their own, or homes they had surrendered on entry into the services, being forced now to 'double up'. This need could only be satisfied by a major house building programme.

People will expect to see a substantial number of new houses being built during the first year after the war. It would not be right to make the initiation of a new building programme dependent on the prior satisfaction of the demand for maintenance work or the making good of war damage.

We should prepare now<sup>1</sup>. Dalton, the President of the Board of Trade however, was anxious that the 'industrial case' should not go by default. The government should also realise the need for the rebuilding of bombed factories, the conversion of wartime factories to peacetime work and new factory building, all of which was no less urgent than the building of new houses. The meeting agreed at the Lord President's suggestion that there was a need for a system of building control and priority and decided to set up a sub-committee on the control of post war building.<sup>2</sup> Exactly what the order of priorities was to look like was still open to dispute and in December the Minister of Health made a further bid for attention. Both he and his officials were now stressing the need for immediate large scale housebuilding after the war

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1. Cab 87/13 Reconstruction Priorities Committee Paper. 13th September. Post War Building Programme Memo by the Minister of Health (discussed at meeting above).
  2. Cab 87/12 Reconstruction Priorities Meeting 20th September 1943.



To give the public some clear indication that we are boldly tackling this pressing problem.<sup>1</sup>

Part of the long term programme for housing should now be brought forward and dealt with by local authorities. Although their role as slum clearers was to be postponed for the time being, the long term aim was always to return general needs housing to private enterprise when the high cost of building was reduced. The categories to be catered for in new construction were not only those made homeless through war destruction, those married and those who had given up a house because of war service but also 'those who had never had a home of their own'<sup>2</sup>. The rationale for the immediate programme was now 'to provide houses for those who simply cannot get separate houses of their own' not because they were very poor and below the 'general economic level of the working class' but because of the 'maladjustment of supply and demand'.<sup>3</sup> The state would thus intervene not only to provide a 'failsafe' provision for those too poor to pull in the market but also for those who would not wait for the restoration of normal market forces. The reason for this change in the Minister of Health's view seemed to be related to the need to cater to expectation: to the faith of the people in the post war settlement, something we drew attention to in Chapter 2.

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1. Cab 124/446 Office of Minister of Reconstruction - Housing 1st December 1943. Draft Note by Minister of Reconstruction.
  2. ibid.
  3. ibid.

The feelings and needs of those who have no separate home of their own who are mainly ex-servicemen and demobilised war workers returning to their own districts, will be so strong that it is essential that whatever the programme of temporary construction may be, a substantial number of new permanent houses should be under construction in the early days after the end of the war with Germany. It is important that they should be widely spread as possible both because the need is widely spread and in order that they may be seen to be going up all over the country. The sight of houses under construction will do a lot to encourage those in need to be patient.<sup>1</sup>

A programme of 100,000 houses in the first year followed by 200,000 in the second year would be appropriate. Exchequer subsidies should be promised to local authorities for general needs building (and not just for removing slums and overcrowding) and backdated to encourage starts before the legislation was passed.<sup>2</sup> So when the first meeting of the new sub-committee on building met, it was agreed to prepare a report advocating the reduction of the wartime figure of £100 under which licences for maintenance and repair were not needed, which would help ensure that a larger proportion of the labour force available should be allocated to housing.<sup>3</sup> The final report was ready on 9th March, 1944, and pointed out that, whereas before the war repair and maintenance had had only about one third of the building labour force, the demand for arrears of maintenance and repair of factories and offices, as well as houses and war damage repair, that would fall on the market after the war was likely to absorb two thirds if not

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1. Cab 124/446 Office of Ministry of Reconstruction - Housing 1st December 1943. Draft Note by Minister of Reconstruction.
  2. ibid.
  3. Cab 87/11 Reconstruction Committee - Sub-Committee on the Control of Post War Building. Meeting 15th December 1943.

the whole of all building labour. The reduction of the licence fee expenditure to only £10 might help to reduce it or keep it at two thirds,<sup>1</sup> but the one third left for new construction would have to be divided amongst new factories, offices and shops, hospitals, schools and government buildings as well as new housing. Even if new housing got two thirds of the remaining one third, it would still be insufficient given the fact that no houses had been built in the war while some factories had been.<sup>2</sup> The report however, stuck to two thirds of the new building and argued that the housing programme could proceed on the assumption that, apart from the new licencing limit, the share of labour devoted to maintenance and repair could be drawn off by the continued use of modified labour controls, by which employees could only be contracted through labour exchanges, and where they would be offered priority jobs first, of which housing would top the list.<sup>3</sup> In a submission to the Cabinet the Minister of Reconstruction advocated that to achieve a target of 300,000 built or building in 2 years, it

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1. £10, because a licencing limit of £5 would be unacceptable to the public and unenforceable as it would apply to the very small jobs impossible to supervise, see Cab 87/11 Reconstruction Committee Sub-Committee on control of Post War Building meeting 18th February, 1944.
  2. Cab 87/11 Reconstruction Committee Sub-Committee on the Control of Post War Building. 11th January 1944. Note by Sir John Wrigley (Ministry of Health).
  3. Cab 87/11 Reconstruction Committee Sub-Committee on the Control of Post War Building. 9th March 1944. Report of the Sub-Committee (Chairman Sir Percival Robinson). The Report also advocated controls on costs via regulation in the price of building materials.

would be necessary to restore the general needs subsidy, introduce compulsory purchase of land at 1939 prices and start preparing sites now.<sup>1</sup>

At this point the Prime Minister, Churchill, intervened. While agreeing that permanent housing had a place and early legislation on a subsidy should be accepted, more emphasis should be placed on restoring war damaged houses and establishing for young married couples 'a large programme in emergency housing' with standardised furniture and fittings.<sup>2</sup> So when on the 8th March and later on the 15th March, 1944, the Minister of Health went ahead and announced the two year programme of 300,000 houses, the vast bulk of which were to be built by local authorities through the restoration of the general needs subsidy,<sup>3</sup> it was followed by a speech on the radio by Churchill on 26th March, 1944, announcing in addition a target of 500,000 steel prefabs to be treated as a 'military operation' with factories assigned materials and sites allocated'.<sup>4</sup> He remarked that this would be 'superior' to the interwar house, with gas and fridge fittings and would be mass produced so that there would be no heavy charges for rent. Priority would be given to soldiers and young married couples since there would only be two bedrooms. In Churchill's mind this was to be top priority, the second 'attack' being on war damage repair. The implication

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1. Cab 66/46. Cabinet Paper WP (44)10, 15th February, 1944. Housing in the Transitional Period, 15th February, 1944. Memo by the Minister of Reconstruction.
  2. Cab 65/41 Cabinet meeting WM(44)25, 24th February, 1944.
  3. H.C. Deb. Vol. 396, Col. 2057, 8th March, 1944. Debate on Post War Housing Policy.  
H.C. Deb, Vol. 398, Col. 278, 15th March, 1944. Debate on Housing.
  4. Calder, A., 'The People's War' Britain 1939-45. (London, Jonathan Cape, 1965), p. 535.

was that permanent traditional housing would be a poor third. The rationale behind this move was that prefabs would save on site labour, facilitate standardisation and therefore allow for a solution to the housing problem without the cost of the permanent programme. The Ministry of Health opposed Churchill's move and interpreted it as an attack on the permanent programme. The Central Housing Advisory Committee reported that pre-fabricated housing lowered standards (room sizes were smaller), took up sites on which permanent housing could go ahead, and competed for building materials slowing down permanent construction. Despite the saving of on site labour, it would keep too many labourers in the building materials industries and in factories fashioning carcasses, at the expense of the building industry. They pointed out that although the capital outlay was less than a permanent house its reduced life would mean higher loan charges on what were likely to degenerate into slums. They had no objection to a small programme to supplement permanent housebuilding but not of a size that would jeopardise success in the latter.<sup>1</sup> It soon became apparent however, that the temporary programme would be ruled out on other grounds principally the fact that the capital cost estimates rose until there was very little saving. In April/May 1944, Lord Portal predicted a price of £550 each. By early 1945 they were estimating £900 - £1,000 each.<sup>2</sup> As the

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1. H.L.G. 37/66. C.H.A.C. Sub-Committee for Temporary and Permanent Construction Interim Report undated 1943-4.
  2. The reason for the increased cost was that the original estimate had made no allowance for manufacturers profit, transport costs or the changing price of manufactured fittings. See Cab 87/37 Reconstruction Committee: Sub-Committee on Housing Paper. 8th September 1944. Increased Cost of Temporary Housing. Memo by the Minister of Works.

price rose, the target was reduced so that by the end of November 1944, the talk was of 200,000 - 250,000 'emergency' houses of steel or aluminium. These would contain standardised fittings all purchased by the Exchequer, erected at their expense on local authority sites under their letting and management.<sup>1</sup> It appeared that, owing to the critical need for munitions in 1945, the manufacturing capacity would not be available and the target was reduced. While imports from the U.S.A. and Sweden were considered, this alternative was rejected as both were hard currency areas and the government needed all the foreign exchange it could get for food and raw materials. It was the Coalition, however, and not the Labour government which decided to de-emphasise what Bevan called 'rabbit hutches'.<sup>2</sup> As the Minister of Works pointed out

The opinion of Parliament, press and public is unanimous on this point ... the repair of houses and the provision of temporary bungalows are regarded as palliatives in our immediate difficulties, not as alternatives to the building of new houses.<sup>3</sup>

On the 22nd January, 1945, the Coalition decided to downgrade the programme in favour of permanent construction<sup>4</sup> so that by the March 1945,<sup>5</sup> it had been decided to firmly allocate only 145,000 - 150,000.

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1. Housing: The Temporary Programme. Cmnd 6686. (London, H.M.S.O. 1945).
  2. Foot, M., Aneurin Bevan: a biography Vol.2. 1945-60. (London, Davis-Poynter 1973).p.81.
  3. Cab 87/37. Reconstruction Committee: Sub-Committee on Housing Paper 24th November 1944. Temporary Housing Memo by the Ministry of Works.
  4. Cab 87/36. Reconstruction Committee: Sub-Committee on Housing meeting 22nd January, 1945.
  5. Housing. Cmnd.6609. (London, H.M.S.O. March 1945).

In retrospect, one can see that the prefab was not really a way out for the government. If it obviated the need to expand on-site building labour it increased the state use of plant and manufacturing capacity and the use of input materials, especially steel, at a time when as much as possible was needed in private manufacturing, especially for export. Any large scale and novel use of prefabrication for permanent housing would have been a bold move in the years before industrialised building had really started. Although government was willing to make paper projections about the possibility<sup>1</sup>, the prospect was not only an economic gamble but raised too many risks involving as it did a potential threat of unemployment for building workers who had just promised to expand their numbers by allowing dilution. According to the government, there was, in addition, strong opposition from the traditional building companies who feared it would ruin them and give their trade to factory manufacturers.<sup>2</sup>

The idea of Churchill's to concentrate on war damage repair was also dropped and the Reconstruction Committee agreed war damage repair should not go so far as to make impossible the completion of the permanent programme of new houses by a reduction in its labour force. Priority for permanent housing would be given in the production and distribution of materials by the Board of Trade and the Ministry

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1. Cab 87/36. Reconstruction Committee: Sub-Committee on Housing meeting 7th June 1945.
  2. Cab 87/36. Reconstruction Committee: Sub-Committee on Housing meeting 13th March 1945. According to Foot, (Bevan p.81) there was a small experiment in prefabricated permanent housing: some 10,000 of the permanent houses eventually built being of this type.

of Supply.<sup>1</sup>

The final outcome of all this was the Coalition's White Paper published in March 1945.<sup>2</sup> As we shall see this was substantially adopted by the incoming Labour Government. It estimated that out of the 12½ million houses of 1939, 3 - 4 million had been damaged in the war and there were arrears of repair on the rest. There were 210,000 destroyed, 250,000 uninhabitable. To catch up on destruction and to provide for the short term excess of families over houses caused by the cessation of wartime building and the rise in marriages, the government calculated, we would need 750,000 dwellings before the end of 1948.<sup>3</sup> If one added an allowance for the rapid completion of the pre-war slum clearance and overcrowding programmes, the need was for 1,250,000 in the short term. The long term objective of 3 - 4 million into twelve years was to achieve the progressive improvement in standards, but the first concern was to get as many dwellings into use as possible whether in existing buildings unfit for habitation but made good, or by new ones. In view of the limits on labour resources the two year programme of 300,000 houses would be phased so as to complete 220,000 with 80,000 under construction and nearing completion.<sup>4</sup> The government would assure a good supply of materials and components and provide a subsidy. Local authorities would make plans and select sites. To ensure

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1. Cab 87/6 Reconstruction Committee meeting 8th September 1944.
  2. Housing Cmnd. 6609. loc.cit.
  3. ibid para 4.
  4. Of those 300,000 Scotland would get 50,000 see H.C. Deb. vol. 409 Col. 1094. 22nd March 1945. Debate on Housing.



reasonable prices there would be no rapid decontrol as had happened in 1919 over materials and fittings. . . . Work done on private account would be subject to licence if it was over £10 in expenditure - a regulation that was to apply from May 1945.<sup>1</sup> One can of course criticise the target from the point of view of being inconsistent with previous estimates of need but the Coalition believed that was the maximum that could be achieved so soon after the war, even with housing achieving the 'highest civilian priority'.<sup>2</sup> As we saw in chapter 2, the explicit aim of the government was to avoid any promises it could not carry out. When the Labour government came to power the basic structure of the Coalition's plan remained unaltered although it was to receive more emphasis with housing for sale being limited,<sup>3</sup> and Employment Exchanges instructed to give new housing the number one priority on all Labour available.<sup>4</sup> Bevan explained that the Coalition target of 750,000 to give a separate home for each family, to make up arrears and to replace destruction and another 500,000 to complete pre-war slum clearance and overcrowding programmes would remain, as would the immediate two year programme of 300,000. In addition he proposed to take powers to facilitate conversion and adaption of larger houses into flats. New local authority building for rent was however to have first priority on labour,

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1. See Ministers speech H.C. Deb. Vol. 409. 22nd March 1945.
  2. According to the Minister of Works (H.C. Deb. Vol. 409. Col. 1261. 23rd March 1945) there would be a minimum of 145,000 temporary prefabs rising to a maximum of 200,000. He therefore felt justified in talking of a 2 year programme of 400,000 houses.
  3. Cab 124/450 Lord Presidents Office: Post War Housing. Meeting of Ministers. 8th August 1945.
  4. Cab 87/36 Housing Committee meeting 17th August 1945.

materials and components. There was no prospect of being able to set a higher target than the Coalition's and even that was subject to reservation depending on the supply of materials and labour.<sup>1</sup> As Foot explains, Bevan's dilemma was that if he fixed a target too high and failed to reach it the public would take it badly, but if he fixed it too low he would risk the whole programme.<sup>2</sup> Bevan decided no official target should be published although he would work privately to the Coalition's figure.<sup>3</sup> This move received strong support from Lord Addison: who argued from the 'light of his experience' that it would be a huge task to get enough labour on to the building sites or to keep a control on building costs.<sup>4</sup> Bevan did however improve on the Coalition's rather cautious attitude to the Dudley standards informing local authorities by circular on 15th November that they should plan for larger houses, (900-950 sq. feet), instead of the 800-900 range. This would make it possible to have a second W.C. on the ground floor level and guarantee three or more bedrooms.<sup>5</sup>

The housing programme began in earnest in the middle of 1945. Unlike the situation in 1918 - advance preparations had been made to ensure a start as soon as the war ended, (although

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1. Cab 129/3 Cabinet Paper CP(45)208 6th October 1945.  
Housing Memo by the Minister of Health discussed Cab. 128/1 Cabinet meeting CM(45)41 15th October 1945.

2. Foot, Bevan. p.82.

3. Cab 129/4 Cabinet Paper CP(45)274 5th November 1945.  
Progress Report on Housing Memo by the Minister of Health.

4. Cab 128/2 Cabinet Meeting CM(45)54. 20th November 1945.  
Lord Addison had been Minister of Health responsible for the first Post War Housing drive 1918-21. Having joined the Labour Party he had been appointed by Attlee to the post of Secretary for Dominion Affairs.

5. Cab 129/5. Cabinet Paper CP(45)330. 6th December 1945.  
Progress Report on Housing. Memo by the Minister of Health.

this time there were problems with the continuing conflict with Japan - that went on until August). On 3rd August, 1944, a Housing Act was passed extending the pre-war slum clearance subsidies of 1938 to the provision of general needs houses by local authorities.<sup>1</sup> The general opinion was that the subsidy figures would be increased after the war and backdated to cover houses started now under this legislation. In 1943 all local authorities who did not already own enough land for a building programme were asked to earmark the necessary land and were told they might proceed with its acquisition. Early in 1944, they were asked to start the preparation of sites. In April 1945 Councils were informed that the ban of their building anything in wartime would be relaxed, by June tenders were being approved.<sup>2</sup>

## SECTION II. THE DEBATE ON BUILDING PRIORITIES

The preceding must not be interpreted as though the formation of the programme never came under challenge. We have already noted the Treasury's warning on accumulation. The governments commitment to pursue a housing drive in a situation in which there would no longer be any idle resources in the country and where the quantity of men and materials that could be allocated for it depended on it receiving a weighting that seemed to place it above all the other tasks of reconstruction, came in from some pointed criticism during the planning stage.

The debate on priorities centred around the recommendation

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1. The Housing(Financial Provisions) Act, 1944. 7 and 8 Geo. 6. Ch.33. (3rd August 1944), in The Public General Acts of 1944 (London, H.M.S.O. 1945).
  2. Kohan, C.M., Works and Buildings. History of the Second World War Civil Series (London, H.M.S.O. 1952 p.431).

that two thirds of all new building resources should be allocated for new houses. The Board of Trade was disturbed that the Robinson Report, on the control of post war building, had made no firm allocation for factory building and was 'daily receiving enquiries from manufacturers.'<sup>1</sup> The governments resident economists added their weight. Robbins wrote:

This degree of pre-occupation with the housing programme will interfere with the rehabilitation of our export industries which should have priority even over housing. At a pinch we can put up for a year or two, with the exiguous dwelling space which we now possess but if lend lease supplies fall off and we have not vastly expanded our exports we may not have the wherewithall even to fill our stomach's or clothe our backs ... I am genuinely alarmed to observe an evolution of thought at a very high level which is rapidly bringing it about that exports will figure as the Cinderella.<sup>2</sup>

On the ministerial level, Lord Cherwell Paymaster-General and Churchill's private advisor (previously known as Professor Lindemann), attacked the assumption built into the Robinson Report that the building programme should be planned for a period up to 10 years.<sup>3</sup> These points were made more strongly by the Secretary of the Department for Overseas Trade, Harcourt Johnstone. He attacked the idea of solving unemployment by 'tearing down houses' and increasing the rate of replacement

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1. Cab 124/77 Office of Minister of Reconstruction: Building Priorities. 7th September 1944. Letter from the Board of Trade summarizing telephone discussions on 18th August and 7th September, 1944 between Board of Trade and Ministry of Works officials.
  2. Cab 124/585 Office of Minister of Reconstruction: Comments on Sub-Committee on Control of Post war Building 31st March 1944. Lionel Robbins to Norman Brook and J.P. Maud.
  3. Cab 87/8 Reconstruction Committee Paper. 2nd June 1944. The Long Term building Programme. Memo by the Paymaster-General.

when existing houses could be lived in longer. Such building constituted 'useless work'. Instead resources were needed for the export trade and for our role as 'international policemen'. We were already planning heavy expenditure on social services to relieve want and must beware the burden that all this would place on the middle classes.<sup>1</sup> Hugh Dalton, Coalition Trade Minister, attacked the one third allocation to 'other building'.<sup>2</sup> It was too small, it would have to cover the building of new factories as well as warehouses, offices and shops; schools and hospitals. Between all of these an allocation would be needed. 'In many cases' said Dalton,

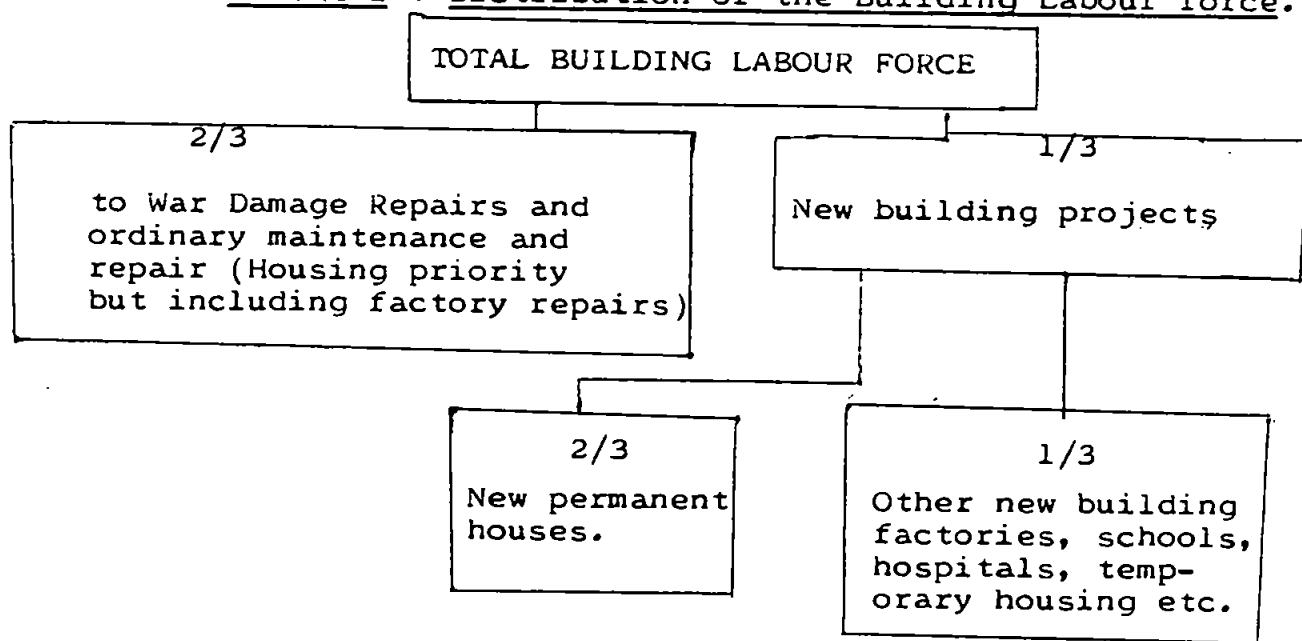
industrial building, for example, the rebuilding of bombed factories, the conversion of factories to peacetime purposes, and the erection of new ones will be no less urgent than the building of new houses.<sup>3</sup>

He also disagreed that licences should have to be granted for essential repairs in the industrial field, a provision that would affect the speed of peacetime adaption. These criticisms of Dalton, centred, as they were on the problems of simple reconversion, hardly touched on the more extended requirements for expansion, modernisation and diversification required for increases in productivity. Robinson's allocation to new housing of two thirds of labour for new building was made worse by the fact that labour for new temporary houses would come out of the other third of new building labour allocated for factories, re-

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1. Cab 87/8 Reconstruction Committee Paper. 23rd June 1944. The Long Term building Programme. Memo by the Secretary for Overseas Trade.
  2. Cab 87/8 Reconstruction Committee Paper. 15th April 1944. Report of the Sub-Committee on Control of Post war building. Memo by the President of the Board of Trade.
  3. ibid.

equipment and other purposes. Sir John Wrigley of the Ministry of Health had been given a promise that the temporary programme would not be undertaken at the expense of permanent housing.<sup>1</sup> It must be stressed that these criticisms would have added force when one realised that 66% of the industry's resources were already hived off for war damage, maintenance and repairs much of which would again accrue to the Housing priority. The full distribution can be shown therefore as follows:-

FIGURE 1 : Distribution of the Building Labour force.



We must also be aware of the fact, which, was not it seems properly appreciated, even by these critics, at the time, that

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1. Cab 124/585. Office of Minister of Reconstruction.  
A. Johnson to Sir John Wrigley. 13th April 1944.

as war damage repair receded<sup>1</sup> and resources were gradually released so that a greater proportion of the total labour force went on new building, the application of the two-thirds housing priority would leave the relative priorities unchanged even though more work in absolute terms could be done in each category. Nevertheless the Reconstruction Committee accepted the Robinson Report, recommended that a more detailed scheme for the control of building be worked out and invited Departments to submit their non-housing requirements.<sup>2</sup> When these arrived the largest single demand came, as expected, from the Board of Trade for Labour and expenditure on factories and workshops and for much more than the allowance in the Robinson Report. The estimated demands and a tentative detailed allocation for year I was ready by January 1945.<sup>3</sup> The total building labour force was expected to rise slightly more than predicted from 337,000 - 800,000 in year I equivalent to 535,000 men throughout the year and distributed in accordance with the principles of the Robinson Report. The following table abstracted from the statistics in the paper illustrates the nature of the allocation.

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1. Substantial war damage repair to houses had taken place under the Coalition. The London Repairs Executive under the auspices of a War Damage Commission, working through local authorities started principally in London and the South East ('bomb alley') in the summer of 1944. The government set a preliminary target of repairs to 719,000 houses in September 1944 and achieved it in March 1945. see Bowen, I., 'The Control of Building' in D.N.Chester (ed.) Lessons of the British War Economy. (Cambridge University Press 1951).pp.139-40.
  2. Cab 87/5 Reconstruction Committee meeting. 20th April 1944.
  3. Cab 87/10. Reconstruction Committee Paper 16th January 1945. Requirements and Priorities for Post war building other than housing. Joint memo by the Minister of Reconstruction and the Minister of Works.

Table 1.Available building labour force:planned allocation of building work. Year I.

|              | TYPE OF WORK                                     | ALLOCATED LABOUR | % of TOTAL |
|--------------|--|------------------|------------|
|              | War Damage Repair                                | 182,000          | 34%        |
|              | Maintenance and Repair                           | 145,000          | 27%        |
| New Building | 61% New Housing                                  | 127,000          | 24%        |
|              | 15% New building sponsored by the Board of Trade | 31,175           | 6%         |
|              | 24% Other New building                           | 49,825           | 9%         |
|              | 100%   | 535,000          | 100%       |

New housing was given just a little short of two-thirds new building. The memo noted that the labour likely to be available for new construction other than housing would be no more than 50% of the requirements put forward by the Production Departments. Although the Board of Trade was allocated 70% of its demand (with 31,175 men) better than that of the Departments considered as a whole, several considerations ought to be noted. These figures were paper predictions based on estimates by civil servants at the Board of Trade of the likely demand from private capital. They would have to assume that they had correctly anticipated the post war intentions of investors. It left out of account what the various sectors may have needed on an objective standard, set perhaps by economists, for a degree of modernization. In addition the estimates were based on likely application for licences and therefore did not reflect what might have been the demand from private capital had there been no state vetting and control of the process of investment.



Consequently the table reveals a share for trade and industry which was very low considering that it was a time of reconstruction. We cannot assume that the Board of Trade would get the bulk of approved repair and maintenance work since it was recognised that much of this was likely to be engaged on housing where the greatest accumulated need of repair was evident. Licencing Authorities would be hard pressed to justify granting priority favours to capitalists whose factories and plant was intact and in working order but who wanted to improve or extend their capacity.

The Reconstruction Committee went ahead and approved the tentative allocation for the first post war year, agreeing that it should be adopted as a general guide to the Minister of Works in making more detailed plans for the period.<sup>1</sup> Although the exact figures predicted above would eventually be modified according to the number of entrants to the building trade the general proportions were to be maintained. When Labour took office, these principles continued.<sup>2</sup> In addition to the two-thirds new housing rule for new construction, the new government made it quite plain that it saw the two-thirds rule also applying to the whole building labour force as well, so that a substantial proportion of ordinary maintenance, repair and adaption work would fall to the Housing Sector. Any new building workers recruited to the industry would always be

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1. Cab 87/10 Reconstruction Committee Meeting 29th January 1945.
  2. Cab 87/37 Housing Committee Papers. 19th August 1945 Programme for Housing Memo by the Minister of Works.

distributed so as to leave the large share for housing undisturbed.<sup>1</sup>

### SECTION III: THE ADMINISTRATIVE SYSTEM

Writing on wartime building controls and allocations one commentator has written that

at no time, nor in any country, had there been a precedent for a planned control of the operations of the whole of the building industry or for the central co-ordination of some thirty five different government programmes.<sup>2</sup>

The licencing controls that were evolved were considered to be a substantial improvement on the last war Reconstruction experience. The concept 'inessential' (in the 'National Interest') was applied to building of offices, restaurants and places of entertainment and luxury housing on which in 1919-20 building labour had been diverted through the pull of money demand. To prevent peacetime pent-up demand being released on scarce production capacity leading to a rise in prices, and to ensure that there was no competition for labour and resources between publically induced and private work, it was decided to control demand at source. To facilitate land use planning and development, the Committee on Reconstruction problems very early on wanted the government to accept that defence Regulation 56A should be kept to 'prevent work prejudicial to reconstruction'.<sup>3</sup> This regulation prevented

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1. Out of a predicted working labour force of 970,000 for June 1947, 582,000 would be working on housing (300,000 on permanent new housebuilding), see Housing Programme for 1947 Cmnd. 7021. (London, H.M.S.O. January 1947. p.4.
  2. Kohan, Works and Buildings, p.413.
  3. Cab 87/1 Committee on Reconstruction Problems, 28th May 1941. Statement to be made on Uttwatt Report and related matters, Attached to meeting.

building operations from going ahead without a state approved licence if they were likely to exceed a certain maximum cost in a year. The government decided that the figure should be reduced from the figure of £100 which had held for most of the war, to £10 from August, 1945, the rationale having broadened, meanwhile from land use planning to the management of reconstruction generally.<sup>1</sup> To supplement this control of demand some control of supply was needed over labour and materials in order to fulfil government intentions. The war-time manpower budget whereby a definite amount of labour was apportioned or allotted was based (each quarter) on the total of the available workers in the industry worked out by the Minister of Labour from figures which building firms were obliged to send in if they were to be 'registered' as entitled to operate. The total figure was then distributed among Departments in a way that would fulfil strategic priorities. The total of all departmental programmes would then equal the total capacity. Each department would then know what share of building capacity it could use for the quarterly period. This was its ceiling. The Conservative 'caretaker' Coalition decided to operate peacetime building by a very similar method.<sup>2</sup> It was pointed out that while licensing could prevent work

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1. Cab 75/21 Home Policy Committee meeting 8th May 1945, see also Cab 87/36 Housing Committee meeting 22nd January 1945. On March 20th, 1946, penalties were increased for violations. Local Authorities were responsible for all private building projects needing a licence between £10 and £100 and over that, if it involved housing work. The Ministry of Works was responsible for all non-housing projects over £100. Authorized work, i.e. that carried on by or for government departments, was excluded from the requirement to be licenced.
  2. Cab 184/630 Office of Minister of Reconstruction - closer control of the building programme. Minister of Works at a meeting 21st June, 1945.

being started it could not control or ensure that men unable to work on an 'inessential' project went to work on an approved one.<sup>1</sup> Therefore an essential adjunct of the manpower budget was some system of labour control. The national building programme would then emerge from this bureaucratic process. There would be a systematic procedure for allocating building labour between different uses and a control device for seeing that these allocations were followed. Each department had a building programme of some sort and each department as a 'production' department was responsible for some sector of the economy. Some departments such as the Ministry of Defence, Home Office and Ministry of Health had direct or authorised control of new work, it being on government induced contracts. Some had only indirect control by virtue of being 'sponsors' for a private industry, e.g. the Board of Trade whose work was that licensed for private account. Yet all of them were required to total up a labour claim based on the anticipated demands for building work and present it to the Minister of Works. The Director of Programmes and Chief Allocation Officer of the Ministry of Works was then, in the light of the principles of national priority set by government, to draw up a provisional allocation. The department's officials would then comment on this distribution via an interdepartmental Headquarters Building Committee (H.Q.B.C.) (set up August, 1946), whose job it was to

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1. Cab 184/630 Office of Minister of Reconstruction - closer control of the building programme. Minister of Works at a meeting 21st June 1945.

reconcile conflict.<sup>1</sup> Since this was based in the Ministry of Works and other Departments were not prepared to accept the adjudication of what was after all an 'interested' department with its own building programme and claim on labour, there was to be a Court of Appeal in the Lord President's Committee.<sup>2</sup> This was the inner cabinet of co-ordinating Ministers for Home and Economic Policy, whose job it was to approve the final allocation sheet. It was usual however for it to merely rubber stamp the total programme. From 1946, the H.Q.B.C. sent its proposed allocation to the governments Economic Directorate of Civil Servants known as the 'Steering Committee', (through its special panel the Investment Working Party), for approval so that they could see if there was any conflict with the broader objectives of economic policy.<sup>3</sup>

Each Department's allocation was given in the form of a labour ceiling. Allocation by value or money was seen to be unworkable and difficult to control month by month. Since labour was the basic commodity in short supply under full employment and since the war economy method of planning in physical units (manpower, shipping space) had proved relatively successful, there was every reason to keep a Manpower budget.

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1. Cab 71/22 Lord President's Committee Papers. 2nd October 1945. Proposals for Control of the National Building Programme Memo by Minister of Works, see HLG 102/273 H.Q.B.C. The Building and Civil Engineering Programme esp Paper ECP 32. It was also the job of H.Q.B.C. to approve very large single building projects and supervise work on a regional basis.
  2. Bowen, The Control of Building, p.127; see also Kohan Works and Buildings, p.91.
  3. Cab 132/4 Lord President's Committee Paper. 24th July 1946. Co-ordination of the building and Civil Engineering Programme Memo by the Minister of Works and the Lord President. For further detail on the Economic Planning Machinery and a discussion of the assumptions behind it see Chapter 5.

Without a completely directive system of labour control, and with the automatic priority for housing, other forms of building had to take their chance in a situation where their licencing or approval was not related to their likely prospect of completion.<sup>1</sup> Regional and Zone Conferences of the public building sponsors in areas of labour shortage were eventually set up to devise starting dates and ration licensing approvals with the aim of assisting work on permanent housing. What labour controls as they were, functioned less as allocating than as priority devices. The Control of Engagement Order, for instance, did not direct labour to specific projects but merely specified that unemployed labour should only be re-employed via a labour exchange and there be offered priority jobs of which Housing was highest. Direction was applied (to men up to the age of 30) only as a last resort if the worker refused all three offers of priority work. If a department exceeded its paper ceiling the only solution was to have its priority reduced by the counter clerks. There was no facility to withdraw labour already employed, except to transfer men already in the building industry to new housing work.<sup>2</sup> This did not work in reverse or to outside the industry. This ban on withdrawals was a critical prohibition given that fact that there could be little transfer by the Engagement Order owing to full employment.<sup>3</sup> The wartime system of manpower budgeting had succeeded precisely because it was based on an array of

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1. For a wider discussion of labour controls, see Chapter 2.
  2. Cab 132/2 Lord Presidents Committee Paper, 3rd February, 1946. Application of the Essential Work Order to permanent Housing. Memo by Minister of Health.
  3. The use of directions was governed by Cabinet decision Cab 128/2 Cabinet meeting CM(45)58. 15th October 1945.

labour controls, including the power to regulate recruitment and dismissal, wage maximums, and a system of company control that grouped smaller contractors into larger units and stopped new firms being set up which would tend to dissipate labour over a mass of smaller inessential jobs.<sup>1</sup> But in January, 1946, the ban of new entrants had been removed.<sup>2</sup> The impossibility of being able to control a large mass of small jobs done on private property behind closed doors, below the £10 regulator (which was not the responsibility of any 'production department'), and which used building materials, is seen by one author, as a crucial factor in over-burdening the building industry, slowing up the industry completion rate of all building including housing and indicating that the government should have slowed down on the programmes it controlled.<sup>3</sup> The fact that it pushed ahead with housing at this time was a planning failure. This failure of 'management' however leaves unexplained the politics behind the need for the housing drive, where, as we have noted, the logic was for the working class to see as many houses going up as possible all over the country, even if the completion rate was thereby slowed down. The Ministry of Health had long possessed the means by which it could ration new approvals and assign a quota of housebuilding to each local authority, authorising each to go to tender in

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1. Kohan, Works and Buildings, p.143.

2. Building: Report of the Working Party of the Ministry of Works. (London, H.M.S.O. January, 1950). p.25.

3. This impossibility is linked to the inability of officialdom to invade the privacy of homes to check on expenditure, see Rosenberg, N., Economic Planning in the British Building Industry (Philadelphia, University of Pennsylvania Press 1961)p.26.

orderly stages to assure an even flow of demands for labour and materials.<sup>1</sup> But it began its programme, and continued in 1946, to approve as many tenders as possible in order, as Bevan stressed, to get schemes started all over the country.<sup>2</sup> Occasionally it would turn the taps down, as in the 'Finish the Houses Campaign' of October, 1946<sup>3</sup>, but not to any extent. So the number of starts continued to rise. In January, 1947, the government decided to try to complete 240,000 permanent houses in one year. While recognising that this would be dependent on whether fuel and power supplies would be sufficient to sustain output in the building materials industries and whether supplies of imported timber were forthcoming both of which were doubtful, it decided to approve another 30,000 starts.<sup>4</sup> When the winter fuel crisis materialised it was found that the targeted rate of completion could not be achieved.<sup>5</sup> Quoting the monthly digest of statistics, Rosenberg discovers that the Coalitions immediate programme of 220,000 built and 80,000 building by June, 1947, was nowhere near fruition and instead there were only 110,000 completed and 242,000 under construction.<sup>6</sup> He concludes that the policy of pushing ahead with housing was counter-productive. The excess demand relative to building material supply meant that a labour and materials were spread over too many sites.<sup>7</sup> Unable to increase

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1. Prem 4 93/4 Machinery for the Co-ordination and Control of Building. 18th October 1944. Notes by Bridges and John Peak., see also Housing Programme for 1947. Cmd.7021 loc.cit. para 18.
  2. Cab 134/320 Housing Committee meeting 11th December 1945.
  3. Cab 134/320 Housing Committee. Memos on the subject in 1946.
  4. Cab 134/320 Housing Committee meeting 13th January 1947.
  5. Rosenberg. Economic Planning in the British Building Industry pp.68-9.
  6. ibid p.85 note 26.
  7. ibid p.45



supply in the short run and unwilling to reduce demand, 'the housing programme was pushed forward without regard to the available resources'.<sup>1</sup> This is hardly an astounding deduction and certainly not analysis. It was a common complaint at the time and could hardly have been unnoticed by the government.<sup>2</sup> A more important result of this drive was that Bevan had now guaranteed that the local authority programme would, eventually, consist of more than the minimum figure of 300,000. As long as he could negotiate a subsidy that would cover houses completed beyond the final date of June 1947: a limit which the Coalition had been assuming as the Treasury's last word, then the local authority programme could roll on beyond an immediate 2 year period.

#### SECTION IV. DEPENDENCY AND COST: THE QUESTION OF MATERIALS AND WAGES.

Both governments had realised that the biggest supply problem apart from that of labour would be how to ensure that sufficient materials were produced at a reasonable price and that their distribution was regulated to ensure the housing programme achieved priority. It was not that nationalisation of the building materials industry was ruled out, it was never considered by either administration despite being a perennial demand of Labour Party Conferences. It was considered that to get the co-operation of the industry, it would be necessary to have 'voluntary self restraint' with public control being a last resort. This meant in effect that the government had

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1. Rosenberg Economic Planning in the British Building Industry p.50.
  2. The Times. 18th November, 1946.

to accept a distribution system and a pricing policy that would attract least resistance from the industry especially when, because of shortages, there would be a sellers market which in the short term would not change. We shall show that this dependency made the ambition of a low cost housing programme more difficult to achieve. In Section V we shall show that this cost resulted in a further level of intervention, in the realm of finance, which was easier to effect initially because of the large degree of consensus on control which had emerged in this field during the war.

The problem of guaranteeing a sufficient supply of materials for the housing programme had however to be faced. In the long term the problem was one of increasing output, where, for instance, brick production was one-sixth of pre-war capacity in June, 1945.<sup>1</sup> There were similar problems for cement, tiles, etc. Brickworks needed to be restored and re-opened after the war and the labour supply in all the industries needed to be augmented by the accelerated release of key men from the armed services and munitions industries<sup>2</sup>, and by giving offers of jobs in these industries priority at the labour exchanges under the Engagement Order. Bevin, now Foreign Secretary, but still taking an interest in getting labour for housing, commented

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1. Rosenberg. Economic Planning in the British Building Industry. pp.39-40.

2. Cab 87/37 Housing Committee meeting. 18th July 1945.

There would be increasingly fierce competition for the available manpower in 1946 from private manufacturers whose factories would be ready for production and it is important that steps should be taken now to get workers into factories which are producing components for the housing programme.<sup>1</sup>

All these were measures which would take time to achieve their effect. Suggestions that men who used to work in the industries should be recalled and directed back to it were rejected by the Minister of Labour on the grounds that the other employers would not co-operate in a loss in their labour forces like they had during the war. The best way to proceed was to push for a higher rate of demobilisation and make the materials industry more attractive by higher wages, even though these would tend to raise prices and therefore the cost of housing.<sup>2</sup>

With regard to imported timber the position was even more difficult. Our previous suppliers in Eastern Europe and the Baltic were unwilling to ship as much as they used to because of their reconstruction needs. We had therefore to rely more on supplies from the U.S.A. and Canada.<sup>3</sup> The government was often obliged to cut imports from these expensive dollar countries when savings in foreign exchange appeared necessary. The only other alternative was Sweden and, since they were a hard currency country, Bevan suggested we export coal to them.

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1. HLG 102/35 Building Components; Extract from meeting of Manpower Committee. 24th October 1945.
  2. Cab 129/3 Cabinet Paper CP(45)225. 13th October 1945. Labour Shortages in the Building Materials and Components Industries. Memo by the Minister of Health. also Cab 129/3 Cabinet Paper CP(45)230. 15th October 1945. Ditto. also Cab 134/320 Housing Committee meeting. 23rd. January 1946.
  3. Housing in Britain. Central Office of Information. (London, H.M.S.O. 1950). pp.20-1.

This would help us pay and help them not to burn wood for fuel.<sup>1</sup> This suggestion was never taken up owing to our own fuel shortages.

In the short term therefore the problem was to distribute the supplies of materials that were available. With regard to timber, the government possessed an import monopoly through the Timber Control. The Materials Committee (that allocated raw materials) used its powers so that in 1946 Housing got 45% of supply.<sup>2</sup> For other materials the government had agonised for a long time as to whether the state should buy in bulk direct from the manufacturers cutting out the middle men and building merchants, distributing them through some central agency and ensuring a standardised price for all local authorities. The exchequer was not keen to finance stock in case the state was left with a loss consequent on holding a mass of materials, if the housing programme ceased abruptly, as had happened in 1920. Besides, the Minister of Works opposed any system which cut out the building merchants. He had been advised by the builders that the merchants were an integral and necessary part of their arrangements for efficient housebuilding by private enterprise without subsidy. For the 'transition', the objectives of a public programme would be sufficiently achieved by the licencing system: materials would flow to approved projects.<sup>3</sup> Bulk purchase was to be used only

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1. Cab 129/11. Cabinet Paper CP(46)277. 17th July 1946. Timber for Housing. Memo by the Minister of Works.
  2. Cab 129/14 Cabinet Paper CP(46)417. 8th November 1946. Timber for Housing Memo by the Minister of Health.
  3. Cab 124/343. Office of the Minister of Reconstruction: Central Purchase and Control of Building Materials. Statement of 24th October 1944 and other related papers.

as a last resort to get production going and then only in certain industries. It would only be utilized on a major scale for temporary prefabs. Lord Portal, the Minister of Works, stressed that while in the initial stages most of the housebuilding would be carried out by public authorities, it was assumed that private enterprise would at a later stage take over housebuilding, and any special arrangements made for the early period should be so designed that they would 'shade off' into the system likely to be required long term.<sup>1</sup>

The Labour government did not change this policy. Verbally it stressed its resolve to use the reserve powers if necessary. As it turned out, it occasionally bulk purchased and used the state owned Royal Ordnance Factories to produce some materials as Bevan's progress reports to the cabinet reveal<sup>2</sup>, but generally relied on a system of orders through the merchants and the traditionally established manufacturers. What was clear was that the Labour Government had decided not to mount the housing programme by involving itself in the building wholesale and retailing trade as suggested by its theoreticians<sup>3</sup> and the perennial demand of its supporters for nationalisation of the building industry was not even considered. Instead Labour opted for a fuller refinement of priority control. Each contractor was given a certificate indicating whether or not his requirement for materials was priority A,

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1. Cab 87/36 Reconstruction Committee Sub-Committee on Housing meetings. 6th and 27th November 1944. The Cabinet agreed Cab 65/50 Cabinet meeting WM(45)59 23rd April 1945.
  2. Mainly those materials which the Ministry of Supply was responsible for, see Cab 129/6 Cabinet Paper CP(46)16. 17th February 1946. Progress Report on Housing.
  3. see Cole. Building and Planning.

B,C etc. The merchants were supposed to give preference in accordance with the priority. Housing was to get automatic priority 'A'. The idea was that the scheme (introduced in April 1946) would run parallel and complement the priority for labour. The system was voluntary and the recognition by manufacturers and merchants of the government's symbols for priority had in September 1947 to be made compulsory with it being a statutory offence for merchants to deliver or builders to receive materials without authorisation, or in excess of stated requirements: penalties being exacted for infringements.<sup>1</sup>

Both Coalition and Labour Governments accepted the need for the same form of price control based on voluntary agreement. Where this could not be obtained prices would be fixed. If an investigation of the costs of firms revealed their price as too high they would be revised. Such was the official line on procedure derived as it was from Defence regulations continued after the war. It soon became apparent however, that decisions taken in this field would not enable any substantial reduction in the cost of building by virtue of the fact that most of the prices agreed were maximum or ceiling prices, with allowances for an average rate of profit, or return on capital employed, justified as payment for risk. The formula also allowed for 'justified' costs to be passed on in higher prices.<sup>2</sup> Since it subsequently turned out that most of these costs were occasioned by higher wages, a mandate was given for manufacturers

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1. for details see the several Papers in HLG 102/103 Priority Distribution of Materials.
  2. Cab 87/36 Reconstruction Committee: Sub-Committee on Housing meetings. 22nd January and 10th February 1945.  
Cab 87/37 Reconstruction Sub-Committee on Housing Paper 4th May 1945. Report of the Official Committee on Housing Costs.

to protect profits from the increased strength of labour by charging the consumer, in this case, the state.<sup>1</sup> The industry, organised through the National Council of Building Materials Producers, got the government to accept that any investigation of costs would be done through the Trade Associations, who, would then advise them of 'Representative Producers'. The state should not go behind their backs to individual firms. The government needed the output of all firms and therefore it had to agree to average prices high enough to keep high cost operators in business, even if this meant excess profits for the more efficient, a decision which it admitted would confirm the present structure of the industry.<sup>2</sup> The industry had long been known as essentially cartelised. During the last post war Reconstruction a Committee had noted 58% of building materials were subject to trusts characterised by restrictions of output and price maintenance agreements with the object of keeping prices high to customers.<sup>3</sup> This practice was confirmed and agreed to by the building merchants.<sup>4</sup>

If, as had been shown, the cost of materials took 60-70% of the price of housing<sup>5</sup> what other savings could be made by government on houses expected to cost 60% more than those of the pre-war period? The price of houses was expected to rise from a pre-war figure of £402 to £974. Roughly £200 of the increased cost was due to the increase in size and amenity as

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1. The Times. 19th November 1946.
  2. Cab 132/4 Lord President's Committee Paper. 10th July 1946. Price Control of Building Materials Memo by Minister of Works.
  3. Report of the Committee on Trusts. Cmnd. 9236. (London, H.M.S.O. 1919) Appendix 'combinations in building materials'.
  4. Report of the Committee of Enquiry into the Distribution of Building Materials and Components. Ministry of Works. (London, H.M.S.O. 1948).
  5. Cab 87/103 Official Committee on Housing Costs Paper. 3rd November 1944. Analysis of Costs of House Construction.

laid down by the Dudley Report.<sup>1</sup> Bevan made it quite clear that he would not seek for an 'illusionary' reduction of cost by cutting standards.<sup>2</sup> The 30% of the cost of a house that derived from wages could not be attacked for a number of reasons. Firstly labour, under full employment, was a scarce resource and therefore accrued influence and bargaining power as reflected in the guarantees struck with the building unions in the 1943 Training White Paper.<sup>3</sup> The Labour Government, for its part, could not pick a fight with members of its own constituency so soon after being elected. With these options written off and with the greatest contribution to the capital cost of housing - the material inputs, subject to the loosest form of control, the government was undertaking a housing drive with a high cost industry and asking the Treasury to foot the bill. If housing was to be protected from the kind of attacks that led to the demise of the Addison programme in 1920, some means had to be found to keep the cost at least as stable as possible while the houses were being built. The means chosen to do this constitutes another level of state intervention which also functioned, like the labour and materials priority, as an insulator for the Housing Programme.

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1. for these figures, see Cab 87/37 Housing Committee Paper. 12th November 1945. Housing Costs. Memo by the Minister of Works.
  2. H.C.Deb. Vol.414. Col.1224. 17th October 1945. Debate on Housing.
  3. The government also decided that all builders, as a condition of their registration, and therefore their entry into government and local authority work, had to agree to continue the wartime holidays with pay scheme, see Building Worker Vol.1. No.4 June 1947. For details of the wage increases since 1939, the guaranteed working week with payments for 'wet time' and statutory holidays, see The Building Workers Struggle Amalgamated Union of Building Trade Workers Centenary Souvenir 1948. (both in University of Sussex Reserve Collection).



SECTION V: CHEAP MONEY AND THE SUBSIDY

A well known characteristic of the Addison programme was that local authorities had to pay high rates of interest on their loans raised for housing. With the exception of small local authorities with very low rateable values who could not get the money any other way, there was no provision made for easy access to funds from the exchequer. Most local authorities had to compete with all other borrowers, including industry and the state itself in the open market at a time of boom : a process which delayed their starting on housing schemes. The government did not accept responsibility for the supply of housing finance save by provision of a subsidy. According to Austen Chamberlain the then Chancellor of the Exchequer, housing was not

in essence national but local and only a national problem to the extent that the problem arises in each local authority.<sup>1</sup>

At this time the government was engaged in the attempt to reduce the money supply by mopping it up through the sale of long term Government Securities and a balancing of the budget. The problem was to fund the large scale floating or short term debt (Treasury Bills) on which the first war had largely been financed and which, because of their inflationary credit creating effects, needed to be reduced. Reducing inflation was imperative for the government tied as it was to the commitment to return to the gold standard. With all wartime consumer

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1. T172/1177 Chancellor of the Exchequer Miscellaneous Papers: 1920 Deputation from the Housing Representatives of Local Authorities. Chancellors speech 13th February 1920 reported at meeting of the Parliamentary Housing Group 3rd March 1920.

price controls and rationing abolished, and with the capital market flooded by share issues of firms anxious to raise money for expansion, there was no means of holding demand in check except by what Keynes later characterised as 'a swift and severe dose of dear money'.<sup>1</sup> The result of all this was an historically high average rate of interest of 6½% and cuts in public expenditure.

The banks would enforce these credit limits as a means of restoring for the government a sound currency required to...

return to Gold. But the return to Gold could not be separated from the interest of the city in a strong currency: it going some way to maintain or extend foreign deposits. In addition low interest rates would substantially disadvantage new investors as against old investors who had purchased when rates were higher. The consequences believed to flow from 'loose' money were unattractive to the city as a whole and, anxious to protect the value of their investment in a debtor state, they demanded a curb on any inflationary tendencies.

The identity of interest between the city and the Treasury based on the government's dependence on them for the implementation of restriction created a powerful obstacle to the advocates of social reconstruction and economic expansion. The same position did not apply after 1945. We have already drawn attention to the reduced role of the Treasury in the war economy, and the legitimacy of physical controls over monetary policy. In addition both the Coalition and Labour governments had

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1. T172/1384 Chancellor of the Exchequer. Miscellaneous Papers: Memoranda on Dear Money. Note by Keynes 7th January 1942.

no intention of returning to a gold standard which required the kind of restrictions seen in 1919. The position of the City of London as an international financial centre had been somewhat reduced along with the external position of British capital and the confident assertion of its interest was missing. Lastly, largely owing to the techniques brought to the Treasury by Keynes the war had been financed by taxation rather than expensive borrowing.<sup>1</sup> What borrowing had taken place was done on much lower rates of interest than in the first world war. The banks it seemed would suffer very little, if at all, from the continuation of cheap money into the peace; indeed, higher interest rates would depreciate the value of holdings bought when rates were lower.<sup>2</sup>

As we saw in chapter 2 the government had considered the question of post war internal finance and had decided that controls over the economy should not be abandoned and a phase of 'transition' and cheap money be instituted to prevent a repeat of the inflationary boom/slump of 1919-20 that had led to the demise of social reconstruction. With physical controls in operation there was no reason to turn to monetary policy as a means of controlling demand and as Dalton later pointed out, therefore, no reason to panic over a large floating debt, since the purchasing power which it would create could not be translated into effective demand because the existence of price control, fiscal policy and restrictions on bank lending. To

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1. see Sayers, R.S., Financial Policy 1939-45. History of the Second World War Civil Series (London, H.M.S.O. 1956).  
2. The Economist. 7th February 1942.

restrict demand and congestion in the capital market the government decided to continue the wartime ban on issuing shares without Treasury permission.<sup>1</sup> This was despite criticism that, together with the high level of taxation, industry would be handicapped if it could not borrow freely on shares to expand.<sup>2</sup> It was also decided that local authorities should get all their borrowed money for reconstruction from a fund at the exchequer and the latter would charge the same rate to them on which it itself borrowed for the fund.<sup>3</sup> Since the government had ensured by these restrictions that the market was clear, idle money capital would virtually have nowhere to go except into government stock. The state could thus raise money at lower rates of interest than would be the case without such intervention in the market. One of the objectives of this control was to protect and insulate social reconstruction.<sup>4</sup> All this was done with the failures of the previous post war period very much in mind. The thinking of the Treasury was now the exact reverse of the position Austen

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1. Cab 87/56 Committee on Post War Internal Economic Problems Paper. 17th November 1942. Capital Issues Control after the War. Note by the Treasury; see also Cab 87/13 Reconstruction Priorities Committee Paper. 19th April 1944 Capital Issues Control. Memo by the Chancellor. The regulation was eventually incorporated into the Borrowing (Control and Guarantees) Act, 1946, see Brady, R. Crisis in Britain: Plans and Achievements of the Labour Government. (Cambridge University Press, 1950). p.63.
  2. Cab 87/5 Reconstruction Committee meeting 31st May 1944.
  3. Cab 87/56 Committee on Post War Internal Economic Problems Paper. 17th November 1942. Borrowing by Local Authorities After the War. Memo by the Treasury. The mechanism was that the government issued local loans stock on the Stock Exchange, sold it and thus supplied the Local Loan Fund. The Public Works Loans Board (P.W.L.B.) then issued loans from the fund to the Local Authorities on application.
  4. Employment Policy. Cmnd. 6527. (London, H.M.S.O. May 1944). para. 16(d).

Chamberlain had maintained in 1920. The Treasury noted that if

Local authority expenditure is the result of national requirements, it is right that the Central Government should assume responsibility for providing necessary capital at the lowest possible rates.<sup>1</sup>

While the Treasury was keen to point out that centralised borrowing could only be tolerated for the 'transitional' phase, there was a realisation that a principle had been conceded: the government was willing to lend for capital projects which were in competition with or supplanted private enterprise. With these decisions local authorities were safe. It was no longer necessary for them to queue in the open market with their stock inspected and their yield rates open to rejection. Central government would lend them the money. Rejection of their application would be a tantamount to a government rejection of its own policy. Local authorities would now benefit by the fact that loan debt accumulated on new housing schemes would be lower than they could have expected on previous experience. This was a considerable inducement to build.

The policy of cheap money did not stop however with these control mechanisms. Hugh Dalton, the new Labour Chancellor

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1. Cab 87/56 Committee on Post War Internal Economic Problems. Paper Borrowing by Local Authorities after the War. loc.cit. These arrangements were later embodied in the Local Authorities Loans Act, 1945. 8 and 9 Geo. 6, Ch.18, (28th March 1945) IN The Public General Acts of 1945. (London, H.M.S.O. 1946), for its second reading as a Bill see H.C. Deb Vol. 407, Col. 907-42, 24th January 1945 speech by Chancellor.

with the support of Keynes,<sup>1</sup> decided to try and get the long term rate down from just over 3<sup>1</sup>/<sub>8</sub>%, where it was in 1945, to 2<sup>1</sup>/<sub>2</sub>%.<sup>2</sup> Short term rates had already been reduced to <sup>1</sup>/<sub>2</sub>%. In October 1946 he called in the 3% local loans stock, paid off part of it and issued a new 2<sup>1</sup>/<sub>2</sub>% stock in exchange for the rest. This 'conversion' operation by which existing loans were negotiated at lower rates of interest required a complicated strategy whose essence consisted of conditioning the market to accept that lower rate of interest. This was achieved by using 'departmental' or state funds (like the money in the Post Office Savings Bank) to support the market by buying the government's own securities, reducing the supply of long term stock, driving up the price for and the demand from buyers especially banks, drying up means by which investors could anticipate a fall in rates by buying existing high yielding stock and by flooding the market with further issues of short term bills, which, held as they were by banks as cash assets, would create credit, increase the money supply and reducing liquidity preference. By such means Dalton believed he would 'see the local authorities through'.<sup>3</sup> Advice that a drop in rates would hit the Insurance Companies<sup>4</sup> was discounted: the

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1. Dalton, H., High Tide and After : Memoirs 1945-60. (London, Muller 1962). p.124. See also T160 Box 1408 F19187. Application of Cheaper Money Policy : Meeting of Dalton, Keynes and Treasury Officials, Sir Richard Hopkins and Sir Wilfred Eady. 17th January 1946.
  2. In 1945 Local Authorities were borrowing from the P.W.L.B. at 3<sup>1</sup>/<sub>8</sub>% see H.C. Deb, Vol. 414, Col. 1224, 17th October 1945. Debate on Housing.
  3. Dalton, H., High Tide and After, p.165.
  4. T160, Box 1409, F19187 application of the Cheaper Money Policy. loc.cit.

city would have to learn to live on  $2\frac{1}{2}\%$ .<sup>1</sup> This policy would also help in the government's aim to shift the distribution of income and Dalton believed he was carrying out the spirit of Keynes dictum regarding the 'euthanasia of the rentier'.<sup>2</sup> But there were limits to how far the cost of the housing programme could be kept down by this method and these limits were set by the speculators, who, believing that the rate was as low as it was likely to get and could only rise, did not want depreciated stock on their hands and engaged in a bout of selling at the end of 1946. This sentiment was further fed in January, 1947 when the annual statements of the chairman of the big five clearing banks suggested that cheap money could not be maintained.<sup>3</sup> The very fact that investors left off and sold, led to the rise that they expected as prices fell and the government had to give new terms for their support: so by the end of 1947 the rate was back up at 3%.<sup>4</sup> Nevertheless the initial success of cheap money campaign was important insofar as the most progress was made with it at the time the Ministry of Health was engaged in a crucial negotiation with the Treasury and local authorities regarding how far the state was to subsidise the high cost of building council houses.

The Coalition had agreed that the pre-war subsidy for slum clearance should be available for general needs, although

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1. Dalton, *High Tide and After*. pp.291-300.
  2. see Ilersic, A.R., Government Finance and Fiscal Policy in Post War Britain. (London, Staples Press 1955).p.220.
  3. Kennedy, C.M. 'Monetary Policy' in Worswick, G.D.N., and Ady, P.H. The British Economy 1945-50. (Oxford, The Clarendon Press 1952).p.201.
  4. The P.W.L.B. rate to local authorities was increased to 3% in January 1948, see Government and Industry, (London, P.E. . 1952). p.191.

the exact amounts were to be fixed when a better estimate of building costs could be made.<sup>1</sup> The existing subsidy of £5.50 from the Exchequer and £2.75 from the local rates (a ratio of 2:1) on each house as a contribution toward the annual interest loan charge on the capital cost (that could not be met by rent) spread over 40 years was to remain for the time being, and any changes backdated to cover houses built in the new programme.<sup>2</sup> We have seen that legislation restoring the general needs subsidy was passed in August 1944.<sup>3</sup> During the drafting of this legislation however, the Treasury had opposed the unqualified re-introduction of a general needs subsidy and had written into the Act a requirement that it should only be operative for 3 years (until August 1947) and could be renewed only with their permission.<sup>4</sup> The Treasury's arguments articulated by Sir Bernard Gilbert, at supply section, were two pronged. While subsidies would increase the charge on the tax and ratepayer, they would also increase the gap between economic rents in the private sector so that private enterprise would not restart building to let (which the Treasury assumed to be possible). That would be unfortunate because those having to be covered by subsidy would extend, as would the 'unfortunate social and political aspects of municipal landlordism'. He

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1. H.C. Deb Vol.397.Col.2057. 8th March 1944. Post War Housing Policy; see also Prem.4. 93/9 Various - Housing. Lord Wootton to the Prime Minister. 7th June 1945.
  2. Cab 87/7. Reconstruction Committee Paper 21st January 1944. Post War Housing Memo by the Minister of Reconstruction. The Author of this thesis has converted imperial to decimal coinage.
  3. Housing (Financial Provisions Act) 1944 loc.cit.
  4. Cab 124/446 Office of Minister of Reconstruction: Post war Housing letter. Note by Sir John Wrigley Minister of Health January 1944.



thought the question of rents should be the main talking point both in the Cabinet and in discussions with local authorities when it came to deciding on arrangements to cover the post war cost of building.<sup>1</sup> Issues surrounding the calculation of subsidy were from the start intensely political. Since the size of the houses was to increase from the slum clearance standard of 760-800 square feet to the minimum advocated by the Dudley Report of 900 square feet, with a fifty foot out-building, and additional amenities, and with building costs assumed to have increased by 60%, the cost of the new house would be nearly double the pre war figure.<sup>2</sup> If the general needs subsidy was to remain unaltered at the pre war 1939 slum clearance level on a new and increased economic rent, the Tenants would have to pay well over double the rent previously set of about 35p a week. The Reconstruction Committee agreed to the then Minister of Health's suggestion that local authorities not be obliged to implement the increased size and amenity standards to the full extent. The size was to be a maximum of 850 feet. The capital cost of houses could then be reduced and if the rents of older pre war council houses were increased to the same level as the new ones, a condition insisted on by the Chancellor,<sup>3</sup> the average rent for tenants could be kept at 50p a week, a smaller increase but reasonable in relation to the wage level. As this would still leave a

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1. T161 Box 1244S51518/02 Subsidies for Private Enterprise Housing internal letter. 15th April 1944.
  2. Cab 87/8 Reconstruction Committee Paper. 13th April 1944. Housing, Standards and Plans. Memo by the Ministry of Health and Works.
  3. Cab 87/5 Meeting of the Reconstruction Committee. June 5th 1944.

deficit not covered by the old subsidy, both the exchequer and local authority subsidy on each house would have to rise by 30% if the ratio of central to local contributions was to remain undisturbed at 2:1.<sup>1</sup> The first solution, then, to the problem of the high cost of building was at the expense of standards, the tenant losing by the amenities and the size of his house being less than he had been led to expect in the war. The Treasury would meanwhile pay only 30% more on each new council house than it had on new slum replacement houses in 1938, at a time when building costs were expected to have risen 60%. That this was an unstable solution would become clear when Bevan insisted on building to better standards and the local authorities pressed for a bigger Exchequer subsidy. The Treasury and the resident economists were however determined to fight this. The opinion of one resident economist advising the Lord President was that if interest rates rose above  $3\frac{1}{8}\%$  (and he had no expectation they would fall owing to the need to fund the short term government debt) then the whole problem of housing finance was a question of getting tenants to pay even more rent than allowed for in the previous calculation, if the subsidy was to remain at a reasonable level. There was 'a danger' that the level of subsidy would be determined by what people wanted to pay rather than what they could pay. After all, their ability to pay much increased rents was evidenced by the fact that they were spending more on drink and tobacco. A 'proper' rent should be paid as even now tenants on pre war estates are getting subsidies when they could do with-

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1. Cab 87/5 Meeting of the Reconstruction Committee, 17th April 1944.

out them.<sup>1</sup> When Labour came to power Sir Edward Hale and Bernard Gilbert of the Treasury argued along similar lines. Rents should bear the brunt of the increase in cost and the general needs subsidy be discontinued as the 1944 Act had indicated in October, 1947. If the subsidy ratio of 2:1 was to be maintained, and the respective increased contributions kept at what the previous Coalition had outlined for a house built to lower standards, rent would have to go above 50p a week. 'If the ratio were once increased we would never get it down again.'<sup>2</sup> It was no solution to suggest the annual burden be reduced by extending the period of repayment from 40 to 60 years since that would mortgage the future. Ministers should concentrate on the question of rent: this was the fundamental issue.<sup>3</sup>

Bevan had met the local authorities on 11th September 1945 and they had argued for an alteration of the ratio. In October, Hale wrote to Bevan's Accountant, H. George:

The rent put by your Minister is not enough and unsatisfactory to be used in negotiations with the local authorities.

How could the superior Dudley type houses be subject to the same rent of 50p as a temporary prefab? To put up the Exchequer contribution would remove the management incentive of local authorities to economise. To Hale the 2:1 ratio was sacrosanct, 'If we depart from this where will we be able to stop?'

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1. Cab 117/125. Reconstruction Secretariat: Post War Building and Housing Programme: Proposal for a National Housing Corporation. D.N. Chester (Economic Section Cabinet Office) to A. Johnstone. 6th June 1945.
  2. T161 Box 1301S54574. Papers leading to the Housing Bill 1946. 21st September 1945. Memo by Sir Edward Hale.
  3. HLG 101/252 Housing Finance (Costs, Rents and Subsidies) 1942-5. 2nd October 1945. Sir Edward Hale to H. George.

If there was difficulty in getting local authorities to accept the increased contribution then rent increase was the answer. The Treasury did concede on the point regarding a 60 year repayment period thereby proposing a smaller rent increase for tenants than previously at 60p.<sup>1</sup> But even this was too much for Bevan and he wrote direct to the Chancellor, Dalton over the heads of the Treasury Civil servants, Hale and Gilbert.

At a rent of 60p we should be asking for trouble, a rent of 50p was already 40% over the 35p now being paid (on existing council houses) ... [and] although the increase in the cost of houses is already considerably more than 40%, I suggest we can not have regard to that aspect of the matter.<sup>2</sup>

Bevan followed this up with a private talk with Dalton which he later noted.<sup>3</sup> Dalton had conceded the overwhelming need to give housing priority and to give it a 'flying start' and not jeopardise the beginning of building. He would agree to 50p so long as Bevan would agree to re-open and review the question after two years.

For the purposes of negotiation with the local authorities, the Treasury's second line of defence was presented to them by Bevan. This involved keeping rents at 50p, increasing the subsidies from both the Exchequer and local authorities in such a way that the Exchequer paid proportionally more thus breaking the 1938 ratio. But this concession by the Treasury would only operate until April 1947. After then the Exchequer contributions and the rate contributions would come down as the

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1. HLG 101/252. Housing Finance (Costs, Rents and subsidies) 2nd October 1945. Sir Edward Hale to H. George.
  2. HLG 101/252 Housing Finance (Costs, Rents and subsidies) 12th October 1945. Bevan to Dalton.
  3. HLG 101/252 Housing Finance (Costs, Rents and subsidies) 26th October 1945. Note by Bevan.

cost of building was reduced and the deficit contracted so that by 1949 the 2:1 ratio would be restored. If costs did not fall as anticipated in the scale, the difference should be met from rents. The local authorities at the conference on 16th November, rejected this. Tender prices were already higher than the Treasury calculated, the cost of land and building workers wages meant building costs would increase rather than fall and therefore the Exchequer contribution should rise or if not at least the ratio of contributions should be 3:1. Gilbert at the Treasury thought that a way out was for Bevan to withdraw his recent circular to local authorities obliging them to build Dudley sized houses.<sup>1</sup> Bevan did not respond, instead the two ministries agreed that their final offer to the local authorities would be given as a 3:1 ratio which annually meant £16.50 from the Exchequer and £5.50 from the rates. This would last until July 1947 with a review in October, 1946. The sliding scale was dropped. The local authorities still argued that subsidies should be higher because the Treasury had underestimated present costs and the likely deficit. But the latter's concession of a special higher subsidy for areas of low rent capacity or low rateable values, poorer agricultural areas, and houses built on expensive sites seemed to win them around.<sup>2</sup> The result of all this was that Bevan had gained from the

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1. HLG 101/252 loc.cit. 13th December. Memo by Gilbert.
  2. HLG 101/216 Post War Housing Subsidies. 11th January, 1946, Conference between Representatives of the Ministry of Health and local authorities. Legislation was eventually passed in the Housing (Financial and Miscellaneous Provisions Act 1946, 9 and 10 Geo. 6. Ch.48. (18th April 1946) IN The Public General Acts of 1946. (London, H.M.S.O. 1947).

Treasury not only a rise of 60% in the subsidy over the pre war figure but had made them pay proportionately more towards the housing deficit than local authorities.

The governments policy of cheap money was not entirely separate from the matter of subsidy. It exerted a powerful 'masking' influence at the crucial stage when the subsidy was up for review between October 1946 and January 1947 since this was also the stage at which Dalton had managed to reduce local loans stock to  $2\frac{1}{2}\%$ . While the local authorities could argue that the subsidy ratio should not be altered or the amount of subsidy reduced because of the still high and rising cost of building, the Treasury could argue that the fall in interest rates did not warrant a rise in the subsidy either, since the reduced annual loan charge would have a compensating effect. Both arguments cancelled each other out so that the result was a continuation of the subsidy at the existing rate for as long as the crisis of building costs was to last. The Treasury had maintained that the rationale for its creeping withdrawal would be a fall in building costs. If this did not happen, it could stand its ground on refusing to increase the subsidy but it would find it difficult to reduce it or the ratio without threatening the housing programme. The dependency of the housing programme on elements of cost that were loosely controlled as in the case of materials producers or temporarily reduced in the case of the interest rate, [the limits in the latter case being set by the speculators,] made it likely that the trend of costs would continue to move upwards. In this case the Treasury would be faced with a further demand for its money

both in terms of the amount it would have to loan out on the total programme - money it would not get fully paid back for over 60 years and the money it would never see again in the form of gifts on each house built. Such demands would either have to be agreed to or Housing cut at a time when the public has been given to expect a substantial attack on the problems of need. It is hardly surprising then, given this high cost environment, that the Treasury was unable to achieve its earlier ambition of reducing subsidies after 1947. Instead it confirmed, and maintained a costly programme that would extend into the fifties.<sup>1</sup>

#### SECTION VI: THE PLACING OF PRIVATE ENTERPRISE HOUSING

In achieving a priority for housing, the government eventually came to the conclusion that speculative private enterprise housing would not be able to play a big part in the satisfaction of general needs in the years immediately after the war. We shall show in this section that of all the aspects of the housing programme this was the easiest to manage. Although the labour government differed on precise detail with the Coalition, it did not pursue a policy which completely excluded private enterprise. Rather the placing of private enterprise followed largely the planning that the main body of private builders accepted. They were serene in the knowledge

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1. Local Authorities were informed in June 1947 that the present rate of subsidy would be extended to June 1948 when there would be another review (see T161 Box 1301/S54574 Papers leading up to the Housing Bill 1946). From 1947 to 1952 building costs continued to rise and the interest rate reached 4½%. The Tory Housing Minister, McMillan, negotiated an increase in the subsidy in 1952 to £27.70 from the Exchequer and £8.90 from the rates. (The 3:1 ratio remaining), see MacMillan, H., Tides of Fortune 1945-55 Volume III Memoirs (London, MacMillan 1969) pp.369-460, see also Nevitt, A.A. Housing Taxation and Subsidies (London, Nelson 1966)p.107.

that they would be contracting for many local authority tenders, and that their interest would be guaranteed by a long term building programme on which the eventual re-entry of private housing for sale would play a big part. Of more concern to them was government recognition for a scheme that would in effect guarantee future building society mortgages and ensuring that those estates left unfinished because of the war were finished and either sold off to councils or to private owners specified under the states licensing system. We therefore conclude that the limits or extent of the public housing programme in reconstruction cannot be ascribed to the political opposition of the private sector in this field.

The building sector at this time can be divided by size into four main sectors, each sector specializing in one major type of building activity, although in practice the categories of work overlapped. There were the large contractors, firms such as Wimpeys, Costains and Laing whose boundaries were regional and national rather than local, and who built on large contracts for the government, such as hospitals, developed commercial sites and engaged in large scale private and public housing schemes. Middle sized builders, mainly confined to localities, were able to contract for Local Authority schemes and develop their own estates in anticipation of demand to their own designs. Smaller general purpose builders subcontracted to others on housing schemes and on their own specialised in building small estates often of private luxury housing. Lastly, there were the very small 'jobbing' builders who specialised in maintenance and repair work.<sup>1</sup>

1. see Working Party Report on Building, 1950, loc.cit., p.36.



During the war the larger builders were strengthened considerably both at the economic and political level. They received a large portion of war work during re-armament and after, at a time when the private housebuilding boom of the 30's showed signs of slowing down.<sup>1</sup> This position meant they were regularly consulted over a wide range of issues: a development institutionalised in the state apparatus. A National Consultative Council was formed in 1941 when the Minister of Works looked for a body 'fully representative of the industry' and this was seen to be the National Federation of Building Trade Employers (N.F.B.T.E.).<sup>2</sup> It was in this secure environment of state guaranteed contacts that the unions negotiated and got through joint agreements with the N.F.B.T.E. for improvements in wages and conditions such as the guaranteed week, holiday with pay, and payments for 'wet time' that were effectively to ensure a permanent high cost industry after the war. The government recognised these agreements and made them uniform and compulsory for the whole industry: a situation which was to continue after the war. No builder could contract or be given a licence unless registered and holding a certificate issued by the Minister of Works promising to implement the new wages and terms of conditions. There were prosecutions if building took place without this.<sup>3</sup>

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1. see evidence in Works 26 on Distribution of War Contracts. Wimpeys and Laings seem to have had a good share.
  2. Works 45/25 Consultation with the Building and Civil Engineering Industries. The National Consultative Council was known until February 1945 as the Advisory Council on the Building and Civil Engineering Industries.
  3. Works 45/24 Consultation with Building and Civil Engineering Industry. Circular 22nd April 1946. Defence Regulation 56 AB also in HLG 102/103 National Building Programme - Licencing for Housing.

Most of the big builders favoured a large state induced, guaranteed and subsidised building programme to sustain their large profits and provide an outlet for their capital in the guaranteed market they had now got used to working in. They were therefore, most anxious that the state should not revert to the pre war system of internal financial orthodoxy where money had constrained building. They favoured Keynesian public works financing.<sup>1</sup> With the prospect of war work being cut, a large housing and building programme would fill the gap.<sup>2</sup> To further this they supported the idea that a limit should be fixed on expenditure for maintenance and repair after the war on work that would tend to go to the smaller firms and even volunteered to do the licencing themselves, examining the small builders accounts to ensure that their profits were reasonable.<sup>3</sup>

We have already noted earlier the setting up of an internal enquiry in the Ministry of Health into the private enterprise housing after the war, (The Pole Committee). The brief of this Committee was to find out the conditions in which the private sector could operate. One of the crucial problems for general builders was the problem of what to do with their estates left partially completed after the declaration of war.

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1. Building Industries Survey Vol. VII.No.3. 1941-2 pp.122-3. This was the organ of the Building Industries National Council a summit organization for the whole industry set up after the 1931 cuts and including unions, merchants and materials manufacturers.
  2. Cab 124/395 Correspondence with the Building Industries National Council 11th July 1944. Memo from the Building Industries National Council on Building and Planning.
  3. Works 45/63. Advisory Council on the Building and Civil Engineering Industries meeting 13th December 1944.

Some of this was just derelict land but others had developed sites on which there were partially completed houses.<sup>1</sup>

It is apparent from evidence given to the Committee that, in this and in other issues, those who saw themselves as the main competitors to local authority housing were the smaller builders organised in the Housebuilders Association and the Federation of Master Builders. Builders such as Charles Boot's First National Housing Trust who wanted to build for let or those who built for sale. Both were anxious to proceed with their own building straight away.<sup>2</sup> They could not afford to carry their capital for a long time, as could the bigger builders, having not been involved in war work to any scale and they were not likely to get large Council tenders. Small scale developers who bought land and developed sites from bank loans would have to pay even bigger interest charges on the purchase price if their houses were uncompleted and left unsold. These, often family firms could not raise funds from shares or from their own internally guaranteed profits, since they did not have the scale or variety of work to keep them going over a 'stop' period in the upper luxury end of the market: the only market which could generate prices high enough to finance their expensive loans. The only way they could diversify was to extend

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1. HLG 37/67 CHAC Sub-Committee on Private Enterprise (Pole Committee) Minutes and Papers. Letter from National Federation of Housebuilders 19th September 1944 who said they had 31,200 acres on their books. The Housebuilders Association had 10,580 acres, see letter from W.H. Heath and Sons, February 1944 and letter from Housebuilders Association 18th November 1943. See also: Cab 124/601 Correspondence with Housebuilders Association, their letter 22nd November 1943.
  2. HLG 37/67 CHAC Sub-Committee on Private Enterprise undated Paper P.E. 37. Evidence from Federation of Master Builders.

their conversion, maintenance and repair work and this was going to be cut by the state.<sup>1</sup> These builders need to start building as soon as possible in order to unlock capital sunk in land banks.<sup>2</sup> They resented the fact that local authorities were pre-empting land from private development.<sup>3</sup> Their second problem was that the domination of the big builders in the war had meant a higher cost environment. They attacked the 'onerous' implications of the guaranteed week, holidays with pay, and the heavy employers contribution under the Beveridge scheme. Since they built for rent as well as sale, rent decontrol and rent increases were advocated. The Housebuilders Association which represented many family firms and included the National Builders Collateral Defence Committee, argued that without such changes they would have to be subsidised to the same extent as local authorities with similar privileges, regarding cheap borrowing.<sup>4</sup> By April 1945 it became quite clear that the government's Rent Act of 1939, which had extended control to all houses built after 1919, was going to continue for ten years and although houses for rent built post 1945 would be technically free,<sup>5</sup>

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1. HLG 37/67 CHAC Sub-Committee on Private Enterprise. Joint Deputation of Housebuilders Association and the Federation of Master Builders. They wanted expenditure to be free of licence up to £1,000.
  2. To assist them some landowners had granted a moratorium on the debt by allowing the builders to return the land at an agricultural rent until the cessation of institutes, see HLG 37/67 CHAC Sub-Committee on Private Enterprise Evidence of J.J.Williams President of Land Agents Society and Principal Agent to the Earl of Sefton.
  3. Cab 124/601 Correspondence with Housebuilders Association Charles Boot to Herder (Ministry of Health) 22nd November 1943 with his enclosure 'Post War Housing' also in HLG 37/67.
  4. HLG 37/67 CHAC Sub-Committee on Private Enterprise Housebuilders Association Evidence 18th November 1943.
  5. Report of the Interdepartmental Committee on Rent Control Chairman Lord Ridley). Ministry of Health (London, H.M.S.O. April 1945).

the terms on which permission to build would be granted would include a maximum rent condition that would effectively rule out the kinds of rent charges anticipated. The small builders however argued that tenants could afford higher rents with full employment and high wages. The money value of existing rents, they maintained, had declined since they were pegged in 1939 and costs had risen substantially.<sup>1</sup>

Despite the failure of Building Societies to lend on houses built to let in the building for sale boom of the 30's and state encouragement for it in the Housing (Financial Provisions) Act of 1933 and 1936, the building societies had made another promise in 1943.<sup>2</sup> In essence the 1933 lending scheme had failed because, they said, there was no provision for a reserve to cover liabilities falling on them for depositors money loaned at a lower rate than usual. This margin they said the state should pay. But this arrangement required high rents since the loan period was not so long as local authorities.<sup>3</sup> They would not lend to builders unless the government paid a subsidy to cover the high post-war building costs. This seemed to mean a double subsidy, one to the building society and one to the builder, and was rejected by the government.<sup>4</sup> If the state, as

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1. Cab 124/601. Boot to Herder loc.cit.
  2. HLG 37/67 CHAC Sub-Committee on Private Enterprise. Speech of Chairman of Building Societies Association Mr. William McKinnel 14th April 1943 and memo 'Houses for Letting' 26th July 1943.
  3. For the Acts of 1933 and 1936 see HLG 52/758 Guarantees to Building Societies. For the new proposals see HLG 37/68 CHAC Sub-Committee on Private Enterprise - Miscellaneous Papers letter from Halifax Building Society 22nd July 1942 and HLG 37/67 letter from Building Societies 8th November 1943.
  4. Cab 87/8 Reconstruction Committee Paper 20th June 1944 Private Enterprise in Housing after the War. Memo by the Minister of Health.

seemed likely, also intervened to set a maximum price for those houses built for sale the small building sector would be severely squeezed.

The bigger builders in housing were represented by the National Federation of Registered Housebuilders (N.F.R.H.B.) whose Councils were dominated by Comdens, Calverley and Sons, Taylor Woodrow, Wates, John Laing, George Wimpey as well as middle-sized builders who were primarily interested in building for sale to owner occupiers. They did not argue against the better wages and conditions of their workers. This had been dealt with by 'both sides of industry', and they wrote of the 'ill considered publicity about costs' which, once the special factor such as lower output due to the predominance of old workers and the shortage of bricks had disappeared, they could bear. If a subsidy was needed it was to be more in terms of equity - if the local authorities got one, so should they. But J. Laing suggested that it was only right, then, to accept the need for control over selling prices including resale. In addition, because the selling price was likely to be temporarily high, it should go to the purchaser at the demand end of the market to induce a sale. Purchasers would not come forward if houses built later cost less and devalued anything bought now. This position contrasted with the smaller builders who, being more concerned about their internal position, wanted the subsidy to go to them as a lump sum per house. Revival at this stage for the N.F.R.H.C. seemed less a matter of life and death, and although the revival of large scale speculative building in anticipation of demand could not be written off in the immediate

period<sup>1</sup>, they were quite prepared to accept the special measures of the transition period, especially for those who could not at the moment afford to purchase<sup>2</sup>. George Mitchell of Wimpeys agreed with Laing, all new building by private enterprise should be licenced for the transition period with luxury work excluded and repair and maintenance restricted.<sup>3</sup>

The Coalition had come to similar conclusions, having already agreed that the vast majority of houses should be provided by local authorities as the only agency capable of distributing according to relative need at a time of high building cost, material and labour shortages.<sup>4</sup> It had accepted the principal that private enterprise should have the same subsidy where it was meeting the same need.<sup>5</sup> But the projected output of new private building, given the above assumptions, for two years was only 50,000 plus some rebuilding of houses destroyed.<sup>6</sup> Out of the 200,000 expected to be completed in two years this 50,000 was 25% or a 1:4 ratio in favour of local

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1. The Building Societies had plenty of money to lend because of war savings, repayments on existing mortgages and the stop on the granting of new loans. Their asset position was very strong and they were ready for expansion, see HLG 37/67 CHAC Sub-Committee on Private Enterprise Housing Paper by Building Societies Association 11th February 1943.
  2. HLG 37/67 Paper from N.F.R.H.B. 18th February 1944.
  3. HLG 37/67 CHAC Sub-Committee on Private Enterprise Evidence Submitted by John Laing and George Mitchell of Wimpeys.
  4. H.C. Debs Vol.398.Col.278. 15th March. Debate on Housing; also H.C. Deb. Vol.409. Col.1027. Debate on Housing.
  5. Cab 87/8 Reconstruction Committee Paper. 1st June 1944. Private Enterprise Housing After the War. Memo by the Minister of Health.
  6. HLG 101/474. private Enterprise in Housing After the War. March 1945. Draft Notes on legislation for a subsidy; see also Cab 87/5 Reconstruction Committee meeting. 10th July 1944.

authorities. This was the ratio eventually adopted by the Labour government as a guide to local authorities. The Pole Report, published in July 1944, had outlined the likely state of the market as being unfavourable for new speculative building for owner occupation: demand would be satisfied for the time being on the supply of cheaper existing accommodation than more costly new housing. To the extent that prices rose, overall demand would be checked. Nevertheless, there was a rationale for limited participation of private builders in the housing programme, if only 'to get their organisation in order and fit them for the tasks ahead'.<sup>1</sup> The report also recommended on grounds of equity, a subsidy which would go to the purchaser to encourage him to buy a higher price house, which the general opinion was, was likely to be devalued when building costs came down. The subsidy based on this assumption was around £150 per house. This was a concession ringed by the condition that the houses built should be subject to some measure of control on the selling price (a maximum of £1,200 was fixed) and standard of size and construction to ensure that the houses were not of a luxury type but roughly similar to those of local authorities. The subsidy would operate for five years on houses built by the end of 1947 and there would also be a ban on re-selling for five years. Neither the Pole Report nor the Coalition's draft legislation in 1945<sup>2</sup> had as its objective the substitution

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1. Private Enterprise Housing. Report of the Sub-Committee of the General Housing Advisory Committee. Ministry of Health (London, H.M.S.O. July 1944) para. 90.
  2. Cab 87/37 Reconstruction Committee Sub-Committee on Housing Paper, 2nd June 1944. Private Enterprise After the War.



of private enterprise for local authority housebuilding in the years after the war, neither was its objective speculative building in anticipation of demand. The aim was to build for a limited number of known prospective purchasers.<sup>1</sup> The price and size of the house would be fixed and a licence to build issued on that basis: licences being issued only insofar as they did not interfere with the local authority programme. In this environment there would be no encouragement to the builder to prefer occupants who could afford greater amounts because the builder would be precluded from receiving higher sums. Private building would mean virtually working for local authorities, even if not officially contracted to them in these cases. When Bevan took over the responsibility for Housing it was decided to carry over the Coalition's arrangements but without the subsidy. While the needs of prospective owner occupiers had to wait, they had a right to consideration and this was the maximum that could be done for them in the transition.<sup>2</sup> The same price, size and re-selling restrictions of the Coalition were agreed by the Cabinet and incorporated in the government's first housing bill.<sup>3</sup> Explaining why he had cancelled the subsidy, he pointed

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1. Especially married men with no other home of their own, see T161 Box 1244 S51518/02 subsidies for Private Enterprise Housing undated H. George (Ministry of Health) to E. Hale Treasury); see also Cab 87/6 Reconstruction Committee meeting 26th June 1944.
  2. Cab 87/37 Housing Committee meeting. 5th September 1945.
  3. Cab 128/1 Cabinet meeting CM(45)41. 15th October 1945. The Treasury had been lukewarm about a subsidy to private enterprise thinking that 'it loses its virtue' by such assistance but had agreed so long as there was substantial local authority control over tenants and selling price, see Sir Bernard Gilbert to Mr. Padmore. 30th May 1944. T161 Box 1244 S51518/02 subsidies for Private Enterprise Housing.

out it was not right to give equal priority to those who could obtain a measure of priority for themselves by their ability to pay.<sup>1</sup> As it subsequently turned out, many local authorities over issued licences and Bevan was forced to formalise the Coalition's assumption that a total of 25% was the most likely share for private enterprise by instructing local authorities in March 1946 that they should divide the programme in a ratio of 4:1 in favour of council housing.<sup>2</sup> Circulars also tightened up on criteria for the issue of permits for maintenance and repair to ensure the 'defective' got priority over the 'decorative'.

After the immediate post war period, the big builders had every expectation that they would resume speculative building in anticipation of demand in the long term and devoted their time in this period to making plans to this effect. The issue that pre-occupied them in this period was the question of ensuring that the standards they would build to were recognised by building societies and government alike, moves which brought them into direct conflict with the smaller builders. As the latter were the strongest opponents of government policy this division prevented a united attack on the principle and practice of state intervention in the housing market. The issue of the Registration Council brought this to a head. The National Federation of Building Trade Employers (N.F.B.T.E.) had helped

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1. H.C. Deb Vol. 414. Col.1206-1321. 17th October 1945. Debate on Housing.

2. HLG 102/103 Defence Regulation 56A Licencing by Local Authorities Circular March 1946.

form its housebuilding members in 1917 into the National Federation of Housebuilders. They had built two-thirds of inter war houses and in 1937 they set up a Housebuilders Registration Council.<sup>1</sup> The origins of this body lay in the building societies hostility to jerry built houses which were poor security on which to lend and the big builders opposition to being undermined by cheap competition. The council, composed of representatives of N.F.H. and building societies, agreed to a model specification of work and materials to be used. Builders conforming to this were entitled to be registered as certified builders. The council would arrange inspections while building was in progress, while the builder would agree to make good any defects appearing two years after completion. Houses so certified would get advances to purchasers guaranteed by the building societies. The N.F.H. now wanted the state to validate the arrangement, and recognise that only new houses so certified could be sold via building society advances. To the smaller builders this represented an attempt by the big contractors and the building societies to squeeze them out. They were not represented in any of these organisations and if they joined the scheme they would have to join the N.F.H. (now the National Federation of Registered Housebuilders) and work to new uniform standards, not suited to the variety they preferred (building very cheap houses and small luxury types). Above all, the

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1. for details see Cab 124/583. Proposals on the Post War Building Programme by the National Federation of Registered Housebuilders.

scheme would tend to add to costs.<sup>1</sup> Many questioned the necessity for a rigid code of standards. Sir John McTaggart, Vice President of the Housebuilders Association and owner of tenement flats in Glasgow as well as luxury houses in London, argued that local bye-laws were sufficient.<sup>2</sup> The government sent observers to a conference of builders and noted the unco-operative attitude of the 'separatist' small builders and their desire to reduce costs by breaking the wages and conditions agreements set during the war.<sup>3</sup> The Labour government on 27th November, 1946, approved the scheme and put it on a statutory basis as part of the legal framework supervising building societies.<sup>4</sup> For this favour the government received the thanks of Sir Jonah Walker Smith, President of the N.F.B.T.E.<sup>5</sup> While expressing the hope that speculative building would start soon, with regard to the existing policy of licences he would be obliged if the government would increase the price restrictions on private houses. The figure fixed in May, 1945 was no longer sufficient to cover rising costs. The government responded in February 1947<sup>6</sup>.

While we have no evidence of a substantial

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1. HLG 37/67 CHAC Sub-Committee on Private Enterprise. Joint Deputation by the Housebuilders Association and Federation of Master Builders. 18th February 1944.
  2. HLG 37/67 evidence by Sir John McTaggart. Local bye-laws covered only essential health and fire risk regulations but McTaggart seemed to be implying they could be strengthened to include other aspects of building.
  3. HLG 101/313 National Housebuilders Registration Council: Conference on 23rd November 1944.
  4. HLG 101/314 National Housebuilders Registration Council: Approval of Scheme. 23rd November 1946.
  5. HLG 101/314 National Housebuilders Registration Council: Sir Jonah Walker-Smith to Sir John Wrigley. 27th November 1946.
  6. Cab 134/320 Housing Committee. Circular 25th February 1947 increased the price limit from £1,200 to £1,300 and announced that licenced private enterprise houses would form part of the governments target.

attack on government policy in this phase from the big builders, we can surmise that this would have developed the longer the government continued to operate its special measures and the longer they had to wait before re-assuming a full role. They received comfort from government assurances which, continued to stress the role of speculative building in the long run. Greenwood had commented at the very first meeting of Ministers on the subject that the priority policy for local authorities did not detract from the 'ultimate principle of owner occupation'.<sup>1</sup> To one builder the Ministry of Health stressed that it did not intend to prohibit building by private developers as a long term policy. The present restrictions were due only to shortages of building labour and materials and the need to concentrate on the provision of small houses for those in greatest need.<sup>2</sup> The main body of complaint in these early years came from small builders who stressed they were being crowded out by their exclusion from competition for the large council house tenders.<sup>3</sup> The government responded with a measure which enabled local authorities to invite smaller builders who already had sites in their possession to build houses and sell the developed estate to local authorities on completion. They would in return have to agree to build to local authority standards and accept a specified price. This arrangement, it was hoped, would help solve the problem of locked up capital, a particularly pressing problem for small firms. By being contracted to local

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1. Cab 124/450. Lord President's Office Post War Housing Policy Meeting of Ministers on Housing. 8th August 1945.
  2. HLG 101/461 Building Associations: Private Enterprise builders and individual representations 1945-58.
  3. ibid.

authorities, they would also get the benefit of 'low gearing' by which councils gave instalment payments on the total price as building proceeded, thus easing further the debt problem. An added bonus was the provision that (where the land was sold to local authorities first) the market rather than the 1939 value would be paid. There are no figures on the total response to the scheme although there is individual evidence of take up.<sup>1</sup> As for those smaller jobbing firms, in addition to their still extensive work on private maintenance and repair, they were also encouraged to subcontract to larger firms on housing schemes.<sup>2</sup>

By protecting the position of private builder large and small through their participation as agents in council house building (direct labour council building being little used) the government ensured the co-operation of the industry in its priority programme. Once it had been decided, as early as 1943, that the local authorities were to use the largest share of house building resources, the medium to large builders, not anxious in any way to build extensively in a high cost market at a time when consumer demand was restricted by heavy direct and indirect taxation, got the best terms they could for their own private work in a situation of shortage of labour and materials. Meanwhile a nationwide mass 'market', enabling a good turnover on total capital was guaranteed by contracting

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1. HLG 101/409 Erection of Houses by small builders: Correspondence. Circular to this effect enclosed 30th April 1946. This policy replaced the more tougher line where sites developed by speculative builders had been taken over by local authorities under compulsory purchase with the builder only being allowed to complete his houses if he could get a licence per house in the normal way see Cab 134/320 Housing Committee meeting. 28th March 1946.
  2. Cab 134/320 Housing Committee Circular dated 4th February 1947.

to local authorities on tender.<sup>1</sup> As it turned out the withdrawal of the subsidy for private sponsored building by Bevan did not alter the basic assumptions made by builders and government alike - that large private building for owner occupation would have to wait. The offer of a subsidy was always in terms of a policy of local licenses for known and qualified buyers and therefore did not differ qualitatively from working for the local authority direct. Both involved production for use or order rather than speculative building in anticipation of demand. The contention of Michael Foot<sup>2</sup> that the grant of a subsidy would have enabled builders to turn aside from the 'planned' sector lies on a very shaky foundation for this period. It is with all this in mind that we have called this section the placing rather than the exclusion of private enterprise. We shall see in chapter 7 that the main challenge to the housing programme in Reconstruction came from other sources.

### Conclusion

In this long chapter, we have described in a number of areas how a discrete housing programme emerged and how the government built into it a number of devices which, it believed, would ensure its priority and insulate it from challenge. We have seen that in terms of finance, the government, possessing limited control over the cost of building, ensured that the

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1. During the war the number of building firms declined from 70,000 in 1939 to 40,000 in November 1944. By 1948 the industry had more than recovered at 73,011 helped by the abolition of the ban on new entrants in January 1946. see Working Party Report on Building loc.cit. pp.4-5.
  2. Foot, Bevan. p.74.

the programme would not falter on the grounds of its high cost and guaranteed the necessary money to sustain it. We have demonstrated that, in terms of the availability of labour and materials, the government set up priorities and allocation devices to give preference to new permanent housing, and set up an administrative system to control and sanction the whole process. Having pointed to the weaknesses and instability of this structure in terms of the performance of its objectives, we noted that the determination to push forward with building new houses was not held back by the recognition of these weaknesses and that housing was protected from the supposed rational appraisal at various stages in the formation of the building manpower budget by wartime guarantees made to the building industry over employment. In later chapters we shall show how and why the demand for the adjustment and cut in the housing programme, which as we have shown surfaced during the planning of Reconstruction, re-emerged and the origin, nature and content of the challenges it received. We shall show that although these challenges now gathered more political weight behind them, they faced the problem that while the administrative system could not fully guarantee all of the stated objectives (for instance a rapid rate of completion), the mechanism and rationale behind it was sufficiently strong to produce rigidities which the challengers could not guarantee to successfully remove.



CHAPTER IV.

The Setting of Constraints:

Reconstruction and the Debate on Trade.

INTRODUCTION

In Chapter 1 the importance was stressed of locating the determinants of reconstruction policy, and particularly the housing programme, as widely as possible. Consideration would be given not only to origin, progress, and decision making within the programme itself, conceived as a discrete entity, but also to factors which affected its success but would otherwise be the subject of a separate object of analysis. One of these was the Trade programme and the impact of the international economy. To understand these effects we cannot assume that they can be added on to our concerns as some sort of difficulty impinging externally on the programme as a 'crisis of the balance of payments' which suddenly crashes down on proximate decision makers from outside. Instead we have conceptualised reconstruction, and housebuilding within it, as a policy not immediately given to analysis but whose meaning and structural complexity is given its very form and content by factors outside the immediate field. These conditions were not 'facts' of the economy but a combination of elements subject to political management and which helped to forge the relations established between the internal and external economy. It is these relations that provided a 'hidden agenda' for reconstruction. Such relations however should not be theorized according to some inflexible and necessary logic read off abstractly from the requirements of capitalism as an international system. An agenda can always be modified even though a meeting must take place.

The role of political intervention can be found in the way that relations between the internal and external sectors are established. It is not just a question of the management of constraints with their accompanying problems of order and consent since the form in which the constraints emerge is itself manipulable.<sup>1</sup> The relations in the internal economy as we have seen in Chapter 2 were established by a particular balance of class forces which emerged from the home front in war and resulted in an essentially bureaucratic framework for the management of domestic reconstruction. International economic relations, unlike Interstate Relations, can theoretically operate within a system of command and control the possibility of which is limited in the latter case by the fact that to impose such commands on unwilling subjects resort must be made to war.<sup>2</sup> Relations with other economies can be subject to control by virtue of the fact that the relations are based on exchange with the withdrawal of one party to the exchange automatically forcing the other into acceptance that trade is no longer possible. Such a coercion need not directly interfere with the politics or administration of the

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1. In conventional definitions the idea that the essence of politics lies in the management of conflict while the resource constraints which help structure such conflict are essentially problems of 'scarcity' - the subject of a separate discipline, economics, is implicit for instance in Miller, J.D.B. The Nature of Politics (Harmondsworth Penguin 1965) pp17-18 and explicit in Brown, A.L., Rules and Conflict: an introduction to Political life and its study. (New Jersey Prentice Hall 1981) pp.183-4.
  2. This is an oversimplification in practice, Country A may be able to coerce Country B by diplomatic and trade sanctions. Although there are limits to this, set usually by the politics of Country B and the determination of Country A.

country concerned because it can be enforced by a restriction on the importers and exporters of the initiating state. There appear to be limits to such a bureaucratic framework in this area. The first is the seemingly logical deduction that 'where goods cannot cross borders soldiers will'. This appears to be deducible from empirical evidence of the 1930s where a system of protectionist economic blocks was associated with re-armament and the outbreak of war. This proposition or correlation was challenged by what we shall call the bilateralist faction in British politics who argued that a system of trade and exchange control would be appropriate for peace. The second limit appeared to be that such a system would contradict the requirements of capitalism as an international economic order, such requirements being essential for the expansion of the dominant fraction of capital. Trade and exchange control would appear to mutate the course of resource allocation that would otherwise be determined by the international distribution of productivity. Such a mutation however is precisely the form of politics that is desired and to a large extent practised by the social democracy of weaker nation states anxious to protect their constituency from the costs of an adjustment to the dominant economic logic without sacrificing its benefits. The limits of such 'protection' and whether these costs were transferred, postponed or eliminated will be discussed in chapter 6.

The purpose of this chapter is to examine the initial adoption of Free Trade Commitments, the weakness of the bilateralist alternative and the eventual policy mix that

provides the setting against which later trade offs between the export, capital investment and housing priorities will be examined. The extent to which Home Reconstruction was conflated to the problem of external competitiveness is at the heart of chapter 7. From this chapter it will be apparent that discretion was not removed through the emergence of policies setting constraints between 1942 and 1945. On the other hand while it is true to say that discretion remained, to talk in terms of policy 'choice' so that some decision making by political actors becomes the independent variable is to underestimate explanation of the conditions for the existence of action in a form which can reveal structures and processes in the environment outside their immediate control. Even political actors have a script, and we shall show the chief weakness of those that advocated a protectionist strategy to match the planning of internal reconstruction with a more secure bilateralism in external trade, ( - the extensive programming of social security in its widest sense, ) was a failure to recognize the constraints implicit in the course they advocated. This failure was compounded by their strategic weakness in the sense of their inability to form the political alliances that were essential if they were to capture and control the decision making apparatus.

What emerges from this chapter is a dialectic between choice and determination by constraint, creating the room for 'policy space' where politicians could practice their arts. This space would narrow as time elapsed since one of the conditions the British government agreed to in negotiation

with the Americans was to renounce discretion in the long run. But the short run was what Reconstruction was all about. The real argument would centre later on how far the former was to be used in preparation for the latter.

### Section I : AMERICA AND MULTILATERALISM

The Restoration side of reconstruction characterized by a desire to abolish bureaucratic controls was the dominant trend in the U.S.A. after the war. A deformed system of trade and payments had grown up in Europe in the 1930s. To advocate a return to the 'Natural' principles of market competition after the war was ideologically very sound. Was it not self-evident that the state run 'totalitarian' inspired system of blocked accounts, import controls, export direction and currency rationing led inexorably to the division of the world into economic blocs and thence to war as the only way one bloc could penetrate another for sources of raw material it did not possess?<sup>1</sup> It seemed reasonable to assume, therefore, that the abolition of restrictions and the breakup of the blocs would lead to the maintenance of peace with free exchanges and free trade leading to liberty and freedom in general<sup>2</sup>. It also happened to be a convenient coincidence that this 'natural' system was the best way the American government could further the interests of American capital in the inter-imperialist struggle: as the strongest competitor it could afford

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1. The Dollar-Bloc, the Sterling area, the Nazi New Order, the Japanese Co-prosperity Sphere etc. existed with various degrees of hostility from the 1930s to 1945.
  2. Cab 87/64 Committee on the Economic Aspects of Reconstruction. Speech by Sumner Welles to New York Trade Convention October 1941 relayed by Halifax to Foreign Office.

a free climate. The American government could therefore further such an interest while giving the appearance of furthering principles whose universal connection with peace was self-evident.

The Free Trade Movement in America led by the economic liberal Sumner Welles and Secretary of State, Cordell Hull, was determined to break all protectionist devices such as preferences, State trading and bulk purchase all of which, incidentally, also cut out the banking and insurance middlemen. For Welles this was a 'coercive totalitarian system of trade'. The connection between this and the potential damage to

American Capitalism was clear. U.S. exports would have to be restricted to what did not compete with other nations since other nations would not allow in goods they could make themselves and which assisted home employment irrespective of whether U.S. production was cheaper. The problem after the war was that U.S. industry would have surplus productive capacity. Her production, both agricultural and industrial, had been greatly stimulated as a result of being a war supplier. The rapidity of reconversion back to civilian production had only intensified this. Come the peace she would want to realize the value of her extended capacity (which could not be absorbed in her own home market) invested in mass production by continued sales. To do this she needed to remove blockages on access to the world market. Initially U.S. industry had grown on the basis of a massive home market backed by a high tariff wall. But although the U.S. tariff still remained, U.S. spokesman continued to make a distinction between tariffs as

defensive instruments to help infant industries and the aggressive British imperial preferences whose object seemed to be to extend and make exclusive spheres of influence on the world market for older inefficient producers.

American capitalists, when they lobbied Congress, constantly stressed the problem of excess capacity. The railroad companies wanted increased trade to increase freight, the tobacco trade wanted stability and relative fixity on the foreign exchanges (fluctuations in the 20s and 30s had been so frequent that revenue from shipments could not be predicted). Convertible currency to facilitate the free spending abroad by importers was agreed by all. The Motion Picture Industry saw it as a means of ensuring that rentals and royalties on films, profits on production facilities and holdings in theatres and distribution agencies could be freely repatriated without a blocking mechanism of exchange control. The electrical industry, massively overexpanded in war, wanted an increase in trade particularly for the radio side. The relationship between the export trade and direct investment was argued by the Petroleum industry. Investments in oil fields and refineries had to be financed from the surplus realized in export markets. Again exchange control would prevent conversion of profit into dollars especially if the sales were to countries in the sterling area (basically the British empire and spheres of influence) where currency rationing was managed in London with the expressed desire to restrict the spending of dollar and gold reserves. Excess capacity and the consequent collapse of profits after the ceasing of war production was a particular



fear for the American Textile industry. Cotton and wool production was 50% up on levels of 1938. The highly productive U.S. automobile industry was in a similar position. In addition it had its direct investments in the form of branch manufacture and assembly plants in the U.K. on which profits must be freely repatriated<sup>1</sup>. Full employment policy in the U.S.A. was dependent on finding a profitable avenue for surplus capital. President Roosevelt spoke of 'trebling our exports'<sup>2</sup> as the way of counteracting any U.S. depression and protecting jobs. That required free access to markets and investment outlets both domestic and imperial. Free access would also be necessary for the purchase of an increasing volume of new materials and minerals necessary for increased trade.

For American capital to be satisfied with the Postwar International economic order the British, it seemed, would have to surrender much of the structure of imperial currency and trade practices including preferences and inconvertibility which had evolved in the interwar period and intensified during the war. But in Britain many thought it worthwhile retaining and utilizing these in order to achieve a planning of and security in the management of foreign trade. These neo-mercantilists or Bilateralists as we shall call them advocated an option which they thought would be protectionist in the widest sense including the insulation of Home Reconstruction from the effects of an anarchic world trade in

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1. T236/162 Publicity Papers issued by the U.S. Business and Industry Committee for Bretton Woods Roosevelt Hotel New York.
  2. Speech of Roosevelt October 1944 quoted in Brady, R., Crisis in Britain: Plans and Achievements of the Labour Government. (Cambridge University Press 1950)p.619.

which the less efficient would lose out. Later we shall identify the advocates of this option and their weaknesses, but first it is essential to outline the key tenets of this thinking.

## SECTION II: BILATERALIST THEORY

The Bilateralist theory assumed that foreign trade would be conducted through previously negotiated agreements or contracts. Country A would agree with country B that it would export a certain quota of commodities at a certain price. This would give to Country A the guarantee that its scale and costs of production would be realized in future sales protecting it from loss through a guaranteed market. Country B would agree to receive the goods in return for its exports being accepted by country A. Both countries A and B would have an exchange agreement which prevented each other from using these foreign currency earnings in order to buy the currency of a third country. This would particularly suit weaker states with high cost uncompetitive production who could ensure that countries they imported from would not use the proceeds of their sales for anything else but for reciprocal purchases from them, irrespective of whether the same commodities could be obtained from a third country with cheaper prices. By removing the competitive market principle it would discriminate against those countries whose cheaper mass production techniques would otherwise penetrate markets. Indeed one of the motivations of the weaker country in opting for such bilateralism would be to exclude the more highly productive.

This system was essentially mercantilist, because, instead of seeing competition, productivity gains from the international division of labour, and comparative advantage as the key concerns for the operation of a successful international trade policy it narrowly conceived the Nation as the basic unit of trade. Within the Nation interests of the state in the management of trade would be settled by deliberate policy choice rather than impersonal market forces. Trade would not freely operate, as in Multilateral Trade, according to relative price considerations (purchases in the cheapest and sales in the dearest markets) with the overall balance of trade (Total exports - Total imports) being the spontaneously generated outcome of productivity gains or losses. In the bilateralist scheme, on the contrary, trade would be built on sales and purchases being balanced on a Nation to Nation basis: payment being taken in goods not currency. Maximizing the state of the Reserves would be one of the first considerations and not sacrificing gold and dollars by allowing them to be drawn on for 'inessentials'. The state would decide the 'priority' of import and ration out the means of international payment accordingly. This would be especially so where our reserves of a foreign country's currency were low because we had not exported to its highly competitive home market and therefore earned its currency. This was the case with the U.K. exports to the U.S.A. and helped produce the famous 'Dollar shortage'. The high productivity of the U.S.A. meant that they held most of the world's gold and dollar supply. The emphasis of bilateralism was to buy from such countries only if we could

not buy anywhere else and engage in a programme of import substitution as far as possible to avoid such a dependence. The Bilateralist state was therefore discriminating in its trade practices. Unlike multilateralism it was not indifferent to its sources of supply and sought to directly establish the social necessity of commodities for trade: such things as luxury production and foreign travel being strictly controlled. Under such a system international trade and exchange could proceed but in so far as it satisfied use value.

The bilateralist option summed up in the phrase 'we buy from them: they buy from us' seemed to offer security to the weaker Nations. Behind its erected walls protection was not only given from the competitive thrust of more productive countries who were not going to devote so much of their resources to social reconstruction, but also from any potential slump in overseas world demand which occurred after commodities earmarked for export had been produced, threatening full employment. Under a pure gold standard equilibrium was supposed to be re-established by a fall in prices consequent on the lack of demand, the loss of foreign reserves and the consequent contraction of credit. Because bilateral deals specified quantity and price in advance, the buying country would agree in contract or treaty to take imports irrespective of whether its own price level had fallen and its own inferior substitutes were now more attractive. Conversely if there was worldwide inflation imports could be got at the old agreed price.

Of course this is very abstract, and simplified; the degree of insulation would vary with the type of bilateralist system adopted. The version described here is a form of barter or direct exchange of definite commodities. A less bureaucratic form that does not eliminate the individual trader is the payments agreement where the proceeds of export are earmarked for purchases in the same country but without a restriction of choice. Under such Clearing Agreements all payments are credited or debited to a Central Account, payments from that amount can only be made with permission. Should any deficit occur between the two countries then special favours are granted to balance out the advantage.

To summarize the bilateralist option was for conscious planning of trade to a lesser or greater extent<sup>1</sup>. Under multilateralism trade is the result of the activities of a number of a number of exporters and importers, none of which knows whether his particular transaction will be offset by somebody else's in the opposite direction or whether there will be a surplus or deficit as a result. Bilateralism substitutes security for efficiency, the reduction of uncertainty for risk

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1. There were variations. Conservatives tended to want to plan by monetary means: price supports, tariffs, preferences. The Socialist variant preferred import/export Boards, bulk purchase (state trading). Both supported the idea of inconvertible currency blocs and bilateral agreements of one kind or another. Shinwell, the chief labour advocate, wanted planned bilateral trade with an expanded sterling area and not just confined to the empire. Yet he shared with Conservative imperialists a concern with empire development and expansion and was all for using sterling balances for the purposes of capital export (H.C. Deb, Vol.399, Cols. 1977-1988 10th May 1944. Debate on Monetary Policy).

the visible for the unknown and production for a guaranteed market as the aim and outcome of the process.

### SECTION III : THE U.K. COMMITMENT TO MULTILATERALIST PRINCIPLES

To achieve the benefits of bilateralism in the British postwar context certain assumptions and instruments had to be present. The multilateralists, or those that advocated free trade, argued that these initial conditions were absent, the bilateralists that they were present. We shall now outline the bilateralist case and locate its advocates.

The bilateralist case was developed during the war and after as a response to the American diplomatic offensive on the merits of a return to a liberal international economic order. This began with the wartime statement agreed between Churchill and Roosevelt in August 1941. The so-called 'Atlantic Charter' had specified in addition to national (political) self-determination 'equal access to the trade and raw materials' from all the world. It was followed by the discussions, that centred around Article VII of the Mutual Aid Treaty, February 1942, by which lend lease supplies were given to the U.K. The article promised that while the aid would not be given in such a way as to saddle the recipient country with a post war debt, it nevertheless embodied a 'price' of sorts in the agreement extracted from the British government that it would undertake to move towards a policy of removing discriminatory trade practices. The implication was clear, Article VII was expressedly framed using the word 'consideration' in relation to land lease supplies. Congress insisted such generous aid should show some benefit to the

U.S. and Britain had to acquiesce in America's determination to impose and extend her economic power in the world.

J.M. Keynes, sent to negotiate the form of words in the article, recorded his conversation with Dean Acheson in July 1941 when the early drafts were being prepared.

"I asked whether our acceptance of this article would preclude a system of imperial preference. He said it would. I asked him whether it would preclude import and exchange control. Mr. Acheson said it might be interpreted that way ... (the President) wanted a policy 'of excluding special privileges on nationalist or imperialistic lines'. In view of the benefits to be received now he thought we should not be left as free as air after the war to adopt any economic system we thought fit."<sup>1</sup>

To ensure that Britain would be weak enough to keep her side of the bargain after the war, the U.S. government would not give lend lease until British gold and dollar reserves had been reduced below a certain level. We also had to promise not to use any of the materials intended for war production in export.<sup>2</sup>

The U.S. government gave early warnings that it would not tolerate the continuation of lend lease after the war to help the U.K. over its balance of payments difficulties. Congress would want to know why American surpluses should be taxed away to bolster up the weaker capitalists.<sup>3</sup> After the rejection of the first draft article, the second was agreed and contained the beginnings of a compromise position whereby

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1. Prem 4 17/3 Consideration for Lend Lease. Memorandum of Keynes conversation with Mr. Dean Acheson of the State Department July 28 1941 also in Cab 117/23 Reconstruction Secretariat Office Memorandum.

2. Gardner, R., Sterling-Dollar Diplomacy (New York, McGraw-Hill 1969 edit) pp.173-4.

3. *ibid* p.186.

the U.K. would do what the U.S. wanted in the long run, but only by engaging in discussions to that end 'in the light of economic conditions'<sup>1</sup>. The British had successfully inserted a proviso that the Americans also consider the question in future discussions of how the New international economic order could guarantee full employment, so that the elimination of discrimination could be matched by policies for the 'expansion of production, employment and exchange'. In the spring of 1943 the Cabinet decided the basis on which it would open negotiations. It would try to co-operate with multilateral objectives in the long run, but for the short run it would seek to retain our rights to protection.<sup>2</sup> The two sets of largely theoretical discussions got under way between officials of both governments in September 1943.

The problem for Britain was that in addition to selling many of its foreign investments and running down its reserves, it had developed a series of debts to its own dominions and colonies. (The so-called Sterling balances). These were the result of colonial export earnings to the U.K. and British military expenditure in the empire which were frozen and held in the form of Treasury Bills and promises to pay until such time as we could redeem the debt either in exports to them, or in whatever currency they called for in a convertible currency system.

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1. Gardner, R., Sterling-Dollar Diplomacy pp 56-9.  
2. Cab 65/34 Cabinet meeting WM(43)50, April 8th 1943.



In the meantime the gold and dollar equivalent of these Treasury bills were held in a London managed 'Dollar pool' so that dollar expenditure could be rationed for the empire as a whole: permission having to be granted for those wishing to draw on the pool for U.S. goods. The inconvertibility of sterling balances, and the dollar pool system, if continued into the peace threatened to divert trade away from the U.S. and encourage a high level of exchange between sterling area countries at U.S. expense. Now, if convertibility was to be accepted in an environment where, because of a weakened and devastated Europe, the Americans would be doing all the selling, a situation would soon arise where Britain, in particular, would lose even the small amount of liquid reserves of gold and dollars necessary to hold against a short term deficit.

By the middle of the war, Keynes, as advisor to the British Treasury on these questions, had modified his earlier position towards national self-sufficiency on the assumption that it might be possible to overcome the negative impact of Free Trade on weaker countries by persuading the stronger ones to provide enough aid to obviate the need for deflation.<sup>1</sup> He proposed a Clearing Union Plan whose aim was to mitigate the effects of trade deficits on under-exporting countries. The Clearing Union (the British version of what later became the IMF) was to be an autonomous agency funded by penalising

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1. For Keynes earlier Bilateralist position see Brett, E., Gilliatt, S. and Pople, A. 'Planned Trade, Labour Party Policy and U.S. Intervention: the successes and failures of Post War Reconstruction'. History Workshop Journal 13 Spring 1982 p.131.

generally recognized at the time as the representative of the working class in the government), wanted the U.K. proposals for a Clearing Union amended so as not to involve any country in the compulsory improvement of its balance of payments by deflation and dear money. This Bevin believed would cause unemployment and would amount to a restoration of the gold standard.<sup>1</sup>

The Keynes plan<sup>2</sup> whose key principles of very generous creditor assistance was unacceptable to the U.S. in 1943-44 would, by 1947, in the form of the Marshall plan, be far more generous being based on fear of a Soviet threat. Then the Americans would see the need to assist even its potential European competitors, rather than have parts of the world taken out of the Capitalist world market. In 1943-44 the Soviets were allies, and the key question in the minds of Congress and the Administration was how to ensure the breakup of the protectionist currency and trade blocs that threatened the outlets for excess American production. The Keynes plan was based on the assumption that these countries would enter open trading only if American capital and banking interests recycled the profits of trade through an international organization (on which their voting and control powers were inadequate). The job of the organization would be to provide

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1. Cab 65/34 Cabinet meeting WM(42)55 May 1st 1942. The discussion centred around Cab 87/2 Committee on Reconstruction Problems Paper 24th March 1942 External Monetary and Economic Policy.
  2. For further details on the Plan, the Negotiations and the eventual Brettons Wood package in 1944, see Gardner Sterling Dollar Diplomacy.

credits for those in deficit. Thus countries that had registered a failure in the competitive process would get the use of reserves not earned by previous production for export. This would give them a facility for import without having to engage in a deflationary response. Although such a scheme primed world demand and, therefore, the demand for American exports, it seemed to the Americans that they would be paying for their own trade. All the liabilities fell on the creditor rather than in sound banking practice - the debtor. There was even a threat in the devaluation right granted to deficit countries. Even though this was hedged with restrictions, one of those restrictions also hit the creditor, since they prevented a retaliatory devaluation move being taken against a deficit country attempting to achieve instant competitiveness. The sanctions such as they were appeared again to hit the creditor. It was up to him to undertake an increase in credit and wages in order to stimulate foreign imports. All of which proposals could hardly be expected to appeal to U.S. exporters. The Keynes plan, as Gardner shows, was therefore countered by the White plan which essentially reflected the banking and insurance principle. In this scheme the extent of borrowing was to be matched by the amount contributed to the Fund after which further borrowing could only be granted with strict conditions including a rate of commission. No new international currency was envisaged as Keynes had suggested with his 'bancor'. Fixed exchange rates were proposed tying each currency to a gold/dollar supply which only 10% devaluation could relieve. A higher margin had to be agreed by the fund. The voting powers

of debtors on the governing board were reduced and creditors increased. Finally, more emphasis was to be placed on the policing power of the Fund in order to encourage countries in 'fundamental disequilibrium' to correct it within specific time limits.

The advocates of bilateralism argued that the discussions with the Americans were premised on the idea that a removal of discrimination was beneficial when they believed that a better bargain lay outside the American embrace. Within the Coalition Leo Amery, lifelong Conservative imperialist, leading light of the Empire Industries Association in the 20s and 30s, and now Secretary of State for India, advocated discrimination in trade and exchange and an exports policy based on imperial preference. He found the American proposals incompatible with any planned or group policy of expansion. He attacked American industrialists who wanted to deny protection to others, and American financiers who wanted us tied to the gold they held most of.<sup>1</sup> If convertibility was implemented holders of sterling balances would rush to exchange their pounds for dollars. Amery rejected this '19th internationalism' in favour of 'National control of monetary and economic policy'.<sup>2</sup> He knew Churchill's sentiment was essentially imperialist and in 1944 drew up his 'Alternative policy'.<sup>3</sup> He rehearsed the

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1. Cab 66/40 Cabinet Paper WP(43)388 2nd Sept. 1943. An Expansionist Economy Memo by the Secretary of State for India.
  2. Cab 66/44 Cabinet Paper WP(43)576 20th December 1943 Anglo-American Discussions under Article VII Memo by the Secretary of State for India.
  3. Cab 66/47 Cabinet Paper WP(44)129 23rd Feb. 1944. The Washington Conversations: An Alternative Policy Memo by Secretary of State for India.

case for import controls, preferences, bilateral state trading and the sterling area currency bloc, all of which would provide us with the 'external security' we needed.

Amery saw one way of redeeming the sterling debt in the requirement of dominions and colonies to buy British instead of allowing conversion into another currency. Consequently there would be a system of blocked accounts and restrictions on purchases from outside the area where prices might be cheaper.<sup>1</sup> For Amery the sterling debt was a way of keeping the empire together as an economic bloc with weakened British capital in a guaranteed market.

If they (sterling debts) are thrown outside the market they will depreciate the value of sterling ... to go back on imperial preference (would mean) that 'American capital would seize the opportunity of getting in here or in the dominions in order to secure a share in our expansion.'

In the early 1940's bilateralism attracted strong support from major forces outside the machinery of the War Cabinet where it was in a minority. It had the support of the main pressure group for British capital The Federation of British Industries (F.B.I.) who were unconvinced of the benefits of open trading, preferring 'the organisation and control of foreign trade' along bilateral lines with import, exchange and imperial preference. They regarded American multilateral ideas as the road to 'National bankruptcy'<sup>2</sup>, and wanted a monetary policy which would 'maintain prices at a figure at which production be carried on with reasonable profit and promote stability in

1. Cab 66/52 Cabinet Paper WP(44)368 3rd July 1944. The Sterling Problem. Memo by the Secretary of State for India.

2. Reconstruction: Report of the Federation of British Industries, May 1942, p.9 copy in Cab 117/199 Reconstruction Secretariat F.B.I. Reports.

the price structure with protection for the home market'.<sup>1</sup>  
Elsewhere they talked of open trading being derived from  
'doctrinaire economists' and wondered

If you buy agricultural goods from a country  
which makes its own industrial goods where are  
you going to get rid of your manufactured goods.  
If there was to be security at home through the  
full employment policy why not extend this  
principle to foreign trade.'<sup>2</sup>

It seemed as if the risks for national capital were too great.  
They were not short of chastisement for this lack of courage.  
The 'Economist' wondered whether British industry lost its  
competitive spirit? Why was there no mention of the need for  
greater technical efficiency, higher productivity or the  
development of new industries?<sup>3</sup> In a further attack on the  
search for 'guarantees' the Economist warned against 'soft  
options' in which lenders lend, debtors need not pay, and where  
the U.S. was 'Santa Claus'. Adaptability to the changing  
technical and market conditions was what Britain needed for the  
post war world not security at home and protection abroad. The  
standard of living could not be protected. It would be 'measured  
by the productivity of its people'.<sup>4</sup>

That the F.B.I. was looking for security rather than a  
competitive world market did not deter the Cabinet from  
entering negotiations for what it believed was in the long term

1. Reconstruction: Report of the Federation of British Industries, May 1942, pp. 27-8. copy in Cab 117/199 Reconstruction Secretariat F.B.I. Reports.
2. The Future of Our Export Trade: Report by the Federation of British Industries Feb. 1943. p.12 copy in Cab 117/199 Reconstruction Secretariat F.B.I. Reports.
3. The Economist June 6th 1942.
4. The Economist Aug. 1st 1942.

interests of British Capitalism, whatever existing British Capitalists might think. Many economists had moved to a multilateralist position including key resident economists in the Economic Section of the Cabinet Office led by Lionel Robbins. There were however notable exceptions such as Hubert Henderson.

The Bank of England also appeared to be against the implications of Article VII<sup>1</sup>. However they tried to rationalize this opposition, there was no doubt that, as spokesman for the Wider City of London, they feared a threat to financial business if the role of sterling as an international currency declined to a point at which the City's position as a world financial centre became problematic.

Another strand of bilateralism was the landed interest in the Tory Party represented in the Cabinet by Robert Hudson, the Minister of Agriculture. They viewed free Trade with suspicion if it led to cheaper foreign food supplies and prevented the kind of subsidy thought necessary for home produce. The move toward agricultural self-sufficiency in the war had led to a massive expansion of production on what was, in some cases, marginal land. Hudson thought, like all bilateralists, that the American proposals would lead to an uncontrollable system of demand and supply threatening internal stability, employment and social security in the widest sense.<sup>2</sup>

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1. Prem 4 18/1 Anglo-American Discussions on Article VII Cherwell to Churchill 9th February 1944 drew attention to the Banks opposition.
  2. Cab 66/44 Cabinet Paper VP(43)566 14th December 1943 Anglo-American Discussions under Article VII : Commercial Policy Memo by the Minister of Agriculture.

The bilateralist view was also supported by the TUC who did not agree that solutions should be based on a fragile export programme based on 'cut throat competition'. Instead public regulation and the planning of foreign trade was essential.<sup>1</sup> The Conservative imperialists particularly Beaverbrook, attempted to build a cross-party bridge to the Labour Party by identifying the American proposals as a return to the Gold Standard.<sup>2</sup> The Labour Party had particular memories of this financial constraint in 1929-31 and the issue had preoccupied them at Conferences since then.<sup>3</sup> They wanted to eliminate the extra-constitutional veto by what were seen as non-accountable, non-elected, foreign financial circles over domestic policy. Labour leaders, particularly Bevin, remembered the way in which the restoration of the Gold Parity in 1924 had led capitalists to search for cost reductions through wage cuts. The gold standard was identified with unmanageable and inevitable wage conflict between capital and labour<sup>4</sup>. This was something a trade union bureaucrat like Bevan anxious to bargain and with memories of the General strike wished to avoid. The Gold Standard had also meant a necessary restriction of credit that threatened full employment,

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1. Report on Employment. (London: Trade Union Congress October 1944) quoted Amery, L., The Awakening: Our Present Crisis and the Way Out. (London, MacDonalld 1948) p.111.

2. Cab 66/46 Cabinet Paper WP(44)95 9th Feb. 1944. Anglo American Discussions under Article VII Memo by the Lord Privy Seal. The Conservative imperialists had made a more formal approach to the Labour movement on Protection in the 1930's see Gupta, P.S., Imperialism and the British Labour Movement 1914-64 (London, MacMillan 1974) pp.68-9.

3. for instance LPCR 1944.

4. Cab 65/49 Cabinet Meeting WM(45)9 25th January 1945.



increased interest rates destroying the last post war housing drive and a balanced budget that had led to cuts in social services. Amery and Beaverbrook argued that fixed exchange rates tied to the Dollar which was linked to Gold was in effect Gold Standard and the proposed IMF Rules that not only allowed a 10% devaluation confirmed this.<sup>1</sup> Although there was no actual obligation to fix the internal price level in direct relation to the reserves, the need to rectify a deficit in a situation when abandoning the parity was excluded, made a deflation essential. Any system which sought external stability at the expense of the internal price level and the expansion of production, through a deflationary response, was a Gold Standard.

Fixed exchange rates are conduits through which economic ills flow and spread across boundaries shackling the weak to the strong.<sup>2</sup>

The preliminary discussion by officials in Washington on the article VII commitments had been summarized in a report to the Cabinet.<sup>3</sup> The only concession the U.S. was prepared to make was for a 1 year Transition period, where we would be allowed some use of import and exchange control. The bilateralist political strategy of appealing to Churchill's 'imperial conscience' through Beaverbrook's many private and official memos and by stirring up fears in Labour Ministers did not unnerve the multilateralist faction in the Cabinet.

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1. Cab 66/47 Cabinet Paper WP(44)95 loc cit
  2. Amery, *The Awakening*, p.98.
  3. Cab 66/44 Cabinet Paper WP(43)559. 17 December 1943. Anglo-American Discussions under Article VII Memo by Minister of State attaching Report of 'discussion between U.K. and American officials.

Rather than be on the defensive they mounted a strong counter-attack. The Minister of State responsible for the negotiations, Richard Law (later Lord Coleraine), had drawn up a paper on the crucial principles and issues at stake.<sup>1</sup> His paper sought to undermine the bilateralist assertion that their option, would lead to security thereby protecting home reconstruction. Law believed that the multilateralist alternative contained all the necessary safeguards and made no unrealistic assumptions.

The plain blunt truth that must be faced is that there is no mechanical device by which we can ensure that the rest of the world will maintain the population of these islands at a standard of living higher than that which it is entitled by its economic activity. That would depend on the energy, skill and productivity of its people ... No amount of wishful thinking or of Hegelian logic will soften the harshness of this formidable truth.<sup>2</sup>

He drew attention to the problem of the elasticity of demand for our exports abroad which was greater than our elasticity of demand for imports. In other words, foreign countries could do without our exports more than we could do without their imports. It therefore followed we had more to gain by lifting restrictions and maximizing world trade. The real problem which struck at the heart of the bilateralist case was the fact that 'we don't sell in the same markets as we buy', hence multilateral clearing would be beneficial, enabling purchases in one part of the world to be offset by the proceeds of sales in another. The alternative system of currency blocs and

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1. Cab 66/46 Cabinet Paper WP(44)81 7th February 1944. The Washington Conversations on Article VII Memo by the Minister of State.

2. *ibid.*

and bilateral trade agreements designed to balance purchases and sales may have seemed sensible insofar as it might seem absurd to buy so much from Argentina unless they bought from us, but to force manufacturers to produce for markets they had previously ignored would put them in a 'straitjacket'. They would not be producing the things for which they had a competitive advantage and aptitude but those specified by the state for countries we were importing from. In the long term, Law maintained, our bilateral partners will want to protect their infant industries stimulated as a result of a lack of British manufactured exports during the war. Our sources of raw material and food supply would then dry up. For instance the developing Bombay Cotton industry was not likely to allow British Cotton in and India would go elsewhere for cheaper and more available capital goods in the proportion she needed them. Law noted that our exports to imperial preference countries had already fallen by 1938<sup>1</sup>. The likelihood of our needing further financial aid from the U.S. meant that we should not encourage by our example a worldwide structure of protection equivalent to a declaration of war on the U.S. That would mean we would be 'deliberately organising the world into rival economic groupings in which not private entrepreneurs but powerful governments will be the protagonists.'

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1. This was admitted even by Amery. Only 48.3% (less than  $\frac{1}{2}$ ) of 1938 exports went to empire see Amery, *The Awakening*, p.65, Labour Party advocates of multilateralism argued that if countries were not discriminated against by the empire they would in turn have more to spend on our exports. R.W.G. McKay M.P. gave impressive figures. Between 1928-1936 there was a 10% increase in imports to the U.K. from the empire and only a 5% increase in exports to the empire. 60% of foreign investment was outside the empire. Australia was trading more with Japan than us and countries industrializing such as Malaya, S.Africa and India would have less need for manufactured goods from abroad. McKay, R.W.G. Britain in Wonderland, (London, Victor Gollancz 1948) pp.120-5.

Law argued we must be willing to listen to the Americans and look to the long term rather than concentrate on guarantees for a weak external position.

We cannot apply to our external arrangements for Post war reconstruction the principle we have chosen to apply to our internal reconstruction, namely, to concentrate on the transitional arrangements.<sup>1</sup>

Law was developing the case that would be argued later by multilateralists that the risks to reconstruction would be greater by 'going it alone' than by agreeing to U.S. plans with the possible aid of a bridging loan.

'Food, homes, the domestic programme and any help (would depend on)... discussing the questions of particular interest to the Americans.'<sup>2</sup> His paper went on to discuss the bi-lateralist alternatives in detail. On the prospects of a sterling bloc being continued to shelter Britain Law was sceptical. Canada was not even in the sterling area and in the event of such a contingency would erect her own tariffs - S. Africa would not renounce the Americans as the latter took her Gold while the Australians were buying and selling on the U.S. market. As he graphically put it: 'would Australia wish to forego U.S. refrigerators and razors in order to pile up at great financial risk in London hard currencies while its people went without.'<sup>3</sup>

Law had hinted at the fatal flaw in the dollar pool system: The necessity for compulsion. In the war it had worked on a

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1. WP(44)81 loc.cit.
  2. WP(44)81 loc.cit.
  3. WP(44)81 loc.cit.

voluntary basis, all the surplus dollar earnings of colonies and dependencies being pooled in London and spent only on urgent and agreed needs after discussion. Transactions with the outside world, including purchases outside the sterling area, were regulated by exchange control. The problem now was could we expect the Indians, the Egyptians and the Irish to hand over the proceeds of their exports to America to the U.K. Treasury to use as we determined while we compensated them with inconvertible sterling which they could only spend in the British sphere? What if they refused to accept blocked accounts of sterling that they could not convert and could use only to pay for the imports from us that we could not supply? Could we insist that they only convert to the extent they earned dollars to replace those taken from the pool.

Whether the Sterling Area could be maintained in its wartime form was dependent on how far mercantilist imperialism could be imposed. That would depend on the retention and even the extension of full political and repressive colonialism in the midst of growing Nationalist movements. Such a strategy was not likely to appeal to the British Government in the long term. The position of the Prime Minister, Churchill, on the whole issue was ambivalent: he had yet to commit himself. His attachment to the romantic ideal of empire contrasted with his admitted difficulty in understanding economic issues. Yet he was wary of letting himself fall prey to experts whose opinions may have had consequences for the future they and he were not completely aware of. Such a situation had surrounded Churchill's decision to implement in 1924 a return to the Gold

Standard at the pre-war parity. On the issues of the moment he was receiving conflicting advice. His friend Beaverbrook kept his imperial conscience while his scientific aide and advisor Professor Frederick Lindemann (Lord Cherwell since 1941) looked after the 'facts' and was given an important role as an economic policy adviser.<sup>1</sup> Churchill tried to solve his dilemma by referring Beaverbrook's and other memos to Cherwell. Cherwell portrayed bilateralism as a system of unrealistic barter with no one to barter with. Too many of our pre-war trading partners were producing their own manufactured goods.<sup>2</sup> The Cabinet that met to discuss Richard Law's paper was heated. Beaverbrook complained about the fixity of exchange rates, the blocks on devaluation and repeated his accusation that the IMF system meant a return to the Gold Standard. Finally he argued we would be 'throwing away the empire'. The Chancellor of the Exchequer Sir John Anderson replied that larger devaluation was allowed and the relative fixity was necessary in order to avoid the competitive devaluations of 1931. Import and exchange controls would be allowed for the Transitional period (construed as one of short term balance of payments deficit) until we had saved enough gold and dollars for our reserves to make convertibility feasible. Churchill sensing that the majority of the Cabinet were for proceeding at the least with further multilateral discussions agreed to let them

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1. Cherwell was head of the Prime Minister's Statistical Section staffed by economists and scientists.
  2. Prem 4 18/1 Anglo American Discussions on Article VII Cherwell to Churchill 9th February 1944.

go ahead on the condition that the alternatives were kept vocal.<sup>1</sup> Beaverbrook continued to ply Churchill with memos defending the preferences<sup>2</sup> and Cherwell continued to keep the Prime Minister reading the facts as he saw them. The latter drew attention in particular to the attractiveness of devaluation without retaliation, the risks of losing U.S. co-operation in any loan, and the political problem in keeping India and the Middle Eastern dependencies in a position where they could not use their earned sterling to buy foreign goods.<sup>3</sup> Churchill eventually drew up a compromise for limited Cabinet circulation in which there was to be a move towards American principles providing there was

no fettering of our country directly or indirectly to a Gold Standard and no abandonment of imperial preference unless or until we are in the presence of a vast scheme of reducing trade barriers in which the U.S. is taking a lead.<sup>4</sup>

The compromise was a neat one. A victory for the bilateralists would have implied a dramatic confrontation with the U.S. over a key part of Postwar planning at a time when U.S. Lend Lease aid was vital and the opening of a second front in Europe on D.Day was, with substantial American participation, a few months away. The Chancellor drew attention to the contractual nature of policymaking in this field. If we had

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1. Cab 65/41 Cabinet meeting WM(44)18 11th February 1944; see also same meeting full details in Cab 65/45 Confidential Annexe.
  2. Prem 4 17/10 opposition to International Monetary Policy : Beaverbrooke to Churchill 24th Feb. 1944.
  3. Prem 4 17/10 undated Cherwell to Churchill on Beaverbrookes February Cabinet Paper WP(44)95 loc.cit.
  4. Cab 66/47 Cabinet Paper WP(44)145 3rd March 1944. Discussions under Article VII Note by the Prime Minister.

rejected the U.S. proposals we would then have received Lend Lease on false pretences and they in turn would probably break their promise to us in Article VII that we would incur no post-war debts (as in 1918) as a consequence of war aid.<sup>1</sup> The government could certainly predict that having rejected American proposals it would find it difficult, if not impossible, to negotiate any peacetime loan to replace lend lease, the necessity of which was soon to be pressed by Keynes.

The weakness of the Conservative bilateralists lay not only in their minority position in Cabinet but their inability to maintain the coalition of pressure groups or to penetrate any political party on a scale sufficient to determine policy; previous supporters defecting to the multilateralist camp. This was particularly the case with the Labour movement and key Labour member of the coalition. Their consistent concern had been about security and the necessity of protecting reconstruction. Yet they began to side with multilateralism principally because it seemed to promise the best of both worlds with guarantees for the short run which was roughly equivalent to the beginning of the Reconstruction period. The multilateralist option, it seemed, would give Britain the benefits of open trading without the immediate penalties falling on a Nation that failed to improve its competitive position in time. Such a promise also eventually led to a more sympathetic line being taken to multilateralism by the Federation of British Industries. The lifting of immediate penalties was largely due to the successful negotiation of a

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1. Cab 87/97 Committee on Commercial Policy Paper 19th September 1944 Post War Commercial Policy Memo by the Chancellor.



'transitional stage' when protectionist devices could be used. This policy 'space' provided the guarantees required. The bilateralists by pointing to the vulnerability of British capital in an unbridled multilateral regime had not lost all. They had pushed the Cabinet towards a middle position which involved a strategy conditionally accepting the American proposals so long as deflationary responses to a balance of payments crisis could be avoided, a transitional period of protection could be guaranteed and to removal or reduction in imperial preferences would be matched by a similar movement in U.S. tariffs.

As it turned out the inclusion of the American tariff in the Commercial negotiations made free multilateral trade discussions a long drawn out process. They began in Geneva in 1947, and were not fully completed until the Kennedy round in 1967.<sup>1</sup> Many of the key preferences and discriminatory practices would as a result continue to be operative throughout the period of Reconstruction and into the 1950's.<sup>2</sup> The length of the transitional period was important in so far as it indicated whether the Americans would force a dash for currency convertibility sooner or later. Unlike the effects of the removal of preferences the removal of inconvertibility would have immediate effects on government economic policy and therefore on the immediate reconstruction programme. The Bretton Woods Conference held in the summer of 1944<sup>3</sup> finally agreed a

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1. See Gardner Sterling-Dollar Diplomacy pp.356-380

2. *ibid* p.360

3. *ibid* p.121.

transitional period of 5 years with special rights to continue it after this. Even at the end of a 5 year transition period the I.M.F. could only propose removal in exceptional circumstances. The requirement that Ministers had to consult the Fund after 3 years which earlier discussions had agreed<sup>1</sup> was altered to 5 at Bretton Woods.<sup>2</sup> The Federation of British Industries began to warm to multilateralism with its possible devaluation flexibly offering the prospect of instant competitiveness. They also liked the idea of the transitional stage and hoped it could be lengthened.<sup>3</sup>

Early in 1945 the Cabinet met to decide on the next move.<sup>4</sup> The Chancellor of the Exchequer suggested a debate in the Commons when the government would argue that there was nothing dangerous to our interests and that progressive liberalization would be our goal now that we had achieved transitional safeguards. The Cabinet disagreed, it wanted to see whether the intentions of the American Government as to how Bretton Woods would be applied were going to be modified by the line they took with their own legislature, the Congress. This was deemed essential before making a final recommendation to Parliament.

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1. Joint Statement by Experts on the Establishment of an IMF Cmnd. 6519 (London H.M.S.O. April 1944).
  2. Articles of Agreement - UN Conference at Bretton Woods Cmnd 6546 (London H.M.S.O. July 1944).
  3. Interim Report of the Federation of British Industries on the Final Act of the UN Monetary and Financial Conference. November 1944 IN Prem 4 17/14 IMF Discussion.
  4. Cab 65/49 Cabinet Meeting WM(45)9 25th January 1945.

Bevin questioned whether the transitional arrangements were for long enough. He wanted 8 years rather than 5 and hoped that the idea of stable exchanges would not lead us into having to adopt the sort of deflationary remedies which would only aggravate any unemployment we had. We should not have to ask permission from outside our borders for the right to devalue. Caution was still the watchword for the Coalition. Further decision on the American proposals remained suspended until the whole issue became inseparably linked with Britain's immediate financial problem.

The nature of this problem was a predicted balance of payments deficit occasioned by the loss of reserves and the sale of overseas investments. This had been intensified by a declining income from invisibles, the sterling debt and the loss of our dollar export markets, principally in S. America, as a consequence of inability to supply during the war. The leading sections of both political parties knew even before the eventual cancellation on VJ day that the U.S. government was not likely to continue lend lease for the Transitional period. The Chancellor of the Exchequer had informed the Coalition that the Americans not only failed to realize our position and our need for lend lease for a time after the war but were going to insist on being paid for everything in cash. This he said was largely a function of politics in the U.S. where the Service Departments were anxious to reduce expenditure and avoid the charge of extravagance during reconversion. In these circumstances we would have to put up a good case for a

new assistance.<sup>1</sup> As a result of their victory at the election that case would have to be put by a Labour Government whose Ministers had been most anxious to safeguard and insulate reconstruction while members of the coalition. The continuity of their stance on the issue, which amounted to moderate and conditional support for multilateralism would depend on how much of the Bretton Woods bargain could be retained in any negotiations for a loan and how far they could manage the bilateralists in their own Party both in Parliament and in the Cabinet. Ultimately, as we shall see, such management proved feasible because the bilateralists themselves did not wish to push their points and understood that their alternative involved as many if not more political and social costs than anything that was being negotiated.

#### SECTION IV : SHORTENING THE SHORT RUN : THE AMERICAN LOAN

It is now recognized that the economist J. M. Keynes came not only to have theoretical influence on British economic policy but also a role in the making of policy through the advice he gave on financial matters during and after the war and by being entrusted by the Labour Government with negotiations in Washington. In his earlier advice, he had given lukewarm support to the utilization of bilateralist practices without appearing to be completely against the American proposals. Optimism on the export prospects in a sellers market with western Europe devastated and Germany and Japan

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1. Cab 66/52. Cabinet Paper WP(44)360 1st July 1944. Our Overseas Resources and Liabilities . Memo by the Chancellor of the Exchequer.

effectively removed from the competitive process was reflected in his desire that any necessary peacetime lend lease or bridging loan should be rejected if it involved terms which encroached on our financial independence. It should be on our terms not theirs. If not, and the Americans insisted on imposing on us their international economic system, then we should go it alone, even if this meant: 'a postponement of much that the public has been led to expect'.<sup>1</sup>

This implied threat to reconstruction derived from Keynes recognition that bilateralism would not necessarily lead to a high standard of living: it was no 'soft option'. After the war the situation would be different, but

The financial problems of the war have been surmounted so easily and so silently that the average man sees no reason to suppose that the financial problems of the peace will be any more difficult ... for the supply departments the Treasury provided ... and money was no object ... That success is the greater obstacle to getting the problems of peace accepted.<sup>2</sup>

More or less a year later Keynes moved into hostility to bilateralism. Some of the reasons for this can be gleaned from his memo circulated to members of Churchill's pre-election caretaker Cabinet.<sup>3</sup> The significant points were now the extent to which bilateralism created dissonance with the ideology of capitalism, a fear of U.S. retaliation and the possible translation of disappointed expectations over reconstruction into social unrest. The consequences of 'etatiste bilateralism' as

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1. Cab 66/52 12th June 1944 External Finance in the Transition Memo by Keynes attached to Chancellors paper WP(44)360 loc.cit.
  2. *ibid.*
  3. Cab 66/65 Cabinet Paper WP(45)301 15th May 1945 Overseas Financial Policy in Stage 11 Memo by Keynes.

he now called it, involved the continuance of war rationing and controls more stringent than the present for up to 5 years, and a system of trading 'incompatible with the restoration of free enterprise.' This was because it involved increasing the power of the state, reducing exporters and importers to agents in a Foreign Trade plan who would soon see it as unprofitable pulling out and leaving a state monopoly in trade 'somewhat on the Russian model'. He noted that bilateralism was advocated by 'near communists' and it would result in American 'wrath'. The U.S. would persuade those non-colonial members of the sterling area in W. Europe and the Middle East to refuse to fall in with us. The consequences for Reconstruction of a breakdown in negotiations and the unavailability of a dollar credit would be political and social disruption and even starvation. Rather than 'retire as Russia did between the wars to starve and reconstruct' he hoped the Americans could be persuaded to give a generous and just loan making it possible to participate in arrangements 'which we ourselves prefer'. Although he felt this would allow reconstruction without the very serious costs involved in an autarkic solution he nevertheless considered that our acceptance should not be unconditional. If the offer was not sufficiently generous or involved stringent conditions we should be willing to 'keep alive the disagreeable, indeed the disastrous alternative, without, however, disguising from ourselves its true character.' He also hoped he could get a loan without having to go back on the good bargain we got at Bretton Woods. The 'sweet breath of justice between partners'

could win out.<sup>1</sup> As Keynes found later in the negotiations this was not to be the case but he never considered bilateralism as anything more than a bargaining counter and later on spoke of the nonsense of a:

separate economic bloc which excluded Canada and consists of countries to which we already owe more than we can pay, on the basis of their agreeing to lease us money they have not got and buying only from us and one another goods we are unable to supply.<sup>2</sup>

It was the Labour government, however, that had to take the critical decision. Keynes began to draw gloom as soon as they took office. In the same week as the Japanese war ended and lend lease was abruptly brought to an end Keynes sent his memo to the Cabinet via the Chancellor of the Exchequer on the coming 'Financial Dunkirk'.<sup>3</sup> If bilateralists thought that the aim of policy should be to protect the Reserves for a secure mercantilism Keynes stressed that there would soon be no reserves to protect. After noting that the sale of American investments, and the loss of shipping had reduced invisible earnings by 30% which amounted to disinvestment, he described how the export trade had been run down because of the war so that visible exports were at 4/10ths of their 1938 level. Export production had been severely restricted as manpower and materials had shifted to the war effort. Wartime lend lease, the sterling balances, the sale of assets and the running down of reserves had enabled us to put all our productive resources

1. WP(45)301 Memo by Keynes. loc.cit.
2. Speech in House of Lords 18th December 1945 quoted Bartlett, C.J., A History of Post War Britain 1945-75. (London, Longmans 1977) p.25.
3. Cab 129/1 Cabinet Paper CP(45)112. 14th August 1945 Our Overseas Financial Problems . An Appreciation by Keynes.

into munitions, and to spend abroad and import without equivalents being given in exchange. The war had meant a distorted system of supply and an overdependence on U.S. imports.

Keynes drew attention to a weakness in the bilateralist case linked to the argument he put earlier, in the context of the conditions necessary for the maintenance of a sterling area in a form beneficial to Britain, i.e. the necessary relations of coercion. Keynes drew attention to the massive overseas military and imperial expenditure. He was challenging the bilateralists on the costs of their essentially colonialist strategy. They argued there was security in imperialism. Keynes drew attention to the cost of defending that security in a period of home reconstruction.

How vividly do departments and ministers realize the gay and successful fashion in which they undertake liabilities all over the world and slop out money to the unfortunate represents a vast overplaying of our hand the possibilities of which will come to an end and in the near future unless we obtain a new source of assistance.<sup>1</sup>

Keynes then went on to detail figures on the prospective debts and balance of payments deficit over the years of the Transition. Ministers should accept that the economic basis for reconstruction was absent without a massive expansion of exports, a cut in overseas expenditure and U.S. aid. Keynes hoped we could get a grant rather than a loan and suggested the possibility of offering the Americans bases and pacific islands.<sup>2</sup>

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1. CP(45)112 loc.cit.

2. Bevan took up this idea and suggested Christmas Island. Prem 8/35 Financial Policy Meeting of Ministers 5th October 1945.



Unless these points were recognized there would have to be austerity worse than the war, with the best hopes of the government postponed.

The top labour ministers met and agreed to adopt a negotiating stance in which the loan would be put as a condition for any concessions on commercial policy.<sup>1</sup> Key ministers agreed that the length of the Transition period during which controls would be operative should not be fixed in advance but should be dependent on our circumstances.<sup>2</sup> By October 1945 it became apparent from Keynes telegraphs from Washington that the idea of a Grant with no strings attached was out of the question as far as the Americans were concerned.<sup>3</sup> Even if the negotiators had agreed to it there was no prospect of getting it through a Congress suspicious of public expenditure and anxious for tax reductions. The Cabinet decided to tell Keynes to inform the U.S. that the government would keep the transitional safeguards and discrimination for a longer period unless they agreed to a Grant.<sup>4</sup> Keynes replied that the U.S. were now insisting not only on a loan with interest but of tying it to the currency and commercial policy proposals by forcing Britain to determine its final attitude to Bretton Woods.<sup>5</sup> Dalton proposed the government agree to this so long as the U.S. agreed to accept our declaration that nothing in the final act would require us to adopt an internal deflationary policy at a time of unemployment, an obvious reminder to the Americans and the Labour

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1. Prem 8/35 Financial Policy 1945 Meeting of Ministers 31st August 1945.
  2. ibid 14th September 1945.
  3. ibid 5th October 1945.
  4. ibid 26th October 1945.
  5. ibid Keynes reply 28th October 1945.

bilateralists of the earlier guarantee of devaluation rights.<sup>1</sup> A fuller discussion took place on the 6th November.<sup>2</sup> Dalton repeated the devaluation rights and the guarantee of a transition period of 'several years duration' and that we would determine its length. Shinwell the Minister of Fuel, leading the bilateralists in the Cabinet, argued that it was folly to break up the sterling area. He advocated getting tough with the Americans on the assumption that they needed our massive market to sell in so they would not make things too difficult for us. Aneurin Bevan, the Health Minister, and Albert Alexander, the First Lord of the Admiralty, supported him. There was however, a weakness in Shinwell's argument concerning the dependence of U.S. exporters on the U.K. market. This was not, at least in the short run, real. After all there was no shortage of international demand, and with all other major exporters out of commission, American exports could easily be dropped on other markets at the asking price. Ernest Bevin although upset at dictation by the U.S., thought the left's alternative involved asking the British people to endure more austerity than needed. Shinwell conceded the point, but thought of appealing to the people in another General election. That suggestion was not discussed. Dalton drew the picture of a bilateralist Britain living on bread and potato rations, a lack of timber for housing and a shortage of raw materials for production. Morrison, in the

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1. Cab 129/4 Cabinet Paper CP(45)270 6th November 1945  
Washington Financial Talks Note by Chancellor.

2. Cab 128/4 Cabinet meeting CM(45)50 6th November 1945.

absence of Attlee, summed up the majority view. The loan would give us breathing space to build up our export trade.

The necessity of building up the export trade was continually being pushed by dominant labour ministers and was justified on reconstruction grounds rather than on any competitive logic. An export drive was necessary to the extent to pay for increased imports of food and raw materials that would be necessary to carry full employment. Full employment could also be maintained through the increased consumption of the masses made possible by extended social security, the introduction of family allowances and a doubling of retirement pensions. Yet to posit such immediate consumption levels was to assume that home production would provide for it via a multiplier effect. Yet with very little capacity to spare, given the demands of physical reconstruction and the housing programme, plus the resources and men still being taken by the armed forces, the investment necessary for any import substitution that was possible would take time. If import substitution was not possible then the only alternative was to expand exports and that meant capturing new markets by competitive selling. The bilateralist system of having reserved markets for certain exporters would not achieve the increased 150% of the 1938 level thought necessary. There was also an inherent contradiction in the bilateralist wish to export non-essentials to other countries yet preventing imports of the same. Ultimately the logic seemed to point towards a British interest in multilateral trade in the long term. In the meantime the Loan would guarantee the purchase of the necessary

imports.

The Americans having obtained the first victory by altering the request for a grant into acceptance of a loan with interest moved forward to extract further concessions. Dalton outlined the new American proposals, and summed them up as 'a money lender's charter' requiring the imposition of an audit on the state of our reserves'. The Americans were now demanding convertibility for all current earnings including those of the sterling area and the release of the sterling balances by the beginning of 1947. Our Transitional period, it seemed was being eaten away. They were proposing that by the end of 1946, dollar and sterling receipts from current transactions of all sterling area countries had to be 'freely available for current transactions in any currency area without discrimination' with the result that any discrimination arising from the dollar - sterling pool would end. This would ensure for them their objective of breaking up the sterling area and encouraging such countries to use their dollars to buy American instead of from each other. Quantitative import controls and exchange regulations guaranteed for the Transitional period would now have to end in December 1946.<sup>1</sup> Key ministers met in secret session.<sup>2</sup> All were angry at the cut in the Transition period of 5 - 1 year. Dalton even went so far as to suggest calling a halt to negotiations. Cripps disagreed and a consensus was reached when Bevan suggested trying to appeal to the Americans to think again. Nevertheless the Americans stood firm. Dalton next told

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1. Prem 8/35 Financial Policy 1945. Paper 23rd November 1945. Financial Talks Memo by Dalton.

2. Cab 78/37 Gen 89/6 Meeting of Ministers 23rd November 1945.

the full Cabinet that 'it was the best we can hope for'.<sup>1</sup> The full Cabinet discussed the position a day later.<sup>2</sup> Shinwell saw the proposals as:

incompatible with the successful operation of  
a planned economy

and repeated the argument concerning the negotiating weapon of our own large internal market. Bevan lent support to Shinwell's argument that they and the non-inner Cabinet should have more time to consider the proposals which had been largely negotiated with key ministers. Yet the majority were for proceeding along the lines of the Dalton memo. Dalton next proposed that in consequence of the American conditions the loan document be tied to the Bretton Woods Agreements Bill since to gain membership of the IMF a bill had to be passed before the 31st December. This proposal ensured that the Loan Agreement could not be delayed as the left wanted.<sup>3</sup> A smaller committee on which their presence was excluded approved the draft bill and authorised arrangements to rush it through the Commons.<sup>4</sup> The Americans were still standing firm on the transition period and again the Cabinet discussed whether negotiations should be broken off. Dalton argued the loan would be the equivalent of part of the previously agreed larger transition period enabling

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1. Cab 129/5 Cabinet Paper CP(45)312 28th November 1945. Washington Financial Talks Note by Chancellor.
  2. Cab 128/4 Cabinet Meeting CM(45)57 29th November 1945.
  3. Cab 129/5 Cabinet Paper CP(45)319 30th November 1945 Bretton Woods Agreements Bill Memo by Chancellor.
  4. Cab 75/21 Home Policy Committee Meeting 4th December 1945.

us

to rehabilitate our industry and trade and at the same time make some improvement in the standard of living of our people

without the loan there would have to be cuts in food rations, tobacco and raw materials, the latter causing unemployment in many industries (particularly the labour intensive textiles which relied in part on U.S. cotton). We should try to get them to grant a 2 year transition period but if not we could not break off negotiations. Shinwell said the length of the transition did not matter as far as he was concerned he was prepared to accept hardships in the short term but like Bevan would not press his objections. We had based our original policy on an approach to the Americans and we had to go on.<sup>1</sup> The U.S. negotiators stuck to a one year period but made the concession of one year after Congress had ratified, which, given the antipathy to the loan shown by the business orientated Congress, would be some time.<sup>2</sup>

Attlee signed the agreement on the 6th December and then committed the government to a debate from which the result would have to be YES and within 10 days before Christmas.

In the white paper, Dalton presented the negotiations to the public as though the U.S. had given us the loan to help towards our immediate deficit thereby assisting us to enter the multilateral system.<sup>3</sup> In fact, we had been forced to undertake

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1. Cab 128/4 Cabinet meeting CM(45)58 3rd December 1945, and CM(45)59 5th December 1945.

2. Congress did not agree until July 15th 1946, so the effective date for the end of the transition was July 15th 1947. An effective period of 18 months from British ratification in December 1945.

3. Financial Agreement between the U.S. and the U.K. Cmnd. 6708 (London, H.M.S.O. Dec. 1945) para.3.

a more swift commitment to the latter than that envisaged by the coalition in order to get the loan. This was certainly the way the U.S. administration argued to Congress. Congress was told by the chief negotiator Clayton<sup>1</sup> and by President Truman<sup>2</sup>, that the loan would achieve the more speedy removal of transitional controls than the Bretton Woods Agreement had provided for. Clayton in particular, disliked the more permissive arrangements negotiated by White, who he characterized as a 'New dealer'. He had ensured the strings attached to the loan were tight enough to commit the U.K. government on a specific timetable<sup>3</sup>. Apparently Clayton was getting letters from U.S. capitalists, in the form of the National Association of Manufacturers and Chambers of Commerce, that their support for the IMF funding was conditional on getting a quicker break in Imperial preferences, the dollarpool and import and exchange controls. The U.S. press was constantly re-iterating that the loan should not strengthen the British Empire and trading bloc. Congressmen argued they should not be asked to shore up British 'socialism at home and imperialism abroad'. Clayton argued back that the abolition of the dollarpool would mean that sterling area countries would no longer have their earnings frozen and paid in either sterling debt or goods from Britain but would have convertible rights which meant purchases on any goods they liked. Another justification given was that the proceeds of the loan to Britain would be bound to be spent on U.S. goods since the prospective deficit was a dollar deficit.

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1. Gardner, Sterling-Dollar Diplomacy p.196.

2. ibid p.245.

3. ibid p.196.

As for the transitional quantitative import controls operated via a Quota licencing system these would be quantitative restrictions for balance of payments deficit not a qualitative or discriminating protection that selected out sources of supply. So if imports of U.S. tobacco were restricted so would the Rhodesian substitute. Article 9 of the loan agreement only gave consent to State Trading and bulk purchase if it was in the cheapest market and was irrespective of whether anything was exported in exchange. The bilateralist imperative whereby A bought from B because B bought from A was effectively removed. Congress was also promised that the loan would not be used directly or indirectly to pay off sterling debts: either directly by using the proceeds of the loan or indirectly by exporting to countries who expected nothing save the cancellation of an IOU. The loan agreement required the U.K. government to block the sterling balances by writing some off (defaulting), funding them in longer term gilt edged stock, or getting the governments concerned (many of them poor countries like Egypt and India) to release them by agreement. This last possibility never really went further than wishful thinking as many big debt holders refused to 'write off a cent'.<sup>1</sup> Here, again, our lack of coercive power over the sterling area prevented a reduction of debt just as it prevented the bilateralists from extending it.

In December, 1945, the Commercial Policy White Paper was ready<sup>2</sup> and together with the loan agreement was debated over 2

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1. Dalton, H., High Tide and After: Memoirs 1945-60 (London, Muller 1962) p.73.
  2. Proposals for Consideration by an International Conference on Trade and Employment Cmnd.6709. (London, H.M.S.O. Dec. 1945.



days in Parliament<sup>1</sup>. This latter document stated the agreed multilateral objectives and made proposals about negotiations for an end to trade barriers, preferences, quantitative restrictions, subsidies and state trading. These principles were qualified by the non-deflationary guarantee and the U.S. *quid pro quo* on tariffs.

The point made in the debate was that these were not operative commitments but only commitments to enter into discussions on the basis of proposals in the White Paper. Article 7 said only we were obliged to 'enter into arrangements for ending'. There was to be no immediate abandonment of the preference system only a commitment to bargain and the White Paper was to be a basis for discussion. We seemed to be free to judge any proposals that emerged from the conference on their merits. This point was made by Cripps in the debate to illustrate the government's success in obtaining policy 'space' in which to manoeuvre.<sup>2</sup> Here we see the juxtaposition of the short term with its policy 'space' and long term commitments. Our hands it seemed were tied for the long term. While in the immediate period we could retain the preferences, we nevertheless agreed to all the main points in the objectives. We could hardly therefore defend the reasonableness' of the preferences given such agreement. Although the process of negotiating the eventual elimination of preferences would

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1. H.C. Deb Vol.417 Cols 422-558 12th December 1945. Anglo-American Financial Discussions and Cols 641-739 13th December 1945.

2. *ibid* Col 490-493 12th December 1945.

be a lengthy one, a definite undertaking or initial step was taken by which we agreed that no preferences should be increased and no new preferences should be introduced on further classes of goods.<sup>1</sup> But although this tied our hands so that no increase in imperial protection would be possible in the interim, existing preferences could continue to operate until negotiated away. That was a considerable advantage for a fixed term government anxious to operate in the short term.

The bilateralists last and rather desperate attack on the multilateral package was on constitutional grounds. In this they said they had 'right' on their side to the extent that the issue had never been put to the electorate. No Party had discussed it in the recent election and there were only vague hints in the manifestos. Voters could hardly be expected, even if they wished, to have registered their preferences with the absence of information. The 1945 election had been fought mainly on domestic issues. The bilateralists felt cheated. Although there had been debates on principles and as far back as May 1944 when the initial Article VII discussions were reported, at each stage it was stated that Parliament would not be approving anything only agreeing to approve papers that were the basis for discussion, or, as in the case of the May 1944 debate, 'providing a suitable foundation for international consultation with a view to improved monetary co-operation after

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1. The 1947 General Agreement on Trade and Tariffs (G.A.T.T.) limited the rights of signatories to increase preference margins or introduce new ones. But even after this a substantial proportion of the preferences remained, see Gardner, *Sterling-Dollar Diplomacy* pp.356-60.

the war'<sup>1</sup>. In what was to be the final debate on the question which the government saw as a necessary ratification, the Tory bilateralists, led in the absence of Amery by Robert Boothby, argued that the Commons had not been given a full opportunity for discussion: the fact that the loan and the Bretton Woods Bill were tied and had therefore to go together meant there was 'a flagrant breach of undertaking'<sup>2</sup>.

The eventual vote in Parliament reflected the usual Party discipline with accompanying Cabinet solidarity. Bevan, Shinwell and Alexander voted with the government along with the bulk of the Labour Party. The majority of the NO votes came from Tory imperialists. The official Tory opposition led by Churchill and Anderson abstained largely for tactical reasons and the desire to demonstrate to the public that they felt they could have done better than labour in obtaining terms for the loan. The handful of Socialist bilateralists that voted against, most notably the young Michael Foot and Barbara Castle were more than compensated by backbench leftwingers voting with the government including the militant anti-American Denis Pritt and Willi Gallagher the Communist M.P. The latter thought the loan gave us a breathing space in which to build up our assets<sup>3</sup>. Straight after this vote a second reading was given to the Bretton Woods Agreement Bill which approved the provisional arrangements for our joining the IMF and our financial subscriptions. The government and the speaker refused a debate.

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1. Parliament agreed to Cmnd 6519 loc.cit. Without a vote H.C. Deb Vol.399 Col.2046 10th May 1944. Debate on Monetary Policy.
  2. H.C. Deb Vol.417.Col.741. 13th December Bretton Woods Agreements Bill.
  3. ibid Col.556

They were told that the previous debate had resolved the issue of principle.<sup>1</sup>

The ambivalent attitude of the left bilateralists towards the loan meant that the labour government had little to fear from internal discontent on the issue. It had defended it as the equivalent of a transitional period, enabling us to have the benefits of dollar trade without its costs. The left began to realize that their opposition alternative would require a regime in which conditions would be such that, as Jenny Lee put it,

our people who had suffered so much already would suffer even more<sup>2</sup>

This is the reason why many back bench labour M.P.s sympathetic to planned trade did not push their opposition to a vote against their own government. The loan and the Transitional period seemed to provide the excuse not to plan external trade and yet achieve enough internal security to be able to proceed with reconstruction. This could also take place without having to pay for Lend Lease which would otherwise fall as a post war debt. Dalton later captured the mood of his colleagues and most of the Labour movement at this time when he spoke of the likely consequences of foregoing the loan. These included the breaking of election promises, going 'deeper into the dark valley of austerity'<sup>3</sup> worse than at any time in the war with less food, few cigarettes and heavy and growing unemployment in many industries and the near future as 'black as a pit'<sup>4</sup>.

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1. H.C. Deb. Vol.417 Cols. 740-741.

2. ibid Col.671. 13th December 1945 Anglo-American Financial Discussions Debate.

3. Dalton, High Tide and After pp.84-5.

4. ibid.p.87.

CONCLUSION.

If the loan and the transition period (however short) had provided the policy 'space' which the government could use for Reconstruction without having to submit to the immediate blast of open trading, that space had been so shortened in the loan negotiations that the rational move for the government was now to use that time to prepare for entry into the system negotiated for the long term. Even before the war it was becoming difficult to balance the foreign account without liquidating foreign investments and draining our reserves. There was also gradually shrinking income from invisibles.<sup>1</sup> In addition internal productive capacity, if not destroyed as much as housing, had been overused in the war. These factors all indicated that the rate of accumulation needed to be stepped up. It would also be necessary to provide for full employment and an increased level of import. According to this logic, restructuring of manufacturing industry should have been the vital task for the transition - a transition into the new negotiated international economic order. An outline of the necessary measures had been planned by Dalton while President of the Board of Trade in the Coalition. In order to promote exports and efficiency it was suggested that a special priority for exports in labour and raw material allocations should be given with better depreciation allowances to encourage a faster re-equipment rate, relief on ploughed back or undistributed profits and compulsory

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1. Walker, G., Economic Planning by Programme and Control in Great Britain. (London, Heinemann 1957). Table 4.p.106.

rationalization.<sup>1</sup> The home markets claim for raw materials and factory space should be kept as low 'as health and morale permit'.<sup>2</sup> The Board of Trade stressed increased productivity as the only way to achieve the necessary competitive pricing. This would require the extended use of new plant and machinery and that meant achieving the high rate of amortization practiced in the U.S. Increasing productivity and output was the only way to maintain full employment and high wages; the cost of labour becoming thereby a diminishing proportion of the value of the output. The report noted, the percentage of production costs represented by wages had increased.<sup>3</sup> The Board of Trade had drawn attention to the need for concentrate on exports efficiency and capital re-equipment at the earliest opportunity rather than counting on a period of protection which would not give the incentive for investment or the development of new products. This attack on the then protectionist position of 'leading industrialists' it had consulted with was based on a reading of the future state of world markets. With the prospect of new industries world wide, the re-industrialization of Germany and Japan, and the growth of industry in the third world, the British state should help provide the general conditions that would ensure the adaption of our manufacturing

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1. Cab 87/14 Reconstruction Committee (sub-committee on Post war Industrial Problems and Exports) Paper 8th July 1944. Measures to promote exports and industrial efficiency memo by the President of the Board of Trade.
  2. Cab 87/14 loc.cit Paper 12th September 1944 Export Policy in the Transition Period Memo by the President of the Board of Trade.
  3. Cab 87/3 Reconstruction Problems Committee Paper 15th June 1943. Report on the Recovery and the Promotion of the Export Trade. Memo by the President of the Board of Trade and the Secretary for Overseas Trade.

base. The past had offered a large income from foreign investment, and a large number of markets free from industrialization. These were 'wasting assets'. If we could achieve the 'American standard of efficiency (we could) on British wages, look forward to the future with some confidence. But if we fail, we cannot.'<sup>1</sup> Theoretically the loan had given us the financial assistance to pay for imports and had reduced the immediate uncertainty surrounding supply, enabling a concentration on the improvement of technique. Thus time had been gained for restructuring. The contradiction lay in the fact that such adjustments were made less likely by the fact that the immediate competitive necessity for them had been reduced in the toleration of a 'transitional stage' of protection during which anything could happen.

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1. Cab 87/14 loc.cit. Paper 23rd June 1944. Post War Exports. Memo by the President of the Board of Trade.

CHAPTER V.

Planning and Co-ordination : Machinery and Assumptions.



INTRODUCTION

In previous chapters we outlined the rationale for social reconstruction, the centrality of housebuilding and the machinery devised to give it priority. In the last chapter we introduced a wider context into the analysis by relating the internal political economy to its international environment. We characterized that international environment as a structured framework, in the sense that it set up certain constraints or possible constraints by virtue of it being a competitive system where producers of commodities within states were anxious to hold onto and extend their positions externally. We witnessed the conflict between politicians anxious to protect the internal from the external by preserving and extending the array of specific controls, thereby hoping to remove constraints, and those committed to adapting the internal to the external constraint rather than the reverse. Bargained agreements were made which enabled controls over the external environment to be retained for the short term while they would be abandoned in the long term. These bargains regulated the terms and the timing of re-entry into that competitive framework. Within that negotiated space two potential choices were available to Government. They could use the transition space in order to plan on the basis that it would eventually be removed or they could rest, content to pursue the internal policies which the removal of immediate constraint made possible.

We are not yet in a position to specify or evaluate the course undertaken. The purpose of this chapter is to see what light can be thrown on their choice from the nature of the

internal political and administrative machinery for decision making. While in Chapter 3 we looked at wartime decision making for a major peacetime priority programme, we now look at structures and controls devised to relate programmes or government activities in a way that the participants at the time thought would achieve 'co-ordination'. Co-ordination can be defined as an attempt to order and fit different activities or parts of a whole so that each complements the other and functions in terms of objectives defined for the whole. The nature of these objectives cannot always be derived from the statements of the decision makers themselves. This is because these statements might only reveal rationalisations for what they were doing - attempts to render them consistent in a form of words with objectives held desirable for what they should be doing. This chapter will outline and analyse both the machinery and the assumptions behind the attempt to plan.

Given the potential choices available for the transition period the conditions for the existence of a determined commitment to adapt the internal economy to the international competitive framework can be presented, i.e. competition through cost and pricing, degrees of labour mobility, industrial and particularly manufacturing investment, in short, a re-ordering of reconstruction commitments and priorities in order to maximise the export programme. But although attention to the 'supply side' would appear to be imperative in economic policy there was no mechanism at the political level that guaranteed that it did become the key objective for political decision makers. The conclusion of this chapter is that the planning machinery

devised and its accompanying assumptions institutionalized a position whereby 'supply side' objectives become conflated to the problem of managing demand and regulating scarcities for the continuance of reconstruction priorities. It was these priorities and their mix that created the scarcities in the first place. Any alteration in the mechanism of the machinery could not by itself bring forth revised objectives although it might make it more possible to insert discussion on them more frequently. Any 'corporatist' machinery devised to increase information and represent the problems of interested parties to the government would not of itself lead to change. The opening up of channels of access always seemed to be premised on the conviction that the government could thereby re-inforce given priorities rather than allow them to be changed.

#### SECTION I: THE MACHINERY FOR CO-ORDINATION.

At first sight the internal planning apparatus looked impressive.<sup>1</sup> On the ministerial side there was the Lord President's Committee, responsible for co-ordination of the home front in war, now given the role of keeping under review 'the trend of our economic development'. Its nucleus, the Industrial Sub-Committee on which key economic ministers sat, was renamed in 1946 the Ministerial Committee on Economic Planning (M.E.P.)<sup>2</sup>. Its brief was to consider reconstruction issues, problems of

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1. Even more impressive if we accept the claims of the chief co-ordinator himself, see Morrison, H., 'Economic Planning' Public Administration Vol. XXV. No. 1. Spring 1947. pp. 3-9.
  2. Cab 129/1 Cabinet Paper CP(45)110 13th August 1945. Standing Ministerial Committees. Note by the Prime Minister, see also Cab 129/1 Cabinet Paper CP(46)176 23rd April 1946. Ministerial Committee on Economic Planning: Composition and Terms of Reference. Note by Secretary of the Cabinet (S.W. Edward Bridges) and Cab 71/27 Lord President's Committee (Industrial Sub-Committee) 15th September 1945. Composition and Terms of Reference Note by Secretary of the Cabinet.

industrial restructuring, review the export trade and ensure a balanced distribution of industry. An analysis of its records shows that it hardly discussed the first three at all. The archives indicate it spent most of its time discussing very specialist topics that could not be resolved elsewhere like the fire service, support of the film industry and the disposal of government owned factories. The main co-ordinating functions were reserved for an interdepartmental committee composed of top civil servants (heads of department, permanent secretary level) known as the Official Steering Committee on Economic Development (SC). This was to regularly collect and collate information and with the help of resident economists, advice ministers on the desirable allocation of resources between sectors. Key economic Ministers would exercise constant supervision over this work, receiving the Steering Committees 'Economic Survey' and putting it into final form before it was seen by the full Cabinet.

This degree of delegation to civil servants was quite consistent with the thrust of Reconstruction thinking. The Department had been given their programmes the parameters of which had been settled in the Reconstruction Committees during the war. The idea that a resource plan should be drawn up by an 'economic general staff' of economists and political advisors, relatively insulated from departmental pressures, was rejected by the Head of the Civil Service, Sir Edward Bridges, who preferred to 'adapt the existing machine'.<sup>1</sup> This interest from the

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1. Cab 134/186 Steering Committee Papers. Minutes of meeting on the Planning of Economic Development 12th September 1945 discussing Note by Sir Edward Bridges dated 6th September 1945.

official side in protecting the sovereignty of departments fell in well with the government's wish to have a planning system that did not impose strategy from on high via resident economists in the Central Statistical Office or the Economic Section of the Cabinet: such strategists would work through the departmental machinery.<sup>1</sup> Bridges was asked instead to draw up plans for an interdepartmental committee assisted by interdepartmental working parties. According to Bridges this Steering Committee would get individual departments to send in their plans and requirements for 1 - 5 year periods. It was not its role to draw up detailed sector plans in responsible departments for the allocation of resources in a given field (the building programme was given as an instance) but rather it was restricted to drawing up a survey based on a 'conspectus' of departmental programmes.<sup>2</sup> The Steering Committee might take a 'view' on the extent to which building resources should be devoted to housing as against other requirements but it would not itself plan allocations, or have any power to alter the priorities despite this qualifying role of 'taking a view'. Since the efficiency of allocation within particular industries sponsored by Departments was not to be a prime concern of the co-ordinators, it would be very difficult for a committee which worked through agreed consensus suddenly to begin investigation of one of its

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1. Cab 124/890 Office of Lord President: General Planning of Economic Development. View expressed at unminuted meeting at No.10 August 20th 1945 quoted in letter to J. Maud Privy Councils Office 22nd August 1945.
  2. Cab 124/890 Office of Lord President: General Planning of Economic Development 'Planning of Economic Development' 6th September 1945. Note by Sir Edward Bridges.

own members when its initial brief was to convey 'requirements'. If it did, and it was quite possible to initiate such enquiries via the working parties, the Minister concerned could always fight a rearguard action through his Department's representation on the Steering Committee itself or in Cabinet.

The predilection for Departmental sovereignty was also reflected in the discussions of the role of the Treasury in the planning apparatus. There was a strong feeling that the traditional form of Treasury supervision was not legitimate and that the Treasury should not be able to get a dominant position in the Steering Committee. The Treasury's 'departmental interest' was in expenditure reduction and therefore potentially a threat to co-ordination based on departmental demands. The strong position of the Treasury over the Departments had been weakened as a result of the war. It had then been little involved in financial management because inflation was kept down by direct controls and fiscal policy and not by monetary policy.<sup>1</sup> The Chancellor of the Exchequer had neither been in the War Cabinet nor was he Chairman of the Ministerial Economic Policy Committee nor of the peacetime Lord President's Committee set up as the economic 'overlord'. The resident economists in the economic section of the Cabinet Office worked directly to the Lord President rather than the Chancellor. In war the planning was physical, provision of goods at any price

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1. Wiles, P.J.D., 'Pre-war and Wartime Controls' in G.D.N. Worswick and P.H. Ady (eds.) The British Economy 1945-1950 (Oxford The Clarendon Press 1952) pp.157-8.  
 see also Sayers, R.S., Financial Policy 1939-45 (History of the Second World War Civil Series H.M.S.O. 1956).  
 Dow, J.C.R. The Management of the British Economy 1945-60 (Cambridge University Press 1970) p.13.

took precedence over financial considerations. The business of the Treasury was to provide money and avoid inflation by fiscal (i.e. taxation changes). Yet the real change came not from the war but in 1931 when Britain came off the gold standard and much of the rationale for tight expenditure control and sound money disappeared. It was not that 'weakening tradition' and the loss of public support in Parliament and press had reduced its 'eminence',<sup>1</sup> but rather that the Government in the 30's had been forced by the consequences of the world slump to insulate the economy from autonomous international money flows, so reducing the Treasury's rationale for economy. The alternative was to allow the complete collapse of the economy, the destruction of sterling as an international currency, and with it, the stability of the financial system in London and ultimately the Bank of England itself. The Treasury post 1945 was left managing the regulatory machinery of exchange and import control, and helping the Chancellor maintain cheap money through extensions of short term borrowing from the banks and other means for credit expansion. In short, the Treasury had to measure expenditure against unemployment and not against revenue as in the budget-balancing view. As dominant economic logic shifted increasingly during the war to Keynesian National Income analysis<sup>2</sup>, the real centre for economic advice shifted to new resident economists, including Keynes him-

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1. Heclo, H., and Wildavsky, A., The Private Government of Public Money. (London, MacMillan 1974) p.203.
  2. Stone J.R.N., 'The Use and Development of National Income and Expenditure Estimates' in D.N. Chester (ed.) Lessons of the British War Economy. (Cambridge University Press 1951)

self, who were scattered about the planning machinery.<sup>1</sup> Top Treasury officials moved with the times or accepted small concessions to past thinking. There is some evidence of an allowance for traditional thinking built into the Coalitions Employment White Paper in 1944.<sup>2</sup>

Planning by manpower targetry, as well as national income analysis, meant an increasing use of co-ordination via inter-departmental committee. In the case of the Manpower Committee the chair was given to Ernest Bevin, trade union magnate and previously Minister of Labour in the Coalition. Bevin had been instrumental in making employment pledges to the workers and had been the key figure in driving through the labour intensive building programme. Attlee's preference for an expansion of cabinet committees has been related to his desire to expand political control over areas which previously had been co-ordinated, if at all, through Treasury control. Attlee was obsessed with a fear of repetition of the 1931 crisis when policy seemed to be determined by 'closed financial elites'.<sup>3</sup> This context makes it easier to understand the hostility shown to the

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1. James Meade, Lionel Robbins and Robert Hall etc. all worked in the Economic Section of the Cabinet Office which in practice served the Lord President. The Prime Minister's statistical section in the war had been led by Professor Lindemann (later Lord Cherwell) and included economists such as Roy Harrod. Keynes himself was attached to the Treasury.
  2. The budget would be balanced or even a surplus would be planned for good years so that the debt from deficit spending in years of unemployment could be kept in check.
  3. Daalder, H., Cabinet Reform in Britain 1914-1963. (Stanford University Press 1963) p.217.



Treasury in its old role. The Lord President's chief civil servant, J. Maud, made it quite clear that if the Treasury was to have a role it was to be on Keynesian lines.

It is vital to the working of the full employment employment policy that the Treasury should regard itself as having a much wider role and a more positive economic function than it has ever had before.<sup>1</sup>

Bridges finally submitted his scheme to Ministers on 19th September, 1945.<sup>2</sup> After identifying Reconstruction as a set of individual programmes; the re-equipment of manufacturing industry, the restructuring of basic industry, the housing programme and consumption for 'fair shares', he went on to talk about the role of the 'responsible Agencies'. The resident economists in the economic section were to advise on the prospects for the economy given the demands of the departments for the current period. Possible problems of under supply and excess demand

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1. Cab 124/890 Lord President's Office: Central Planning of Economic Development. J.P. Maud to Lord President. 20th September 1945.
  2. Cab 124/890. Lord President's Office: Central Planning of Economic Development Memo by Sir E. Bridges 'Planning of Economic Development' 19th September 1945. The final Steering Committee and its Working Parties were as follows. (Names supplied from Cab 134/186 Official Steering Committee Paper. Draft Progress Report. 8th November 1945. Note by Joint Secretary).

Official Steering Committee on Economic Development.

J. Nicholson (Lord President's Office.)  
 Sir Godfrey Ince (Ministry of Labour)  
 Sir John Woods (Board of Trade)  
 Oliver Franks (Ministry of Supply)  
 Sir Bernard Gilbert (Treasury)  
 James Meade (Economic Section of the Cabinet Office)  
Chairman Sir Edward Bridges  
 (Permanent Head of the Home Civil Service)

Interdepartmental Working Parties and their Chairmen.

1. Economic Development (later Economic Survey) (James Meade Economic Section)
2. Manpower (Sir Norman Brook Cabinet Office)
3. Statistics (H. Campoin Central Statistical Office)
4. Balance of Payments (Sir Wilfred Eady Treasury)
5. Investment (Sir Bernard Gilbert, Treasury)

would be indicated but it would be left for ministers to determine what to do. A new division in the Treasury for employment policy would be created. The Steering Committee would be confined to a survey of resources, collating and forecasting, having no brief to get involved in areas concerning 'the structure, organization management of industry'. The 'supply side' was only indirectly injected into the planning apparatus via the 'responsible departments'. Stafford Cripps at the Board of Trade was officially responsible for the efficiency of export industry. His early initiative was limited to setting up enquiries so that performance in key sectors could be related to those of other countries. Other sectors of industry, which in many cases provided the input for manufacturing, were represented by other departments, such as the Ministry of Supply sponsoring engineering and heavy industry, Ministry of Fuel and Power the basic energy industries with the Ministry of Works, which ran the building programme, being responsible for those material industries whose products might be required in manufactures for export. This dispersal of industrial representation over several 'sponsoring' departments only reinforced the fragmentation and lack of overall supervision built into the planning apparatus.

Largely as a result of deficiencies in energy supply occasioned by the winter crisis,<sup>1</sup> civil servants tried to

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1. Labour back bencher Richard Crossman had written a strong letter to the News Chronicle 20th February 1947 complaining that the supply side of the economy was divided among too many ministries with the result that while the Minister of Fuel and Power needed coal and fuel equipment, the President of the Board of Trade would be encouraging its export. The Minister of Labour would be planning labour allocations while the supply of materials for workers to work on was dealt with elsewhere, see Pritt, D.N., The Labour Government 1945-51 (London, Lawrence and Wishart 1960) pp.138-9.

perfect this machinery.<sup>1</sup> Permanent secretaries were already overworked at their regular posts, the Steering Committee was inadequately staffed, and met on an ad hoc basis.<sup>2</sup> Initially the idea for change centred on the appointment of departmental 'director of plans' who would sit on the Steering Committee. But this idea was soon amended in favour of increasing the back up facility for the Steering Committee by the creation of a Central Economic Planning Staff (C.E.P.S.), attached to the Cabinet Office, and working with the Economic Section which itself was instrumental in drawing up the Economic Surveys in the S.C.'s own Working Party. C.E.P.S. was to be a body of key departmental civil servants, resident economists and statisticians seconded from private industry in the war. The chairman of C.E.P.S. (Sir Edwin Plowden) was to be the government's Chief Planning Officer. Despite the ambitious aim of having a planning staff with independent analytic capacity able to send representatives to put the case for the economy as a whole in specific interdepartmental Committees, the body was smaller than intended. Directors of plans were never appointed and C.E.P.S. continued to rely on the economic section of the Cabinet Office, i.e. the Keynesian resident economists for advice. C.E.P.S. therefore functioned merely as another layer of reinforcement for the Keynesian assumptions already built in.

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1. Cab 134/190. Steering Committee meeting 26th February 1947. see also Cab 124/1081 Lord President's Office: Machinery for Economic Planning and Control undated note by Sir Edward Bridges 'Proposals for Strengthening the Staff for Economic Planning'.
  2. Rosenberg, N., Economic Planning in the British Building Industry 1945-9. (Philadelphia University of Pennsylvania Press 1961) p.30.

On 28th September on Attlee's ministerial reshuffle Cripps was appointed to the newly created post of 'Minister for Economic Affairs' and the job of 'co-ordinating' via C.E.P.S. was taken under his umbrella.<sup>1</sup> Again this new post was largely cosmetic as the Prime Minister insisted:

There would be no question of interfering with the departmental responsibilities of ministers.<sup>2</sup>

Questions concerning the lack of adequate staff for this 'Ministry' do not therefore matter given this assumption.<sup>3</sup>

The government later made moves to relate the internal to the external environment by further changes in decision machinery. It combined in one cabinet committee the work done by M.E.P., the Lord President's Committee and the old External Economic Policy Committee. This new Economic Policy Committee (E.P.C.) consisted of the Prime Minister, the Chancellor, the Foreign Secretary, the Lord President, and the Lord Privy Seal. It was to be the high level policy body and its general aims on paper were ambitious. It was to provide

general oversight, on behalf of the Cabinet, of Economic policy, and to reconcile conflicts between Foreign Trade and Internal economic requirements.<sup>4</sup>

It was to plan dollar expenditure, safeguard the reserves, encourage exports and draw up a list of requirements when further aid from the U.S. (under the Marshall plan) was offered.

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1. So were the Materials and Fuel Allocation Committees, see Cab 129/21 Cabinet Paper CP(47)280. 9th October 1947. Cabinet Committees Note by the Prime Minister.
  2. H.C. Debs. Vol.443, Col.40. October 21st, 1947. Debate on Address.
  3. Chester, D.N., 'The Machinery of Government and Planning' in G.N. Worswick and P.H. Ady. The British Economy 1945-50 (Oxford The Clarendon Press 1952). p.347.
  4. Cab 134/215 Economic Policy Committee Memo 9th October 1947. Composition and Terms of Reference Note by Secretary of the Cabinet (Sir Norman Brook).

While the E.P.C. was to devise strategy, the Production Committee (P.C.) was to execute it in particular fields; to turn directives into day to day policy. In particular it was to take over the general ministerial approved (previously performed by M.E.P.) of the details of the investment programme. The Minister of Economic Affairs was responsible for presenting the investment plan and leading discussions in committee in place of the Lord President. In November, 1947, when Cripps became Chancellor he took his 'Economic Affairs' Department and C.E.P.S. into the Treasury with him. The Treasury officially became responsible for co-ordination. This was no threat to the inter-departmental nature of decision making since decisions still had to be reached collectively in Committee or full Cabinet where the Treasury was one among equals and had by now largely adopted Keynesian assumptions. So by the end of 1947 we find a greater stress on command structures within the planning apparatus, but only at the level of appearances.

What factors have been adduced to account for this inter-departmental bias in the machinery of government?

Firstly we have noted resistance to command among the Administrative grades of the Civil Service. Sir Edward Bridges, the Head of the Civil Service had, we saw earlier, preferred 'to adopt the existing machinery'. Commentators for a later period have identified the enduring 'spiritual' values of co-operation, habit, persuasion, and compromise, values which infect the very body entrusted with control over others - the Treasury.<sup>1</sup> This is, as we have maintained, reproduced at

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1. A thesis developed throughout in Hecla and Wildavsky. The Private Government of Public Money.

ministerial level by the whole emphasis on Departmental sovereignty and collective decision making by consensus and agreement which is the hallmark of Cabinet operational procedure. We could expect such a situation to have real effects in the sense of setting limits to 'rational' long term and strategic planning.<sup>1</sup> In our period departmental sovereignty was reinforced by the explicit recognition that Departments were client based. They were to have a representative function; their 'constituencies' being spheres outside their administrative personnel - i.e. they were responsible for 'programmes' initially devised with reference to groups interested in those initiatives. At this time Departments were often known as PRODUCTION departments, who, in addition to planning and operating physical controls in particular sectors, also sponsored those sectors in relation to the allocation of licences applied for to build, to use raw materials and labour. Certainly as a first approximation it would be fair to adopt Beer's terminology that there existed a 'Plural executive'.<sup>2</sup> This, as will be seen later, is insufficient and does not exhaust the explanation for the kind of planning undertaken. Some analysts approaching the subject and period have stopped short at the point of machinery and the rationality of the decision making apparatus. There has been a silent assumption built into the analysis that policy conflicts can be smoothed over by the perfection of institutions with their capacity to reconcile and solve the problems posed.

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1. Gustafsson, G., and Richardson, J., 'Concepts of Rationality and the Policy Process' European Journal of Political Research. Vol.7. No.4. December 1979 pp.427-8.
  2. Beer, S., Treasury Control: The Co-ordination of Financial and Economic Policy in Great Britain. (2nd Revised edition, Oxford, The Clarendon Press 1957) pp.117-22.

The assumption is that there is a potential for co-ordination that is not being pursued because of various frictions such as the 'departmentalism' that we have identified as the apparent constraint.<sup>1</sup> The biographer of Morrison, for instance, characterizes the machinery of economic government as:- 'Too fractured too diffuse - too much advice, often conflicting and coming in different directions'.<sup>2</sup> Piecemeal 'ad hocury' is the summary description Brittan uses<sup>3</sup> which suggests in a common sense form the language of policy sciences with its 'disjointed incrementalism'.<sup>4</sup>

Other writers have however written against over-stressing these factors. Chester argues good policy cannot emerge spontaneously from the right decision-making structure: the crucial factors lie in the implementation process.<sup>5</sup> Chester stresses the importance of the co-operation of the trade unions in wage restraint and employers in agreeing to shift capacity to exports.<sup>6</sup> Beer and Shore however stress the limits of such co-operation. Beer writes of the lack of endurance for wage restraint and of trade union resistance to the manipulation of

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1. Beer, Treasury Control, pp. 92-3.
  2. Donoghue, B., and Jones, G., Herbert Morrison: Portrait of a Politician. (London, Weidenfeld and Nicolson 1973), p.354.
  3. Brittan, S., Steering the Economy. (Harmondsworth, Penguin 1971), p.181.
  4. Braybrooke, D., and Lindblom, C., A Strategy of Decision (New York, The Free Press 1963).
  5. Chester, 'The Machinery of Government and Planning', pp.361-3.
  6. ibid, p.363.

wage rates and direction of labour, both of which are inherent in manpower planning.<sup>1</sup> Rogow and Shore locate crucial obstacles in the level of resistance by Trade Associations to the state supervision and encouragement of new investment over the issue of Development Councils.<sup>2</sup> These

Trade Associations had prices, capacity and loss making sheltered in the 30's via the protective tariff and by the wartime discouragement of new entrants. These obstacles are therefore in addition to the obstacles of administrative pluralism identified above. The two are not, however, unrelated given the 'representative' nature of departments which sets up the possibility that the obstacles outside are reproduced in government as 'sponsoring' departments reflect their clients interests. While it is important to recognise the role machinery plays as an adapter - more information yielding greater depth to analysis - and while it is crucial to understand the role that non-governmental forces play in the implementation of policy, explanation is not exhausted in these points. What a government does in any one moment in time is a reflection not just of the present but how it conceives itself in relation to the past and in relation to a future it may have mapped out and committed itself to however short. In other words decisions made in the past may be so critical that they become embodied as given assumptions, This is even more so if such decisions are the reflection of a theory which decision

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1. Beer, S., Modern British Politics. (London, Faber 1969) pp.200-212.
  2. Rogow, A., and Shore, P. The Labour Government and British Industry 1945-51. (Oxford, Basil Blackwell 1955) p.84.



making in the present is inevitably constrained by unless those theoretical assumptions are up for amendment or possible replacement in the current policy. If they are not replaced and if prior commitments arranged as priorities become institutionalized, then decision-makers accepting those institutions as means are by so doing confirming those prior commitments and the accompanying theory.

Decision makers who in 1945-47 were grappling with the problem of scarcity by means of controls and rationing were faced not with the pre-given spontaneous emergence of scarcity in 1945 but with the fact that 'scarcity' had been created by the government's own commitment to theory and the resulting practical assumptions which it was reluctant to sacrifice. The scarcity of materials was due in large part to the massive Keynesian building programme for which the bulk was pre-empted. It was that building programme that was the prior decision. Once accepted certain constraints followed. The constraints did not impose themselves on government. It imposed them on itself. The effects of those constraints constituted part of the condition for the existence of what could be decided later. Decisions to remove constraint would involve re-opening the assumptions of the past and a rejection of the past as inappropriate for the present. Such decisions were unlikely to be taken if the past was relatively recent in the sense that its assumptions were still part of political culture. Moreover if the decision making personnel were still the same, rejection of the past would have implied a re-education: a process which is very hard to accept and rarely undertaken

voluntarily.

This knowledge of self-imposed constraint is something we noted in chapter 2. The government perceived a potential threat to political stability unless it undertook a social and full employment policy. It was not an actual but a perceived threat, but once the decision was taken to treat extra-governmental centres of power as if they were a threat it does not necessarily follow that governments would create and foster conditions that would enable them to participate at the crucial level of policy making. Only if government has created the environment in which extra-governmental interests can adapt to the state and adopt its assumptions and theory can the government open up access. But if the state has achieved quiescence by others in its assumptions it does not need to open very far: it need open only to the extent that its potential opponents feel they are part of the process.

The implication of what is being said here is that corporatism barely existed in the period of the post-war Labour government. The power of the working class and its perceived threat was referred to in chapter 2: decisions were taken with reference to scenarios yet undemonstrated. The power of the working class can be found in the decisions not the process of decision taking. Their presence was real in the sense they were talked about - just as industry was - but they were given no place in sun sharing jointly with the government in state management. What structures did exist functioned occasionally as listening devices but were essentially broadcasting centres

for a government that set its own priorities.<sup>1</sup> Government was quite capable both of ignoring information and analysis that argued for a 'rational' option<sup>2</sup> as well as pressure to change course through any open influence channels.

Robert Brady has shown that in the case of the Industrial Development Councils the government had decided on a 'wet' solution before F.B.I. opposition was articulated.<sup>3</sup> The assumption that Labour Controls were going to be relaxed was made as early as 1942 and that there would have to be a degree of wage restraint was assumed in the Beveridge Report where it was noted the sellers labour market would be a problem. Once full employment and full capacity were assured the restrictive practices of non-governmental powers - unions and trade associations had to be 'managed'. But it was not their organizational skills and capacity to react that gave them power, but the government itself by sustaining the environment. Having got itself into a position of dependence where it needed all labour, however militant, and all output, however costly and inefficient, it decided to manage through the use of normative appeals for potential opponents to identify with government assumptions and priorities.<sup>4</sup> The state would use its extensive powers of communication to try and tie the continuation of specific concessions to the achievement of a quid proquo. An immediate difficulty was encountered in this management by the fact that the government

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1. Deutsch, K., The Nerves of Government: Models of Political Communication and Control. (New York, The Free Press, 1966) esp. Part III.
  2. see chapters 6 and 7.
  3. Brady, R.A., Crisis in Britain; Plans and Achievements of the Labour Government. (Cambridge University Press 1950) pp. 545-567.
  4. For Utilitarian v Normative modes of compliance see Etzioni, A., A Comparative Analysis of Complex Organisations (New York The Free Press 1961) esp. Part 1.

seemed to have created an environment from which it became very difficult to withdraw without substantial inroads into the recent assumptions and machinery which had guided the planning of reconstruction.

Management by normative appeal played an important part in the government's attempts to plan. Within the planning apparatus under the general supervision of the Lord President's Office, was a body known as the Official Committee on the Prosperity Campaign. This was staffed by civil servants from the public relations side of departments and the Central Office of Information. Its Chairman was Francis Williams, Advisor on Public Relations to the Prime Minister who had been controller of News and Censorship at the Ministry of Information 1941-5, and before that Editor of the Daily Herald 1936-40. The essence of the prosperity campaign was to supplement economic controls and deal with the problem of scarcity by appeals for an increase in productivity by the given existing employed labour force.<sup>1</sup> The method to achieve this effect was the normative appeal initially made through ministerial speeches, press conferences and broadcasts. Later speeches were directed at employee and employer conferences convened especially for the purpose on a national and regional basis. In pamphlets and posters it was necessary to transmit what the government called 'mass education in elementary economics', in order to break down ignorance, apathy and friction including restrictive practices in order to achieve

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1. Cab 132/4 Lord President's Committee Paper (LP(46)175 8th July 1946. Dispersion of Labour to industries of National Importance. Memo by Minister of Labour. It had been recognized here that there were problems with the maladministration of manpower and 'unproductive' workers. However the two alternatives of Labour direction or the deliberate creation of unemployment as means of effecting transfers and increasing productivity were ruled out.

targets.<sup>1</sup> The message was the dependence of the standard of living and rewards on production and not collective bargaining; increased productivity was to be achieved through increases in the intensity of work. The Prosperity Committee encouraged the B.B.C. to discuss economic issues, cinemas to show 10 minute C.O.I. films, economic information to be sent to women's institutes and facilities for speakers to be set up in factories. Notice of individual factories who had increased output were to get pride of place in C.O.I. 'Reports to the Nation' accompanied by slogans relating the economy to simplistic analogies on housewife's budgeting and 'baking a cake'.<sup>2</sup> The Economic Survey in its popular edition 'The Battle for output' 1947 was sent to schools.<sup>3</sup> The Daily Mirror had a regular series 'Face the Facts' and the government bought street advertising, one of the hoardings reading '10% more will do the trick - a message from your P.M.'.<sup>4</sup> Even the Labour Party's own 'ABC of the Crisis' was drafted with the help of Nicholson, chief Civil Servant

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1. Cab 134/188 Steering Committee Paper. 12th October 1946. Prosperity Campaign Publicity. Note by Joint Secretaries enclosing memo from Prosperity Campaign (Official) Committee. Also Paper 13th June 1946 Prosperity Campaign material for leaflet. Note by Joint Secretaries. Also Cab 134/189 Paper 15th November 1946. Basis for Further Publicity on increased production. Note by Joint Secretaries, see also Cab 154/187 Steering Committee meeting 15th October 1946.
  2. T229/35 C.E.P.S. Tenth meeting of the Economic Planning Board enclosing copies of Central Office of Information (C.O.I.) 'Reports to Nation No.1 and No.2.' No.2 contained the cake analogy. Workers were advised to 'pin it up and talk it over'. See also Hopkins, H., The New Look: A Social History of the 40's and 50's in Britain. (London, Secker and Warbury 1963) pp.88-9.
  3. For correspondence and the booklet 'Battle for output' itself see Cab 124/901. Lord President's Office Organization for Central Planning of Economic Development.
  4. Hopkins, The New Look. p.128.

attached to the campaign.<sup>1</sup> It is difficult to gauge the success of all this. The Mass Observation Report 'The Language of Leadership' revealed that workers had not understood the meaning of the 1947 economic survey, and worse what they had understood was completely opposite of what the government intended.<sup>2</sup> The statement that 'the gap between resources and requirements would be closed by 'some requirements being left unmet' was not understood. We can only surmise that perceptions confounded the truth of this statement: since with rationing, food subsidies, full employment and extended social provision requirements were being met. As for the concluding sentence of the White Paper that the objectives of the government 'embodied the government's determination to put first things first' and that democratic planning would protect 'maximum freedom of choice'. This was interpreted to mean that the government was going to put the working class first in all things.

In June, the Lord President received a memo from Mr. S. C. Leslie of C.O.I. identifying a 'barrier' between the minds of people and the minds of the government. Quoting a newspaper survey of people's view of the economy in the fuel crisis he wrote

How many Ministers would have guessed that at that time housing ranked as the nation's biggest problem to twice as many people as did coal?

Leslie came close to identifying the management of reconstruction with the management of mind. He talked of 'psychological warfare'

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1. Cab 124/902 Lord President's Office: Organization for Central Planning of Economic Development. Letter from Labour Party to Nicholson with thanks. 11th October 1947.
  2. Cab 124/900. Lord President's Office: Organization for Central Planning of Economic Development encloses Mass Observation Report 20th March 1947 'The Language of Leadership'.

to win acceptance of government news and ideas about a complex and changing situation. To do this one would need a social survey which would get at the state of the mind of the people.<sup>1</sup>

Another Civil Servant, close to the campaign, argued that, without direction of labour, co-operation with the goals of the plan could be achieved by removing the us and them attitude by providing means for a 'genuine community' through joint consultation in industry. He suggested that Max Nicholson read Elton Mayo: a sense of participation and responsibility could not be obtained by emotional appeals alone.<sup>2</sup> The sense of involvement and the need for more accurate information from trade unions and employers on the impact of policy could be obtained if those parties were present at some level in the planning apparatus. This was the real rationale behind the Economic Planning Board: the recognition that industrial mobilization depended on effective communication. To manage effectively in conditions of limited control the state needed to provide a means by which those affected could watch, understand and, it was hoped then help in transmitting intentions and the rationalizations behind them to rank and file members.<sup>3</sup> This did not mean that participants would be given a role in

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1. Cab 124/900 Lord President's Office: Organization for Central Planning of Economic Development. June 1947. Economic Information and Opinion. Memo by S.C. Leslie Central Office of Information.
  2. Cab 124/900 Lord President's Office: Organization for the Central Planning of Economic Development. 5th March 1957. Letter of anonymous civil servant to Nicholson.
  3. For the desire of both sides of industry to be taken into confidence and given the 'facts,' see Cab 129/8 Cabinet Paper CP(46)122. 25th March 1946. Prosperity Campaign: Report of Conferences of 6th and 7th of March with Trade Union Executives and Representatives of employers organizations.

formulating policy or that 'bargains' would be struck in a way that allows us to characterize this period as corporatist. At a meeting of ministers in March 1947 the government decided that

provision should be made for associating both sides of industry with the work of economic planning in order that industry be siezed of all the factors involved and feel a sense of joint responsibility for the plans.<sup>1</sup>

The government was interested in widening representation in order more fully to legitimate its own strategy; symbolic representation firmly linked to the industrial mobilization or 'prosperity' campaign. Eventually an Economic Planning Board was to be set up in which the government's own small planning staff (C.E.P.S.) and its Chairman, Sir Edwin Plowden, would preside and meet with civil servants, trade union and employers representatives.<sup>2</sup>

1. Cab 130/17 General Series 169. Minutes and Papers on Economic Planning, meeting of Ministers 4/6th March 1947.

2. See government statements on C.E.P.S./Economic Planning Board. H.C. Deb, Vol.435. Col.1412-13. 27th March 1947, also H.C. Deb, Vol.439. Col.1804-14. 7th July 1947.

The Economic Planning Board consisted of

CHAIRMAN: Sir Edwin Plowden (Chairman of C.E.P.S., Director of British Aluminium, Commercial Union Assurance and the Chemical Firm Tennant, Son and Co.Ltd.)

3 Representatives from the Federation of British Industries (F.B.I.) and the British Employers Corporation. (B.E.C.)

Sir William Coates (Imperial Chemical Industries)

Sir Graham Cunningham (Triplex Safety Glass Co.)

Andrew Verdon Smith (British Aerospace Co.)

3 Representatives from the Trade Union Congress General Council.

Jack Tanner (Amalgamated Engineering Union)

Vic Tewson (General Secretary of the T.U.C.)

Andrew Naesmith (Amalgamated Weavers Association)

3 Representatives from the Home Civil Service

Sir John Woods (Permanent Secretary Board of Trade)

Sir George Ince (Permanent Secretary Minister of Labour)

Sir Archibald Rowlands (Permanent Secretary Ministry of Supply)

3 Representatives from the Central Economic Planning Staff (C.E.P.S.)

The member of staff most concerned with investment was

Hugh Weeks (Director of Programmes. Formerly Chief Statistical Ministry of Supply and Director of J. Fry and Sons Ltd.)

Source: Compiled from Brady, Crisis in Britain pp.564-5, footnote 83. Pritt, Labour Government, pp.142-3. and Cab 124/1081 Lord President's Office Machinery for Economic Planning and Control. March 1947-June 1948. E.P.B. Membership list.



No better illustration of the role of the Economic Planning Board can be found than in the discussions over the government's investment strategy from 1948-52. The Board felt that control over investment was essentially incorrect and instead

inclined to the view that an increase in the capital labour ratio was necessary as a basis to increase productivity

but

recognised the difficulties of extensive re-equipment at the present time.

It went on to suggest further refinements to the government's strategy of raising productivity by mobilization for increased intensity of work emphasizing the need for the nation to work together.<sup>1</sup> If the Board had been in any doubt about its role Morrison's office was quite specific. It's purpose was to allow consultation with industry but also to inform it of government policy and it was to be no substitute for the normal particularistic mode of representation via individual departments. It would have no executive functions, the final decision being the governments alone. Any advice it desired to tender would go via the Lord President, before reaching the cabinet.<sup>2</sup> In written discussions on the way to present the board to the public and its own members three 'functions' were outlined.

- (1) To consider the general economic situation and advise on planning over the next five years.
- (2) To make special studies of urgent areas (iron and steel for instance).

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1. T229/29. Economic Planning Board meeting 7th August 1947.  
 2. Cab 124/1081. Lord President's Office Machinery for Economic Planning and Control. March 1947-June 1948, letter from J.P. Maud to Sir John Forbes Watson, British Employers Federation. 22nd May 1947.

(3) To keep industry in touch with the situation.

Morrison pointed out that the third function was basic. It would serve as a sort of two way information exchange, a communication channel.<sup>1</sup> In a confidential minute from the Cabinet Office it was stressed that the Board should 'stand clear' from the economic machinery of government. It would merely study the work of the Steering Committee and the Economic Section.<sup>2</sup> Despite Morrison's talk about industry 'being in the operations room as well as the front line' the stress was on 'being the eyes and ears of government' giving over facts so that those who mattered would understand the general aims being pursued.

To consider the economic situation as we present it to you and as you know it through your experience, to offer an assessment of it and help keep us in touch with industry views.<sup>3</sup>

In earlier days of his statement Morrison referred to the government's role as 'commander'.<sup>4</sup> One conservative opposition commentator, R.A. Butler, who was generally in favour of any 'pluralist' arrangements of the French Monnet Plan, seems to have correctly perceived the essentially symbolic role of the Board

Pluralist planning means collaboration with industry before you make the plan and not attention to industry after the plan has been made by a few back room boys.<sup>5</sup>

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1. T229/24. Economic Planning Board. Drafts of Lord President's statement at first meeting of Board.
  2. T229/24 Economic Planning Board. Cabinet Office Confidential Minute. 18th April 1947.
  3. T229/24. Economic Planning Board. Drafts of Lord President's Statement for first meeting.
  4. ibid.
  5. H.C. Deb. Vol.434. Col.1249-50. 11th March

What provisional conclusions can we draw from all this: a machinery of co-ordination that is essentially interdepartmentalist accompanied by the appearance of corporatism that turns out to be very much commanded, restricted and utilized from the government side. If departmentalism implies anything in theory it implies lack of overall direction in decision making. Yet we appear to have some sort of strategy to the extent that a level of industrial mobilization was required. We cannot at this stage explain in full this apparent paradox, but what we can do is dispose of one particular characterization of the period. While we can agree with Chester that it is wrong to say an economic plan existed

If by economic plan is meant a set of economic objectives, integrated and consisted in their assumptions, which the government had decided to carry out and which they had the power to carry out.<sup>1</sup>

We cannot go further and set up 'muddling through' by bargaining as the essence of the planning process.<sup>2</sup> This reduces planning to committee discussions where outcomes result from relative claims being settled by compromise often arithmetically devised or by 'the debating power of the various committee members.'<sup>3</sup> It suggests by implication that strong debators get their way and that allocations are secured by discussion. While we have hinted that the nature of planning was likely to be based on departmental demands we have noted that certain demands were always accorded priority at the outset and may therefore rank as objectives. In other words, prior claims had been set which

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1. Chester, 'Machinery of Government and Planning' p.360.

2. This phrase appears in Lindblom, C., 'The Science of Muddling Through'. Public Administration Review 19:1959. pp.77-85.

3. Jewkes, J., Ordeal by Planning. (London, Macmillan 1948) pp.138-9.

distributed relative shares: committee work being essentially formal while those priorities remained intact. Claimants could bargain minor adjustments at the margin only because the margins were all that were available given the existing prior commitments set during the war. These commitments were maintained after the war by the very committees whose job it was to allocate. Ernest Bevin, who as Minister of Labour in the wartime coalition had pushed for and established the initial priority for the Labour intensive building programme, was made Foreign Secretary in the Labour Government but was given the job of co-ordinating calls on Manpower through the Manpower Committee. At one of its earliest meetings we find the chairman demanding measures to increase labour in the materials and components industries and an extension of arrangements for the manufacture of housing components in the state's armament factories, justifying this move as follows:

There would be fierce competition from the available manpower in 1946 from private manufacturers whose factories would soon be ready for production and it was important that steps should be taken now to get workers into factories which were producing components for the housing programme.<sup>1</sup>

To achieve this the Training Scheme he had devised in the war should be accelerated. The committee, reminded of its wartime commitment agreed. Such prior scheduling of priorities could only be revised by breaking a substantial part of the post-war settlement outlined in chapter 2. It was not so much an absence of strategy that characterized post war planning but an argument over the type of strategy: the nature of the

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1. HLG 102/35 Building Components; 24th October 1945, meeting of Manpower Committee.

objectives set. The strength of the government's commitment in peace to its wartime planning for reconstruction is reflected in the theoretical assumptions built into the planning machinery. It is to this theory that we now turn as it is crucially important in understanding state management in this period. In the final section of this chapter we look at the operation of the planning powers in relation to concrete events.

SECTION II: GOVERNING ASSUMPTIONS AND THE PLANNING PROCESS.

(THE THEORY IN THE MACHINE).

The process of economic planning began on 9th October 1945 when Sir E. Bridges, Chairman of the Sub Committee circulated to departments a request for estimates of demands in terms of manpower and total expenditure including investment on plans which they were directly responsible for in the public sector, and, for the private sector, estimates of what the market would claim.<sup>1</sup> Where Departments were sponsoring investment demand for private account, to the extent this was licenced as in building, the estimates would be that more precise. Thus total expenditure in the economy would be the result of the sum of Departmental programmes based on their current policies and existing commitments. This information once received would be collated by the Statistics Working Party and, on the basis of it, the Economic Survey Working Party, chaired by the resident economist James Meade, Head of the Economic Section, would

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1. Cab 124/890 Lord President's Office: Central Planning of Economic Development. 9th October 1945, letter from Sir Edward Bridges to Permanent Secretaries of Departments. see also Cab 124/891. Lord President's Office Central Planning of Economic Development. 12th December 1945. Draft organization for Economic Planning Progress Report note by Secretary of Cabinet.

prepare the survey by integrating material provided by the balance of payments Working Party. The survey would then go to the S.C. for their covering summary before being presented to the M.E.P. - then the Lord President and finally to the Cabinet. The object of the exercise being to maintain a high and stable level of employment by way of the maintenance of TOTAL expenditure by acting on the components of expenditure taken as aggregate categories, investment (public and private) public expenditure and private household consumption being likewise 'consumption', all three being total 'spending'. Taxation would be considered along with business and industrial savings as part of the aggregate TOTAL saving intended to finance total investment. Manpower budgets would be prepared to help achieve the necessary aggregate supply of resources to match the aggregate demand on them by measuring capacity of individual sectors. So, in the 1947 survey, there were expenditure and national income concepts measuring the call on and the likely supply of resources in terms of value, while the manpower budget did the same thing in the physical units of Labour. i.e. total working population distributed among the sectors according to programme requirements. The final document would have a commentary explaining macro-level balance - the extent of the estimated inflationary or deflationary gap (i.e. the comparison between resources and claims indicating the excess or deficiency of demand) and the means of closing it. To close an inflationary gap (Departmental demands exceeding supply) cuts in total requirements were held out as the policy solution. Expansion of requirements was to be met by widening the concept of need

within programmes and by creating new ones.

The Keynesian demand management bias in the whole process had particular conceptual consequences. As far as the trade programme were concerned, the foreign exchange input into the survey looked at exports as funding (as INCOME) for financing internal consumption (the 'required' level of imports). But since the production of exports required resources then they could be subsumed under 'spending', along with private consumption and public sector programmes. Investment was likewise seen as an aggregate maintaining the internal expenditure necessary for full employment and not for its cost-reducing effects which would tend to expel labour. It was therefore seen as a component of demand which might be construed as excessive given existing capacity. Public and private investment being conflated, the distinction between investment for private manufacturing (home versus export) and publicly induced investment were hidden in the tables and were not part of the language of the theory. The consequence then of adopting Keynesian national income analysis was that planning was done on the basis of aggregates constructed theoretically, which utilized broad conceptual categorization abstracted from the real constituents which made up the aggregates concerned. For example, to talk about consumption and investment as part of the same demand, state revenue surplus via taxation and private profits as the same saving and public and private investment as just 'capital formation' was to aggregate on the basis that society had somehow already removed the distinction between the logic of private sector demand and the logic of social demand

in the public sector. Not only were the individual decision-takers in the various components of 'demand' different but there was the possibility that their demands could contradict.<sup>1</sup>

The consequences of the Keynesian paradigm was that planning took a particular form - appearing in the economic survey as one of managing the overall balance of supply and demand. Planning then was essentially negative, in the words of the White Paper:

essentially a task of deciding which out of a number of claimants must go short - in other words which are the most important national priorities.<sup>2</sup>

The Keynesian assumed away the problem of politics by arguing that the process of setting priorities and programmes would not be subject to rigidities. According to Meade, if one wanted to keep the private part of the mixed economy healthy, the essential requirement was flexibility. Rigid employment targets for particular industries were unsuitable when opportunities for technical efficiency on the supply side reduced the complement of necessary labour.<sup>3</sup> Meade's point seemed especially pertinent given the commitment to re-enter the world market environment on terms that would inevitably penalise a nation unable to adapt its industrial structure to new markets and new industry and create conditions for a flexible distribution of manpower.

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1. A position which may be intensified if the problem of bureaucratic behaviour within the state apparatus is also recognized, see Downs, A., Inside Bureaucracy (Boston Little, Brown 1967).
  2. Economic Survey for 1947. Cmnd. 7046. (London, H.M.S.O. February 1947) para.25.
  3. Cab 134/186. Steering Committee Paper 7th November 1945. Economic Planning by James Meade enclosed with note by Joint Secretaries.



Meade's argument about flexibility and economy in the use of labour captured the contradiction for most Keynesians at this time: the absence of a concern with growth. A dynamic capitalism required variations in costs and prices, a necessary element of uncertainty for anyone watching or 'indicating' at the centre. Labour targets, priority materials control, price control and subsidies implied an element of fixity in the structure of production crystallising economic relations between producers in ways which could upset the balances between intermediate and final goods to the point where the former had no market.<sup>1</sup> Quantitative physical planning was suitable for a war economy where the state was to be the sole purchaser in the internal market or where bilateral trade guaranteed foreign markets but multilateral free trade was uncertain trade: qualitative competitive costing and pricing being determinants of success. Stronger arguments along these lines of a dynamic capitalism were developed by the anti-Keynesian Austrian School of Economists whose work on free markets influenced the early West German regime.<sup>2</sup> According to dynamic theorists full employment

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1. Balances within the structure of production are examined both theoretically and statistically by Leontief, W., The Structure of the American Economy 1919-39: an empirical application of equilibrium analysis (Oxford University Press 1951). The importance of this 'balance' issue for the relation between capital and consumer good industries is illustrated in Devons, E., 'The Progress of Reconversion' The Manchester School for Economic and Social Studies. Vol. XV, No. 1. January 1947 pp. 1-25.
  2. For a summary exposition of the conditions for the existence of dynamic capitalism within this school, see the works of Hayek collected in Hayek, F.A., Tiger by the Tail: a Forty Year Commentary on Keynesianism. (London, Institute of Economic Affairs. Hobart, Paperback 1972).

achieved by injections of monetary demand and state induced production swells some industries at the expense of smaller or potential industry. This leads to a breakdown in the functioning of the system of relative prices and puts bargaining power into the hands of wage earners producing uneconomic stagnation, not only where wages are inflexible downwards, but also in terms of the unproductive restrictive practices engendered in 'secure' settings.<sup>1</sup> This aspect of the problem leads us back to the notion of crystallisation. It is not just the crystallisation of economic relations that is produced by such a structure of priority planning and full employment, but a crystallisation of social relations. The balance of class forces would then be stabilized at a level which fundamentally reduced opportunities for flexibility inherent in the concept of a dynamic capitalism.

The problems of flexibility can be illustrated in another regard as well. The government wanted to ration materials and labour internally to protect 'essentials' either for production for social need such as housing and schools, or for production in export industries that qualified as labour intensive such as textiles, coal and steel. Yet the multilateralist case implied that the export drive should be total in which case luxury production of 'inessential commodities' would probably be as important as the traditional export industries. Such traditional industries, although crucial for the maintenance of employment (especially in the top priority development areas), might be surplus on the world market if countries previously

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1. Hayek, F.A., Full Employment at Any Price? (London, Institute of Economic Affairs Occasional Paper No.45. 1975).

buying from us began to produce their own commodities of that type. This was a noticeable constraint on the intensification of textile exports.

In conclusion, then, we argue, ~~in~~ contrary to Beer<sup>1</sup>, that the post war planning system was essentially Keynesian in assumptions and content. The units of measurement were physical and monetary value. The machinery for co-ordination reflected demand rather than supply side preferences and that preference itself was a reflection of the continuing search for security rather than the change and instability inherent in moving towards decontrol, competitive access to resources and restructuring for capital intensive investment. The social demand for labour intensive investment and for building rather than manufacturing was easily assimilable within the Keynesian rationale and became institutionalized in the priority classifications of the allocating authorities. Having set the parameters the role of overall co-ordination was to balance aggregate demand with the aggregate supply of resources, the export programme being seen as the only one aspect of the former.

In order to examine the maintenance of this system against the background of continuous challenges the following section illustrates the operation of the planning process. The major challenges that occurred in the summer of 1947 and onwards are the subject of a separate chapter involving as they do the inter-relationship between external and internal planning: a relationship which can be only hinted at here mainly because

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1. Beer, Modern British Politics. pp.190-4.

the two were forcibly brought together through the medium of a crisis consequent upon re-entry to the international market. In the next section we examine co-ordination and the process of preserving the priorities in relation to events solely within the internal context.

SECTION III: THE COURSE OF ECONOMIC PLANNING: THE MACHINERY IN OPERATION 1945-7.

Between August 1945 and well into 1946, as planned in the war, the building labour force rose as a proportion of the total workforce and within that proportion the amount devoted to housing purposes rose till it was stabilised around 60%.<sup>1</sup> Yet this did not go unchallenged. The Lord President Morrison wrote to the Chancellor late in 1945 about the level of building costs. He argued that housing was taking too large a share of our national resources and demanded greater Treasury supervision of costs. Despite a claim by the Minister of Works that price controls kept the expense of the programme in control Morrison maintained that the programme was too big and at 'the expense of vital needs' such as the rehabilitation of manufacturing industry. High building costs could only impede economic recovery.<sup>2</sup> The clear implication here was that factory maintenance and repair would be expensive if those costs were not stabilized. Certainly Morrison was on stronger ground than the Minister of Works, Tomlinson, in that wage increases designed to attract workers into the building materials industry raised

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1. Cab 71/21 Lord President's Paper No.131. 14th August 1945. National Building Programme Memo by the Minister of Works August-December 1945. see also Cab 132/2 Lord Presidents Paper 121, 181, 236 on National Building Programme Demands and proposed ceilings.
  2. Cab 124/485 Lord President's Office, Building Costs. 14th December 1945, Morrison to Dalton.

costs, when the price controllers had to allow them to be reflected in prices. Nevertheless prior decisions on material control, price regulation and the provision of subsidy outlined in chapter 3, had been taken as a way of coping with such a contingency, and at that early stage of the building programme nobody seemed concerned to question the adequacy of the control factors.

The initial assumption regarding manufacturing investment as one amongst equals in aggregate demand, or the total call on resources, was built in from the start. A paper went before the Lord President's Committee prepared by the Economic Section.<sup>1</sup> It was recognized there would be a heavy demand from industrialists for arrears of maintenance and repair - a backlog built up because of the wartime stop on all except the armaments industries. But the large unspent funds of savings and wartime excess profits tax rebates, which would monetize this capital expenditure, could on the other hand, merely add to excess consumer demand. In addition, under investment, the call on labour associated with the building programme had to be doubled to reflect the complementary workers required to make fittings, bricks and components. Another complication was revealed in that while recognizing the necessity, as far as exports were concerned, for investment in new factories and manufacturing equipment, the blue paper went for security and 'safety first' and it is worth quoting this in full.

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1. Cab 71/21 Lord President's Committee Paper. 16th August 1945. 'Survey of the General Economic Position' prepared by the Economic Section of the Cabinet Office.

Capital investment to raise the National Income of the future can only be undertaken at the risk of home consumption at the present ... after 6 years of war some people are entitled to an increase in immediate pleasure .... posterity may be left to provide for itself for a while ... moreover when aggregate demand is strong it is a maxim of employment policy to encourage firms to postpone investment expenditure until the flow of investment opportunities relative to savings threatens to dry up so threatening maintenance of full employment ... . It is important, if that policy is to succeed, that this should be appreciated by private businesses and that exhortations to greater efficiency should not be taken to involve on approval of indiscriminate development in a period when resources are scarce. The belief that there is an absolute priority for capital development fits as ill with the facts of the contemporary situation as the belief that all restraints on consumption can be immediately abandoned.

(my emphasis).

This bias in planning was revealed in action when the draft economic survey of 1946 indicated a manpower deficit for 1946.<sup>1</sup> This deficit was reproduced in value terms when the aggregate of departmental programmes revealed an 'inflationary gap' of £470m. In theory, several possibilities were open: a cut in new housing and some war damage repair; a cut in the amount of consumer spending by households effected by tighter rationing controls; or raising indirect taxation and interest rates. This third option was not ruled out on technical grounds: it would have been possible to shift to exports at the expense of family consumption and standards of living, but given the full employment policy, any raising of productivity would have required some dent in that commitment.

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1. Cab 129/6 Cabinet Paper CP(46)32. 30th January 1946. Economic Survey for 1946 Memo by Lord President. The 'survey' had been approved by the Ministerial Committee on Planning (then Lord President's Industrial Sub-Committee) on 21st January 1946 and took the form of a memo by the Lord President summarizing the Steering Committee's report.

Edward Bridges put it thus:

In view of the exhaustion of the nation after 6 years of deprivation there must be some amelioration of the present standard of living if we are to obtain the necessary effort during this year. The foreigner must not be the only one to benefit from the increased production.

Under the title 'Background to planning: the threat of inflation' the survey noted that expenditure allowed for licenced private investment would be little higher than the pre-war and 'probably substantially less than business men would want to undertake'. While admitting the relevance of re-equipment for exports there was mention of importing machinery and cuts of £110m. in the £710m. of private investment through a regulation of the 'less essential'. Many of the papers attached to the Economic Survey operated with the reference point of a 'typical' pre-war year for investment usually 1937 or 1938. The planners seemed to have regarded that selection as unproblematic for comparison. Yet the late 30's were characterized by a hesitant recovery from slump stimulated largely by re-armament and a private housebuilding boom.

An earlier draft of the draft, unconsidered by Ministers, talked of long term projects locking up plant and machinery resources, making them unavailable for current supply for export or home consumption, and therefore argued that any cuts should come, not from essential restorations and capital equipment, but through a re-examination of the housing programme, cutting back numbers under construction and stopping labour expansion in that field. Thus consumer supplies could be kept up without cutting

into export production.<sup>1</sup> This explicit recommendation did not occur later and there is no explanation why. We can only assume that the Economic Survey working party, composed as it was of resident economists, had recommended what the officials in the Steering Committee thought too unpalatable for the eyes of Ministers at this stage. By substituting the more slippery concept of the 'less essential' ministers were still left alone to determine what that meant. The Cabinet however decided to relate the question of investment to manpower shortages in a way that did not discriminate between types of investment.<sup>2</sup> The Investment Working Party was asked to devise a scheme for holding back projects in areas where the labour shortage was intense. This was hardly a solution to the problem of an excess demand for labour. For this wider problem the Cabinet again avoided reconsidering priorities. Having agreed with Bridges that increased consumption was essential and that investment should be protected, small cuts were agreed for the armed services: in personnel, by speeding up demobilization, and in the supply of goods and services to them. Appeals would be made for women and old men to stay at work. It was at this meeting and in this context that the Cabinet hit on the idea for a 'prosperity campaign'. Appealing to industry to increase output, the aim was to reduce excess demand by increasing output or supplies by an intensification of labour. More production could therefore be got out of the same manpower and

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1. Cab. 134/186. Steering Committee Paper. 12th December 1945. Economic Survey for 1946. Note by Joint Secretary.

2. Cab 128/5. Cabinet Meeting CM(46)13. 7th February 1946.



and the necessity for big cuts to close manpower gaps could be avoided. The logic of this particular strategy was thoroughly Keynesian. Increased output, productivity and investment were not seen in terms of their cost, and price-reducing effects (the competitive logic of the supply side micro-economic realm of the firm or the 'industry') - but in terms of the growth of aggregate supply or outputs made possible, enabling demand and therefore full employment to be sustained without inflation. Such a 'prosperity campaign' was an essential adjunct to a government forced by its own commitments to consider cuts in 'less essential' investment.

The Investment Working Party was ready with its first report in March 1946.<sup>1</sup> It indicated the priority classes which were, housing, production of capital goods for investment, re-equipment for import saving, maintenance and renewals, fuel-equipment and factory building in development areas. But although it hinted at cuts of £150m. or 10% in gross investment it hesitated on recommendations hoping instead that the gap between aggregate demand and supply would disappear by end of March. In an earlier draft the Investment Working Party had said that if cuts went ahead then departments must submit to equal percentage reductions. The Steering Committee, representing departments, amended this (on the 15th March 1946)<sup>2</sup> to ensure priority classes were respected so that the final draft report eventually

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1. Cab 134/188. Steering Committee Paper. 28th March 1946.

First Report of the Investment Working Party.

2. Cab 134/187 Steering Committee meeting. 15th March 1946.

recognized that departments should not work to a uniform rate of reduction since it is recognized that departments which include priority classes will not be able to show the same reduction as others.<sup>1</sup>

As it turned out even this mild trim in departmental programmes did not occur. Ministers met<sup>2</sup> and noted the Steering Committees covering note to the report that the gap was less than envisaged: women had stayed at work as requested. Ministers did, later, however, agree that the Ministry of Works building programme ceilings should be scrutinized by the Investment Working Party.<sup>3</sup> The chief resident economist and head of the economic section James Meade, bemoaned the fact that the opportunity had not been taken to cut now and he criticised ministers who went on approving building labour allocations when there were possibilities of cuts being required at a later stage. 'Too large of a part of our economic resources were going into this sector' he added.<sup>4</sup> By December 1946 another Draft Economic Survey had been prepared by the Steering Committee which showed total fixed capital formation taking a planned 20% of National income

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1. Cab 134/188. Report of Investment Working Party.
  2. Cab 134/503. Ministerial Committee on Economic Planning meeting. 16th April 1946.
  3. Cab 132/1. Lord President's Committee Meeting. 10th May 1946.
  4. Cab 124/633. Post War Building Programme. J.E. Meade to Lord President dated 22nd May 1946.

at £1,705m.<sup>1</sup> The covering memo by the Steering Committee confirmed the commitments to maintain consumption and the housing programme. It noted that the essence of the problem of planning was in trying to do too much in expanding exports 50% above their 1938 level by the second half of 1947,<sup>2</sup> maintaining a large defence capacity, re-housing the population, keeping full employment, re-equipping industry including re-instatement of war destroyed plant and machinery, improving national insurance benefits, old age pensions and raising the standard of living by food subsidies without big increases in productivity, all of

1. Cab 134/503. Ministerial Committee on Economic Planning Paper. M.E.P.(46)5. 21st December 1946. Draft Economic Survey for 1946-7. Report by Economic Survey Working Party. Table 5 showed the £1,705m. of Total Fixed Capital Formation was to be distributed between sectors. Public £ 694m.

Private £ 1011m.  
£ 1705m.

and divided into uses  
 as follows:- Construction £ 825m.  
 Plant and Machinery £ 880m.  
£ 1705m.

The construction investment  
 was distributed between sectors

Public £ 486m.  
 Private £ 339m.  
£ 825m.

and divided into uses as  
 follows: Temporary Housing £ 45m.  
 New Housing) £ 303m.  
 (£227m. Public)  
 War Damage Repair £ 38m.  
 Maintenance and Repair £ 143m.  
 Other work £ 113m.  
 New Industrial building £ 61m.  
 Government Building and  
 Public utilities £ 122m.  
£ 825m.

2. This export target had been agreed in 1946 Cab 128/5 Cabinet meeting CM(46)94, 4th November 1946.

which led to excess demand. All this was to occur in an environment where foreign reserves were smaller than pre-war and where the efficiency of capital equipment has been reduced through a lack of proper maintenance and repair in the interwar years and during the war. The labour shortages were only in respect of Departmental demands. If evaluated from prospective consumer demand and prospective equipment, excess demand was potentially much greater but kept down by controls. As for productivity there seemed to be no rapid solution - increased mechanization, it was noted, took time and the proportion of capital goods was being limited by the overall manpower shortage.<sup>1</sup> The Steering Committee's earlier note had ruled out monetary policy as a means of restraining demand by a rise in interest rates and increases in taxation since this would threaten aspects of 'social policy'.<sup>2</sup> A total gap of 630,000 men was now predicted. The Ministerial Planning Committee (M.E.P.) had considered and approved most of Committee's recommendations.<sup>3</sup> The later body had proposed a solution which involved some alteration to the building programme in particular a smaller labour force of 1,300,000 not 1,370,000, and a break in the automatic priority which gave housing 60% of the men available at any one time. The raising of the school leaving age was to be postponed, further more substantial cuts in defence and their supply were agreed with a greater emphasis on factory construction.

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1. Cab 129/16. Cabinet Papers CP(47)19. 7th January 1947. Economic Survey for 1947 Memo by Chancellor enclosing comments by M.E.P., Steering Committee CP(47)20.
  2. Cab 134/503. Ministerial Committee on Economic Planning M.E.P.(46)5. 21st December 1946. Draft Economic Survey for 1946-7. Report by Economic Survey Working Party covering note by Steering Committee.
  3. Cab 134/503. Ministerial Committee on Economic Planning meeting. 9th January 1947.

The Cabinet rejected much of this. Stafford Cripps, President of the Board of Trade argued, at the full two day Cabinet meeting<sup>1</sup>, that the Steering Committees recommendations should be accepted. But the cuts in armed forces services and supply were attacked by the defence ministers and supported by Attlee who agreed such a move 'would weaken our Foreign Policy'. Dalton and Cripps were also defeated over the idea of postponing the raising of the school leaving age and the Cabinet adopted the amendment by M.E.P. that the housing programme and its priority for labour should not be altered for the time being. The Government, it was said in Cabinet, would avoid retreating on pledges as it had done after 1918. The committee adopted the survey proposal that the metal and engineering industries should be restricted in terms of labour, concentrating instead on work for re-equipment which yielded quick returns in terms of output of consumer goods or exports. Although the export target still stood, Dalton maintains that the Treasury and the Board of Trade found themselves 'ganged up against' by the rest of the Cabinet.<sup>2</sup> The Prime Minister Attlee had not stood by them but instead was still employing labour intensity as the solution through the prosperity campaign. He maintained that a mere 2½% increase in labour productivity would be equivalent to a 2½% increase in the workforce thus remedying the 613,000 gap. Dalton writes of the unwillingness of the Cabinet to 'face facts'. How could the gap be lowered by a mere 2½% increase in productivity if productivity could only be achieved from labour in 'productive industry'. This could not be achieved over the

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1. Cab 128/9. Cabinet Meetings CM(47)7. 16th January CM(47)8 and CM(47)9. 17th January 1947.
  2. Dalton, H., High Tide and After: Memoirs III 1945-60. (London, Muller 1962)p.193-6.

whole workforce, especially not in the armed forces and public services, and that meant the increase would have to be that much greater in the private sector and it would be required that year. How was this to be achieved? By the use of new and better machinery and capital goods? And how, Dalton asked again, was this to be produced more quickly and in greater quantity, with an overall manpower shortage, other than by 'providing more labour in the trades concerned' - 'no other need competed with this in urgency'. Soon the American loan would run out and import cuts might be necessary. The argument used against Dalton that cuts in labour employed elsewhere would not, with labour direction renounced, guarantee that all men would go into useful trades was, for him, an argument for releasing even more men to ensure some did.<sup>1</sup>

It took a natural disaster to get ministers to make even a marginal change in the housing priority. In the first two months of 1947 the country froze up under a blanket of snow and ice. Coal stocks declined as the demand for energy increased. Generating capacity was not sufficient to cater for the increased demand; parts of industry were closed down as power cuts and rationing of supply was introduced. Output also fell in the building material industry; building sites were left deserted and building workers were laid off. It was in this environment that the Investment Working Party produced another report<sup>2</sup> which noted that on present estimates by June 1948 building demands would exceed labour by 200,000. In view of the need 'to improve productive capacity

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1. Dalton, *High Tide and After*. p.195.
  2. Cab 134/190. Steering Committee Paper. 28th February 1947. Investment Working Party Report on Building Programme Labour demands and ceilings 1947-8.

by increasing manpower in fuel, power transport and other essential industry

There appeared to be no escape from a cut of the allocation of 60% to housing.

The Working Party was concerned at the automatic spiralling of existing schemes while fuel and power were short of labour by 27% and industry by 23%. The Board of Trade demand for labour was the aggregate of separate cases that had passed the approval stage for licencing. It included war damage repair, extensions, adaptations and new factories in the development areas. This amounted to a call on labour for 110,000 workers rising to 120,000 by June 1948. Because it was an estimate based on licences likely to be approved it made no allowance for unlimited potential demand which might be forthcoming from capitalists were there no controls. Even licenced demand had been pared down to 109,000. The eventual allocation agreed with the Headquarters Building Committee of the Ministry of Works (H.Q.B.C.) was for 69,000. If the Board of Trade was to get more, others would have to be scaled down. A modified set of instructions were to be given to H.Q.B.C. The building labour force was expected to grow by 39,000 between June 1947 and March 1948. If the housing priority stayed at its present level of 60% then the rising demand curve of industry would have to be stabilized at a lower figure to fit what was left over. Since the fuel crisis had meant a lack of output of building materials, the contingency of a 'material shortage', which had not seemed urgent in January, was now in evidence and it did not make sense to expand housing any more if it could not use all it had at the moment. The clear implication was that there would have

to be a reduction in new housing starts. The allocations therefore agreed for March 1948 for each programme were less than what had been requested. Fuel and power and industry got all the 39,000 increase in the additional labour entering the building industry. Fuel and power achieved its demand in full. Industry got 83% instead of the 77% of its demand previously allocated. Labour on housing was not however, increased. This can be illustrated in the following Table.

TABLE 2.<sup>1</sup> DEMANDS AND PLANNED CEILINGS FOR LABOUR IN KEY BUILDING SECTORS MARCH 1947.

| <u>Quarter ending 30 June 1947.</u> |             |                         |                      | <u>Quarter ending 30 March 1948</u> |                                |                      |
|-------------------------------------|-------------|-------------------------|----------------------|-------------------------------------|--------------------------------|----------------------|
|                                     | Demands     | Allocation<br>(Ceiling) | As %<br>of<br>Demand | Demands                             | Allocation<br>(Ceiling)        | As %<br>of<br>Demand |
| Industry                            | 165,300     | 127,660                 | 77                   | 176,700                             | 147,322                        | 83                   |
| Fuel &<br>Power                     | 47,700      | 34,350                  | 72                   | 53,588                              | 53,588                         | 100                  |
| Housing                             | 657,459     | 582,000                 | 89                   | 653,754                             | 582,000                        | 89                   |
|                                     |             |                         |                      |                                     | (HQBC had proposed<br>600,000) |                      |
| TOTAL position JUNE 1947            |             |                         |                      | TOTAL position March 1948           |                                |                      |
| TOTAL BUILDING LABOUR FORCE         |             |                         |                      | TOTAL BUILDING LABOUR FORCE         |                                |                      |
|                                     |             | <u>971,000</u>          |                      |                                     | <u>1,010,000</u>               |                      |
|                                     | Housing 60% |                         |                      | Housing 57%                         |                                |                      |
|                                     |             | (582,000)               |                      |                                     | (582,000)                      |                      |

1. This table compiled from the following sources :- Cab 134/190 Steering Committee Paper. 28th February 1947. Investment Working Party Report on Building programme labour demands and ceilings. End uses compiled from Cab 132/7 Lord President's Paper, 24th March 1947, Building Programme and HLG 102/261 Headquarters Building Committee Paper 31st January 1947. Labour ceilings and demands for year 1947-8.



The Lord President's Committee met<sup>1</sup> and Bevan agreed to the restrictions on the housing programme so long as individual ministers could approach the Minister of Works and then appeal to the Lord President's Committee in case of 'special difficulty' or if any consequent unemployment reached a level which threatened the co-operation of the building unions in training schemes. Bevan judged correctly that the housing programme had not been politically attacked since the cut was only reflecting what nature had imposed through the weather. There was some attempt to concentrate new housing on productive workers. The Steering Committee of civil servants had put a paper<sup>2</sup>, discussed at the 25th April meeting, stressing the 'limited nature of the cut' and the importance of good housing in assisting productivity, as well as providing a social service. It advocated a priority within a priority by devising instructions for local authorities that they give preference to coal-miners, agricultural workers and key workers in development areas. There is some evidence that this suggestion was taken up by local authorities but, as the Junior Housing Minister noted, it was very difficult to implement owing to the possible conflict with the statutory obligation of local authorities to allocate houses according to housing need on residence qualifications, irrespective of contributions to productivity.<sup>3</sup> As it turned out the advice to local authorities

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1. Cab 132/6 Lord President's Committee meetings. 28th March and 25th April 1947 discussing paper in Cab 132/7 Lord President's Committee Paper 24th March 1947 National Building Programme 1947-8 Memo by Minister of Works.
  2. Cab 134/190 Steering Committee Paper. 6th March 1947. National Building Programme 1947-8.
  3. Cab. 132/7 Lord President's Committee Paper. 17th March 1947. National Building Programme 1947-8. Memo by Parliamentary Secretary Ministry of Health (L.J. Edwards).

made little or no difference to the programme.<sup>1</sup>

There are several things we should note about this apparent alteration in the housing priority. First, it involved the redistribution not of the existing building labour force but of the 39,000 additional workers coming into employment in the programme. Housing still received the largest single share with 57% of available labour and received the same percentage of its demand (89%) as in the previous allocation. The Minister of Health himself recognized the marginal nature of change and that limits must necessarily be set by the unavailability of materials and therefore did not regard the new position as anything like a substantial inroad into the priority. A guarantee of sorts via the formula of an 'appeal' had been written into the decision which appeared to protect it from that contingency.

#### Conclusions

The building programme, and within it the housing priority, had been insulated from two important challenges. It had gained protection both in decisions surrounding the first revealed overall manpower gap and secondly, in adjustments devised to cope with the fuel crisis. The planning process, essentially demand driven by departmental programmes and priorities set in wartime, collated those demands and related them in an aggregate to available resources. Any gap revealed would require attention only at the margins because priorities were set and uncommitted

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1. See Crosland, A., 'The Movement of Labour in 1948' Part II Bulletin of the Oxford University Institute of Statistics. Vol.II. No. 7 and 8, July/August 1949, p.198.

resources scarce. Those who argued for substantial re-distribution of manpower and, therefore, alterations in those priorities were unable to prevent the chosen strategy from being pursued i.e. campaigns to intensify the use of the existing distribution. The prosperity campaign cried 'work or want' yet the message had a hollow ring. Full employment, subsidies and 'fairshares' by rationing continued to be the order of the day. The earlier decisions which had set the priorities were the result of commitments undertaken as part of the contract with the people established in war and discussed in chapter 2. It should be recalled that the government's top civil servant, Sir Edward Bridges, had intimated as much when he talked in terms of the necessity for amelioration. These commitments - the decision to retain full employment after the war; the decision on the share of resources going on housebuilding; while at the same time maintaining a large defence programme and public sector - created the very scarcities planning was supposed to remove. The strongest challenge to reconstruction priorities was yet to come - in the apparent imperatives implicit in the decision to re-enter the world market with its external constraints. Such constraints were reflected in another set of wartime commitments, i.e. to abandon the array of protective controls placed on foreign trade and currency exchange. Such commitments seemed to indicate an increasing priority for the export programme and industrial investment for the necessary cost and therefore price reducing effects on the former. This commitment, at its face value, appeared to contradict the assumptions about the content and stability of what had to be

co-ordinated. Indeed it appeared to indicate that the initial co-ordinates should be revised. Certain problems outlined at the beginning of this chapter still remain. When and to what extent are seeming imperatives translated into political objectives? In the next chapter we examine the case of crisis when imperatives insert themselves forcibly for attention and where stated commitments to 'put first things first' and engage the problem head on at last appear to remove the discretionary behaviour that is the essence of political management.

CHAPTER VI

The Convertibility Crisis.

INTRODUCTION

Chapter 4 illustrated the nature of the constraints involved in international finance and trade negotiations with the United States. The operating point of these constraints has been fixed for 1947; meanwhile a period of postponement or policy 'space' had been granted made possible by the agreed use of trade and exchange controls and the financial facility of a loan. The logic, as the Americans and some British resident economists saw it, was that during this period of grace Britain would undertake certain internal adjustments which would 'refit' it for a successful re-entry into the competitive world market. The outcome, as the next two chapters will show, was not a radical shift in reconstruction priorities. The reasons for this were not lack of information or of research capacity to recognise the problem: adequate reviews were undertaken. The necessity appeared theoretical. Knowledge that there was going to be a re-entry point, could not exert the same kind of constraint on policy makers as the actual forces operating at the re-entry point itself. Necessity was not yet actual in the sense of comprising the real operating effects of a crisis. That being so, we saw in the last chapter how the Investment Working Party weighted all investment, including social investment, equally and how the planning apparatus reflected departmental demands. In the next two chapters we enter into the decision making 'black box' at the height of the 'convertibility crisis', and in doing so return to the point at which national and international economy intersect, and where policy co-ordinates

were called for. It will then be possible to judge how far, even at the point of crisis, politicians reconstructed reconstruction.

#### SECTION 1 : RESPONSES TO THE CRISIS

Convertibility at this time must be understood in the context of the world 'dollar shortage'. The major reason for under-productivity outside the dollar area was the historic lack of UK export competitiveness with United States mass-produced commodities, especially in their home market where tariffs create further obstacles. These factors were reinforced by the requirement to import many more basic food-stuffs and raw materials from the dollar western hemisphere as a result of the wartime devastation in the Far East and Eastern Europe which had reduced their productive capacity. This meant that our dollar deficit was much greater than our overall deficit on balance of payments. These difficulties were further compounded by the special position of Britain as a central banker for the sterling area, while at the same time being obliged by the terms of financial aid from the United States to disband 'protective' facilities provided by the area at a time when Britain, given its dependence on foreign deposits, could hardly afford to expose itself for the first time in years to currency competition and speculation. Countries short of dollars within and without the sterling area could, commencing the first day of convertibility, obtain them by converting their sterling holdings forcing the U.K. in effect to carry the dollar deficits of the empire plus any others who cared to convert.

Any country could call on us for dollars to the amount represented by its favourable balance with us together with those parts of the sterling balance we released under the terms of U.S.A. aid. The resultant outflow of gold and dollars occasioned by the convertibility obligation could not be stemmed by the use of dollars obtained from the loan since we were using these for our own current purchases from the dollar area. Our traditional exports, coal and textiles, were not required on the U.S. home market, since there were cheaper substitutes. Before convertibility we could use the dollar and gold earnings of the sterling area to pay for our dollar trade since their reserves were in effect ours. But this only worked insofar as the pound sterling was inconvertible between other countries and the Empire and the latter agreed to have their dollars 'pooled' and managed by the London Government. Under convertibility and a loosening of the pooling arrangements they would draw on us for all the dollars they could get.

The knowledge and recognition of the convertibility position went back to 1945. It was not that the government was hindered by lack of information on the likely impact of the external economy.<sup>(1)</sup> It was recognised as a constraint at the outset. There is room for dispute as to how far decision makers were aware of how long the loan was to last in terms of its dollar purchasing power, but since the loan was never explicitly set aside for the date of convertibility

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1. Information is a supposed limit on more comprehensive policy making see Lindblom, C., 'The Science of Muddling Through'. Public Administration Review Vol.19, (1959) pp.79-85.



but was being spent as soon as it was received in July 1946 the explanation that decision makers were blind to the consequences of short term strategies cannot really be sustained. The Labour M.P., Douglas Jay, special Economic Adviser to the Prime Minister knew exactly what would happen and wrote to his boss on the 17th December, 1945. The situation was that would be restoring convertibility when all other I.M.F. countries had got the benefit of the initial Breton Woods bargain with its rather longer period of transition up to 1950. These countries would thus be able to refuse convertibility of our earnings yet have the right to turn sterling earned by them here into dollars, thus, forcing in effect the U.K. to finance their purchases from America. Jay's solution was to maximise the use of the short term transitional arrangements before then utilising the preferences, and by arranging bulk purchase contracts of food with our sterling partners.<sup>1</sup> He also suggested encouraging the sterling area countries to place orders for British goods in order to retire the sterling debt.<sup>2</sup> The Chancellor, Dalton regarded this option as not matching the seriousness of the position. What was the use of negotiating a fall in sterling balances if we were continuing to add to them through expenditure in India, Egypt and the Middle East? Cuts in military and imperial expenditures were essential.<sup>3</sup> Attlee

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1. Prem 8/195 Financial Policy 1946 17th December 1945  
Douglas Jay to P.M.
  2. Prem 8/195 Financial Policy 1946 6th December 1945  
Douglas Jay to P.M.
  3. Prem 8/195 Financial Policy 1946 9th January 1946  
Hugh Dalton to P.M.

responded by deciding that the Chiefs of Staff must be allowed to comment first. Dalton repeated his points later.<sup>1</sup> If this option were not taken, cuts in rations and raw materials would be necessary creating some unemployment in dependent industries. Morrison and Dalton lined up against the Prime Minister in Cabinet, but the Prime Minister, having consulted the Service Chiefs, stuck out against cuts in imperial commitments: 'the Cabinet should realise that the situation in areas like India, Malaya, and Palestine made it impossible to contemplate immediate withdrawal of troops'.<sup>2</sup> The Cabinet grasped optimism with both hands when in April Jay attacked Dalton's paper with empirical rationalisations of his own<sup>3</sup>. The deficit would not be that big. The success of reconversion, and particularly the export effort, the world food shortage which had forcibly reduced our imports, the American decision to postpone the international trade organisation conference (I.T.O.) with its anti-preference implications, and the delay in congressional approval of the loan, would mean the implementation of convertibility delayed until July 1947. Soon after this decision the Cabinet agreed to additional dollar expenditure for the second half of 1946 and the first half of 1947 and, even though it was realized that because prices had risen in the U.S.A. the loan would be worth less, it was agreed that we could afford more on tobacco,

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1. Cab 129/7 Cabinet Paper CP(46)53. 8th February 1946  
Balance of Payments Memo by the Chancellor of the Exchequer.
  2. Cab 128/4 Cabinet Meeting CM(46)14 11th February 1946  
continued in Cab 128/7 Confidential Annexe.
  3. Cab 129/9 Cabinet Paper CP(46)168 18th April 1946  
Import Programmes for mid-1946-mid 1947 memo by the  
Chancellor of the Exchequer.

food, raw materials and an easing of petrol rationing. The basis of this early optimism was of course the export boom produced by a combination of immediate post-war restocking and the lack of German and Japanese competition. This export boom was only partially consciously sought. Exports were not given overriding priority as we have already discovered. A meeting of those concerned decided exports would go to all markets without concentration on any particular part of the world, but that there would be no deliberate export drive over and above what could be managed at the moment. The need for exports had to be properly 'correlated with other demands on national resources' and would be planned via the balance of payments Working Party of the Inter-departmental Official Steering Committee<sup>1</sup>. Towards autumn 1946 the planning machinery threw cold water on the idea of an indiscriminate policy of exports to all markets and drew attention to the now revealed dollar drain<sup>2</sup>. Morrison was so worried that he said that unless steps were taken it looked like 1931 all over again.<sup>3</sup>

At Cabinet Dalton outlined the situation and the new proposals. He said the loan was being used up rapidly because of the rise in U.S. prices and overseas expenditure. We were buying too much and not selling enough in the dollar or hard currency areas. If we were to avoid drastic cuts in the import programme that would discredit the government and

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1. Cab 71/27 Lord Presidents (Industrial Sub-Committee) meeting 12th November 1945.

2. Cab 129/9 Cabinet Paper CP(46)401 29th October 1946  
The Import Programme 1947 memo by the Chancellor of the Exchequer discussed Cab 128/6 Cabinet meeting CM(46)94 4th November 1946 continued in Cab 128/8 Confidential Annexe.

3. Cab 134/503 M.E.P. meeting 28th October 1946.

instead opt for a more ambitious export target of 150% of the 1938 volume a differential policy of encouraging exports to hard at the expense of soft currency areas was needed. In addition it was necessary to effect economies in imports such as oil from hard currency areas and intensify import substitution through the development of home agriculture. Emmanuel Shinwell did not think we needed to take such measures yet. The dollar deficit was largely a result of rising prices in the U.S.A. caused by their abandoning price control - possibly these prices might drop. As for overseas and military expenditure invisible income would compensate as shipping revived<sup>1</sup>. Nevertheless the 1947 Economic Survey published in February 1947 included the new export target (although it was planned at 140% of the 1938 volume with a rise of 175% in manufacturing goods)<sup>2</sup>. The Cabinet opted for the general idea of a more selective 'planned' export programme. But the planning as yet was relatively inexplicit. A new feeling for exports had been established but there was no real understanding of some of the contradictions involved in opting for selectivity determined by the state of the reserves rather than competition determined by the state of productivity. The former strategy was essentially mercantilist in the sense of gearing one's trade to maximise currency holdings for the national unit as a whole. An individual

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1. Cab 128/6 Cabinet meeting CM(46)94. 4th November 1946 continued in Cab 128/8 Confidential Annexe.
  2. Economic Survey for 1947 Cmnd 7046 (London HMSO February 1947) para 73 p.18.

capitalist, however, might feel that he would prefer to buy and sell in any market irrespective of what was designated a hard or soft currency area by the Government. It would not matter to him whether his profits came in dollars or lire so long as it was convertible. Switching to another market thought suitable by the Government might result in fewer sales and therefore less overall return for a particular unit of capital. In addition the overall strategy of buying cheap and selling dear would improve the overall terms of trade i.e. an increase in export over import prices but at the expense of the competitive principle essential in future markets where selling cheap was of the essence. Yet to have to put exports first in 1945-6 would have meant a concentration on efficiency and cost of production, rationing of the loan for vital raw materials, with drastic cuts in food, tobacco and film consumption, postponement of social reform and a suspension of the shorter working week. Such a shock to pent-up wartime expectations would, according to one opposition commentator, have been folly given that we could use administrative controls and imperial devices to give protection in the allowed transition period<sup>1</sup>. Dalton, however, continued to press the seriousness of the position. The real problem was still the dollar deficit. The sterling area was no real saviour since their willingness to lodge their dollars and gold reserves in London would be dependent on the rate we were drawing on them, and, in the long run, they would fear devaluation: falling reserves leading to a cumulative drain as confidence in sterling

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1. Amery, L., The Awakening: Our Present Crisis and the Way Out (London McDonald 1948) pp 140-1.

declined. As for selective import cuts from the dollar area, Article 9 of the loan agreement meant we would have to get U.S. permission as a temporary measure. Heavy drawings on the I.M.F. would be scrutinised and drawing 'rights' were restricted to £8lm. a year up to £325m. In any case these were intended to be for temporary deficits, not for continuous disequilibrium. Under these circumstances Dalton asked the Cabinet to recognise that the export target of 140% of the 1938 volume would not be reached by December 1947 and would have to be put back to well into 1948 (2nd quarter). Dalton proposed cuts in food rations, continued clothes rationing, cuts in tobacco, petrol and food rations and a diversion of steel to export production. This would get us over the next year until we could apply for more U.S. aid<sup>1</sup>. The Cabinet trimmed these proposed cuts back to a smaller figure and opted again for optimism<sup>2</sup>. Cripps noted the strong U.S. competition in manufactures and the disappearance of the sellers' market, but concluded that all that could be done was being done, especially in textiles, to focus on hard currency areas and in propaganda to attract labour into industry. But he admitted "the response was slow" and "no substantial increase in output could be looked for until new machinery had been installed and extensive re-organisation taken place." The Left represented by Bevan and Shinwell argued again that sooner or later the world dollar shortage would cause the

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1. Cab 129/19 Cabinet Paper CP(47)167 28th May 1947  
Import Programme. Memo by Chancellor of the Exchequer.
  2. Cab 128/10 Cabinet meeting CM(47)52 5th June 1947.

Americans to bring forth another offer of aid and we should wait for this. Cuts in rations imposed now would impede the production drive. The Lord Privy Seal (Arthur Greenwood) and Minister of Labour agreed. At a further meeting Dalton argued against what he saw as complacency<sup>1</sup>. We could not wait for further aid. We had to draw up a contingency plan on the basis of no further aid and suggested big cuts in the food programme since cuts in raw materials and the import of machinery would endanger industry. John Strachey, Minister of Food opposed this on nutritional grounds linking it in with arguments about Labour intensity: a key part of those whose strategy it was to improve productivity without a large concentration on new machinery. Whatever bravado Dalton was showing in full cabinet the big four Attlee, himself, Cripps and Bevin had already decided they would apply to the United States for the aid seemingly available since General George Marshall's speech. That conclusion seemed inescapable because of the unintended consequences on our reserves of the rise in U.S. prices, the fall in exports occasioned by the fuel crisis, the end of the sellers' market, the slow recovery of non-dollar sources of supply leading to a rise in prices as demand rose, as well as looming convertibility<sup>2</sup>.

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1. Cab 128/10 Cabinet meeting CM(47)56 24th June 1947.
  2. Cab 130/19 Meeting of Ministers Gen 179/3 13th June 1947.

The Government drafted a plea to the Americans that was worded in places as a threat. Unless the dollar shortage was eased Britain would have to

cut imports below even our people's threadbare standards or we are compelled to abandon the whole concept of multi-lateral trading... and seek out a painful existence on the best terms of bilateral trade which we can secure.<sup>1</sup>

Morrison took the Cabinet's do nothing and wait and see strategy to Parliament, accompanied by the present statement on the near exhaustion of the loan, early in July and seven days before convertibility. The statement included the following:

the first duty of this government to our own people and also to the world is to keep Britain in full production, in full employment, in good health, and in good heart ... The government are quite clear, having given deep and prolonged thought to the matter that they should not impose cuts of a scale which would require drastic adjustment in our standard of living until it is perfectly clear and certain that this is the only course open to us.<sup>2</sup>

The government, it seemed, would wait until it was pushed. By August it felt just such a push as a drain on the reserves started as soon as convertibility became operative. The drain quickened as confidence in sterling fell. This precipitated those who feared a run on sterling to pull out, helping to create the very outcome they feared. Two crucial Cabinet meetings were held on 1st August. Dalton presented a memo which argued that the crisis should be seen strategically. If the loan ran out and we got no marshall aid we would have to

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1. Cab 130/19 Brief for Mr. Marshall gen 179/10. 16th June 1947.
  2. H.C. Deb. Vol. 439 Cols. 2062-3 8th July 1947 Debate on Import Programme.



revert to bilateralism despite it being inconsistent with our obligations to the Americans. That being so it was better to start out with our reserves intact. Reserves would also be the defences with which we could fight off 'any conditions that the U.S. government might impose on us for Marshall aid': it would make the bilateralist option a real alternative to use as a bargaining counter. The measures he indicated essential were an increase in production for export, plus import substitution especially by developing home agriculture, cuts in meat rations with special preferences to those in manual work, and for the first time, a threat to the housing programme with cuts on imported timber<sup>1</sup>. The Cabinet far from grasping the nettle of export priority agreed to reduce the 'impossible' target of 140% of the 1938 volume for the second quarter of 1948; and invited Cripps to see how a new target of 160% by the end of 1948 might be achieved<sup>2</sup>. At the second Cabinet some cuts in overall capital investment were agreed in principle, especially on projects not contributing directly through quick returns on export and import saving. Some reduction in housing had to be contemplated as the timber cuts could not fall on mining, shipbuilding and export packaging, and the next biggest user was the construction industry. The

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1. Cab 129/20 Cabinet Paper CP(47)221 30th July 1947 Balance of Payments. Memo by the Chancellor of the Exchequer.
  2. Cab 128/10 Cabinet meeting CM(47)67 (1st meeting) 1st Aug. 1947. The new target was finally agreed in September see Cab 128/10 Cabinet meeting CM(47)75 5th Sept. 1947. Both meetings continued in Cab 128/11 Confidential Annexe.

The Cabinet decided that the official planning apparatus

- C.E.P.S. in particular - would review the total size of the investment programme and draw up, in consultation with departments concerned, a list of proposed cuts, relative priorities and measures to effect them<sup>1</sup>. The second part of the crisis directives involved the question of increased production 'in the next few months'. In the short run, the Minister of Labour told the Cabinet, an increase in output could not be achieved by reorganisations and re-equipment so it would have to come by lengthening the hours of work in key dollar earning/import saving industries and mining, either by overtime or by some other method implemented by joint negotiation machinery<sup>2</sup>. Each industry would work out its own arrangements after the government indicated the production target required. An extra half hour a day would be worked by miners and new production targets were given for steel, coal and agricultural industries. In addition allowances for

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1. Cab 128/10 Cabinet meeting CM(47)68 (2nd meeting) 1st August 1947, continued in Cab 128/11 Confidential Annexe. Subsequently a New Committee was appointed to determine the cut known as the Investment Programmes Committee (I.P.C.). It was to function as an inter-departmental sub-committee of the Steering Committee (S.C.). But with Sir Edwin Plowden, the Government's Chief Planning Officer as Chairman, the Committee soon became a key forum in its own right. For details of appointment and terms of reference see Cab 129/20 Cabinet Paper CP(47)231. 13th August 1947. Investment Programmes Committee Note by Norman Brook Secretary of Cabinet.
  2. Cab 129/20 Cabinet Paper CP(47)220 30th July 1947. National Crisis scheme for increasing production. Memo by the Minister of Labour.

travellers were cut and petrol rations were reduced. There was also agreement to re-enact some degree of compulsory direction of labour via the control of engagement order by supplementing the existing controls operative in the Supplies and Services (Transitional Powers) Act 1945<sup>1</sup>. The T.U.C. had indicated that they were not opposed in principle although they could not commit the movement<sup>2</sup>. The cuts were announced in Parliament on 6th August 1947 where it was said one of the key industrial problems accompanying the currency crisis was that in some industries there was not enough manpower to make full use of capacity, while in others there was not enough materials to fully employ the manpower that was available. Controls on capital investment would help reduce the demand on given supplies<sup>3</sup>. The knowledge that in the long term such investment could increase supply on given demand was swept away in the concentration on the short term and part of that short term solution involved the export of capital goods previously intended for the home market<sup>4</sup>.

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1. Cab 128/10 Cabinet meeting CM(47)68 2nd Meeting 1st August 1945 continues Cab 128/11 Confidential Annexe.
  2. Cab 128/10 Cabinet meeting CM(47)69 5th August 1947 continued Cab 128/11 Confidential Annexe.
  3. H.C. Deb. Vol. 441.Cols1486-1511 6th August 1947. Speech of P.M. on state of Nation.
  4. This feature of the export programme had been noted earlier in the year. During the fuel crisis, the government had been exporting coal, mining machinery, electricity power generating equipment, agricultural machinery, locomotive wagons, trucks and conveyors. Many of these commodities were required to increase fuel production, and were required to assist manufacturers whose exports were being hampered by the power crisis, see H.C. Deb. Vol. 434 Cols. 1340-1, 1350, 1379, 1425. 12th March 1947. Debate on Economic Situation.

It was not that the government had failed to recognise the contradictions here. . . . Deferring the re-equipment of our industries in order to release machinery for export would hit manufacturing industry where the volume of investment was already small: our long term export prospects would suffer indirectly through difficulties encountered in maintaining plant and through the inability to innovate and promote new goods for export or import substitution. Yet as the government saw it, quicker, almost immediate, advantages could be gained for the balance of payments by diverting machinery from industrial re-equipment to exports<sup>1</sup>.

## SECTION II : NEGOTIATED SPACE AND THE ROLE OF THE IMPERIALISM.

The announcement that cuts would take place was not sufficient to stop the gold and dollar drain. The government sent a delegation of officials, led by Sir Wilfred Eady of the Treasury, over to the Americans to demand some relaxation in our convertibility and non-discriminatory commitments. The latter was necessary given the Cabinet's earlier decision to avoid hard currency purchases, the former was the only option left if the government was to avoid the savage deflation that would threaten reconstruction and full employment which was being advocated by many in the opposition and press<sup>2</sup>. Dalton's reply to that opposition was always to deny the crisis 'relates to what we are doing at home'<sup>3</sup>. Eady had been

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1. Cab 129/21 Cabinet Paper CP(47)250. 5th September 1947. The Export Programme Memo by the President of the Board of Trade.

2. For example The Economist 12 July and 9th August 1947.

3. Dalton, H., High Tide and After : Memoirs 1945-60 (London Muller 1962) p.260.

instructed to say that while we agreed with convertibility and non-discrimination in principle this was 'an abnormal' time for adjustment. Instead convertibility rights should be funnelled through the Bank of England, with each country being allowed a ration and payments agreements negotiated with the rest<sup>1</sup>. Bevan had argued that it should be made clear that our decision was not negotiable and not a temporary affair; we were informing them of what we intended to do and should avoid discussion of multi-lateralism<sup>2</sup>. The Cabinet was however given a rude shock a day after Eady arrived in Washington. He telegraphed back that the Americans wanted 'an exchange of letters' within the terms and spirit of the original agreement (i.e. multilateralist principles), and until this had been done they were refusing to let us make any more drawings on their loan<sup>3</sup>. Bevan's desire to avoid multilateral talk and to use the occasion for the bringing in of permanent bi-lateral trade seemed thwarted<sup>4</sup>. The U.K. Treasury suspended convertibility that night as promised. The exchange of letters involved, as the U.S. Secretary of the Treasury, John Snyder saw it, a British commitment 'just as soon as they could to re-establish to the fullest extent possible the convertibility of current transactions'<sup>5</sup>. After-

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1. Cab 129/20 Cabinet Paper CP(47)233 16th August 1947. Balance of Payments memo by the Chancellor of the Exchequer.

2. Cab 128/10 Cabinet meeting CM(47)71 17th August 1947.

3. Cab 128/10 Cabinet meeting CM(47)72 19th August 1947.

4. Cab 128/10 Cabinet meeting CM(47)71 17th August 1947.

5. T236/1667 U.S.A. Suspension of Convertability. Press Conference by U.S. Secretary of the Treasury John Snyder 27th August 1947.

dinner discussions between Gordon Munroe of the British Treasury's Overseas Finance Division and his U.S. equivalent Overby centred on the means to getting convertibility 'back on the rails again'. Munroe, writing to Bridges, the Head of the Treasury, recommended demonstrating that we could begin to solve the problems ourselves before we applied for more leeway, and argued that this would involve import cuts, intensifying export measures, and 'meeting the gap by a gold payment'. In this way 'we should show the U.S. we were prepared to run down our reserves'<sup>1</sup>. Bridges recommended the same to Dalton including the pruning of next year's expenditure estimates by departments. Such action would enable us to make two drawings on the I.M.F. and unfreeze the unspent portion of the loan, which would then tide us over until October<sup>2</sup>. On the 13th September Dalton met Snyder, the President of the Reserve Bank of New York, Mr. Allen Sproud, and the Governor of the Bank of England and proudly announced that they had just ordered a transfer of £20 million in gold to the Americans. This gesture Snyder indicated would make it easier for the U.S. government to render assistance. A paper was then given to the Americans showing progress in exports. Further figures it was said could be obtained 'and the resources of Her Majesty's Treasury were at his disposal'. Snyder agreed that an approach would have to be made to the I.M.F. and reserves run down thereby exhausting all remedies

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1. T236/1667 U.S.A. Suspension of Convertability. Letter Munroe to Bridges 12th September 1947.
  2. T236/1667 U.S.A. Suspension of Convertability. Letter Bridges to Dalton 13th September 1947.

before the unfreezing of the loan would be acceptable to Congress. The U.S. would support our application to the I.M.F, now that we had sold the gold, and this would enable us to apply to draw our full quota. Meanwhile these moves had successfully pre-empted the U.S. commercial negotiator, Clayton. He had hoped Britain would be given no further leeway until a strict timetable for the restoration of convertibility and the abolition of preferences had been drawn up. This had been rejected by the President<sup>1</sup>. The final gesture to the Americans was given when Dalton wrote to Snyder another plea for the release of the loan indicating that he was preparing a large surplus for the first half of 1948, and that further fiscal measures to strengthen the reserve position and reduce inflationary pressure were under way. In November the Americans unfroze the loan, but, as we shall see, such measures did not involve the sort of deflation that the Americans had come to regard as usual where the adjustment of a trade disequilibrium was called for. These concessions to the Americans were formal in the sense that peering below the appearance we have to acknowledge the substantial concessions granted by the Americans to us in the short term. Negotiations

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1. T236/1667 U.S.A. Suspension of Convertability. Letter Eady to Bridges 20th September 1947. The Cabinet had counted on the suspicion that Clayton was 'bluffing' and had no support from the U.S. Administration. His policy would in any case, Cripps believed play into the hands of the communists in Western Europe. See Cab 128/10 Cabinet meeting CM(47)77 25th September 1947 considering Cab 129/21 Cabinet Paper CP(47)266 24th September 1947 Tariff Negotiations at Geneva Memo by President of the Board of Trade.

on imperial preferences had begun as early as the Geneva Trade Conference in April 1947. Clayton, the U.S. Under Secretary of State for Economic Affairs had demanded their complete elimination in three years<sup>1</sup>. The British, as we have seen, regarded him as a negotiator who did not have the complete backing of the U.S. Government. The U.K. agreed to an immediate reduction of 5% on our total exports preserving the rest of the preferences in respect of the foreseeable future<sup>2</sup>. As for import controls the revised date for the end of the transition period was set at London in 1947 for the end of 1952 and then the proposed International Trade Organisation (I.T.O.) was only to be allowed to 'request' removal when Britain could be shown no longer to be in substantial disequilibrium. Congress considered this to be a rather weak sanction on deficit countries short on productivity and refused to ratify the I.T.O. but put nothing stronger in its place<sup>3</sup>. In September 1947 a private accommodation with U.S. representatives ensured that so long as Britain was short of dollars the U.S. would not object to 'conservation' by quantitative import controls and buying in soft markets, even if this meant discrimination against cheaper U.S. supplies<sup>4</sup>. In addition to this the

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1. Gardner, R. Sterling-Dollar Diplomacy (New York McGraw-Hill 1969 edit.) pp.358-60.
  2. See Amery, The Awakening, p.65.
  3. Gardner, R, Sterling-Dollar Diplomacy p.375.
  4. ibid, p.335.



Americans turned a blind eye to the accompanying continuation of the dollar pool. Commonwealth representatives meeting in London in October 1947 agreed until June 1948 to voluntarily increase export targets and the placing of restrictions on dollar import expenditure within the sterling area, thereby rationing claims on the pool of reserves<sup>1</sup>. As a result our imports from dollar areas fell from 46 to 32%<sup>2</sup>. This co-operation came at a time when world food and primary production was increasing and sales to the dollar area were growing. The U.K. surplus with the sterling area was restored and the overall dollar deficit thereby reduced.

Now in correctly evaluating the importance of this 'imperial buffer' we ought to note that its utility in a long range strategy was limited. It is true that the Labour government made attempts, albeit modest and faltering ones, to develop the capacity of colonies to produce and export food and raw materials for dollar earning purposes. Loans from the Exchequer were given via the Colonial Development Corporation to the West Indies, West Central Africa, and the Far East. The loans ran from the corporation to local agents, and district commissioners and thence to British company subsidiaries. Strachey's fated groundnut scheme which operated via Unilever rather discredited the grander aspects of these ideas. Palme Dutt's impressive array of press,

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1. Strange, S., Sterling in British Policy (Oxford University Press, 1971) p.62.

2. Bartlett, C.J., A History of Post War Britain, (London Longmans 1977) pp.66-7.

ministerial speech and statistical support for the thesis of imperialist exploitation in this period turns out to be rather ambivalent on closer examination. It is true that dollar deficits were covered by colonial dollar exports especially Malayan Rubber and African Copper but not for every year post 1947. It is also true that imperial preferences continued the unequal exchange of cheap primary production for dear manufactures, and that the currency regulations prevented the colonies from using their earnings to industrialise. In addition direct investment was financed as much by the 'forced loans' which in effect was what sterling balances turned out to be<sup>1</sup>. Yet, as Dutt admits, the benefits for the metropolis of dependency were negatively balanced by the cost. Firstly it may have led to the neglect of British industry as easy profits could be gained and repatriated from abroad and inefficient industries in the centre continued to be sheltered in the protected enclaves of the periphery. But, just as important, the social, political and financial costs of imperialist administration and military expenditure deducted from those surpluses. More importantly, in the biggest markets where political control was not colonial, that is, the self-governing dominions, India, Canada and Australia, U.S. exports and direct investment increased much more than our own<sup>2</sup>. In the colonies Article 5 of the eventual Marshal Aid agreement allowed the Americans equal access to raw materials. In addition the economic costs of serious

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1. Dutt, R. Palme Crisis of Britain and the British Empire. (London Lawrence and Wishart 1953) pp.76-7.

2. *ibid* pp.156-7. pp.168-70.

and extensive colonial development in Africa must also be considered. Large sums of capital would have to be laid out for the clearing of jungle and the training of people. This capital would be locked up with little immediate return and would imply a contraction of home investment. If this was not to happen then a balance of payments surplus . . . first to finance the capital export. Unfortunately this was contradictory since the Colonial solution of the balance of payments deficit could not be premised on the assumption that there must first be a surplus! Britain had lost her near monopoly of world trade after 1870 and with it went her export surplus. Since it was from this surplus that new foreign investments were made the position from then to the 1930's was one where the income from existing foreign and imperial investment, insurance commissions, and shipping were being used to finance the import deficit and keep the overall balance of payments in surplus. But from 1930 to the outbreak of war even this was insufficient to keep the current account from falling into the red<sup>1</sup>. It can thus be seen that the trade and payments crisis was compounded rather than caused by the losses of wartime. That being so the government could not hope to raise capital for colonial development in order to reduce the overall

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1. Walker, G.J., Economic Planning by Programme and Control in Great Britain (London, Heinemann 1957) see p.106, Table 4 UK Balance of Payments 1870-1938; see also Hobsbawm, E.J., Industry and Empire (Harmondsworth Penguin 1969) pp.144-153, pp.258-62.

deficit without a deduction from home investment in the short run. Of course once the investment in infrastructure had been made net benefits would begin to show. But all this assumes that no other costs would be incurred other than the initial outlay. What is ignored are the crucial political impediments to the intensification of colonial exploitation in the late 1940's. Already British troops were having to repress colonial liberation movements in Malaya and the Gold Coast. Advances towards colonial self-government were being pursued by the Colonial Office: they resented the idea that colonial health, education, and welfare schemes had to be trimmed in order to give priority to increases in food and raw material production designed wholly for export. The Colonial Office at this time was influenced by the progressive Fabian Colonial Bureau which argued that it was unjust to take out more than we put in as this threatened colonial rights<sup>1</sup>. As for the long term utility of the dollar pool, the sterling area's decision to restrict dollar expenditure was always dependent on the voluntary principle. This was seen to be a tenuous arrangement when in June 1948 the first post-convertibility agreement was broken by India, South Africa and Australia who spent more than their 'ration'<sup>2</sup>. With independent and sovereign central banks it was difficult to do anything but accept the fact as a fait accompli<sup>3</sup>, where in effect the dominions were helping themselves to the dollar earnings of the colonies with Britain looking on as attendant

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1. For the Colonial Office and Fabian Bureau view Gupta, P.S., Imperialism and the British Labour Movement 1914-64 (London MacMillan 1974) pp.321-3.

2. *ibid* p.306.

3. *ibid* p.309

at the pool<sup>1</sup>. While Gupta correctly tones down Dutt's rather unsubstantiated talk of a 'labour aristocracy' protected by the British Welfare State and fattened on imperialist exploitation<sup>2</sup>, he goes too far the other way in appearing to deny that the imperial shelter provided a contribution to economic strategy in the short run. He can find little evidence of labour M.P.s advocating it as a solution in the public forum. This, however, indicates nothing. Imperial arrangements were instrumental in effecting periods of transition between crisis and partial recovery in 1947/8 even if the relapse which took place in the summer of 1949, when the U.S. recession led to a slump in U.S. exports and a revival of the dollar deficit, showed the tenuousness of their protective power.

Gupta's major error is to associate imperialism with policies for extended and intensive empire development and Bevin's personal views on empire customs union<sup>3</sup>. He has to admit the existing marketing schemes and colonial monetary policies continued existing exploitation, retarded the development of colonial income and indigenous manufacturing, while the colonial dollar surpluses took the strain of the U.K. deficit<sup>4</sup>. It is difficult to evaluate the exact role played by imperial policy in this period, and in particular whether it functioned to sustain internal economic reconstruction. The most one can say is that for the post

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1. Gupta, Imperialism and the British Labour Movement.p.348.
  2. ibid pp.309-10.
  3. ibid p.305, pp.319-20.
  4. ibid p.325 and p.337.

convertibility period, and probably into the early 1950's, it provided a form of shelter enabling us to sustain a higher level of import than would otherwise have been possible, and crucially in 1948, it kept us secure while the government negotiated Marshall Aid. The long term utility of policy instruments such as the preferences and the dollar pool were never really defended. On the contrary commitments were constantly being undertaken and implemented gradually to phase them out, but at a speed the government could determine. This facility for determining the movement of policy at the interface between the internal and external economy is made possible by the extraction of concessions through negotiation. This is the method by which political management can soften the impact of adjustments on present generations and therefore current electorates. Such a concern for short term survival and progression over long term goals and risk was from the beginning of its development seen as a characteristic of social democracy<sup>1</sup>. We shall return to these points in the final chapter.

### SECTION III. THE CONDITIONS OF MARSHALL AID.

The second leg of post-convertibility strategy rested on the need to protect reconstruction through more U.S. aid. In this the British Government was favoured by the circumstance that the U.S. was giving aid to the whole of Europe and not just to Britain. That the Americans were concerned with pump priming and easing the dollar shortage to the point of breaking

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1. see Bernstein, E., Evolutionary Socialism (New York Schocken 1961) pp.202-6.

their own Bretton Woods Agreement was very much due to the political consequences that might flow if European countries were forced into varying degrees of autarchy that would threaten the continued existence of a capitalist sphere in Europe and its multi-lateralist underpinnings, isolating America, strengthening Russia and increasing the defence costs which American capital would have to carry. The defeat of Germany had created a power vacuum in Western Europe. Communist participation in the governments of Italy and France and the Civil war in Greece had been revealed more clearly to the U.S. Government as a result of Clayton's tour of Europe<sup>1</sup>. At the end of February 1947 rumours spread in Washington that Britain was thinking of reducing its overseas military commitments and making an exit from her role in Greece. Truman and Marshall notified Congress that the U.S. would have to assume the defence burden unless substantial aid was given<sup>2</sup>. One thing was clear, the existing international agencies for aid set up by Bretton Woods could only lend small amounts on a piecemeal basis left to their own resources. Marshall told Congress in January 1948 Europe would suffer 'enormous distress so intense, social discontents so violent, political confusion so widespread' as to threaten world stability<sup>3</sup>. This benevolence to Europe was not entirely a reversal from the previous neo-liberal position of Bretton Woods as can be seen from the memoirs of a leading U.S. official of the time, Joseph Jones. While it seems apparent that the U.S. was

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1. Gardner, Sterling Dollar Diplomacy pp.299-300.
  2. Bartlett, History of Post War Britain p.38.
  3. Amery, The Awakening. p.224.

moving to strengthen capitalism as a whole and not just U.S. interests narrowly conceived, it seems clear that the latter interests stood to gain more from trade and investment in the long run if wider markets were kept open, especially after the postwar boom subsided. Marshall Aid was far more rational from this perspective than the idea that the U.S. could dominate a stagnant Europe. Jones notes that

the President's Council of Economic Advisors expected a slight business recession within 12 months; if the expected export decline due to foreign inability to pay coincided with weakness in the domestic economy the effect on production and prices and employment in the U.S. might be most serious<sup>1</sup>.

He also testifies to the fear of Europe falling out of the capitalist camp and into the Russian orbit; and the dollar and therefore high tax cost of armaments resulting from the U.S. having to undertake further defence commitments threatening, together with the shrinkage of the world capitalist market, another big economic slump<sup>2</sup>.

After the famous Marshall speech in June 1947 European countries were encouraged in a series of summit meetings to draw up a list of their food, energy and raw material requirements on a year to year basis up to 1952; the date set for 'recovery'. Countries eventually had to accompany requests with detailed plans over 4 years of how they aimed to achieve

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1. Jones, J. Fifteen Weeks Feb 21-June 5, 1947. (New York Viking Press 1955). p.207.
  2. Jones quoted in Horowitz, D., The Free World Colossus: A critique of America's Foreign Policy in the Cold War (New York, Hill and Wang 1966). pp.126-7.



balance of payments surpluses by then. They were told to try to trade with one another in order to reduce the drain on dollar supplies, an explicit encouragement to discriminate against American capital in exports which amounted to a reversal of a previously sacred principle in U.S. commercial negotiations. An Economic Co-operation Act was passed in 1948. The aided countries would have periodically to submit statements of their needs screened first by the 'European Co-operation Administration' in each country, sign agreements promising to increase industrial and agricultural production, stabilise currency and maintain 'proper' rates of exchange, co-operate in reducing trade barriers, allow the U.S. to draw on European raw materials and to publish the uses of the aid. In order to become eligible each country would have to enter a bilateral agreement with the U.S.A. signifying its intention to abide by the Co-operation Act. This was done by the U.K. letter of intent<sup>1</sup>. Yet the constraints were fewer than is commonly supposed. As a result of British Cabinet insistence, the requirement to balance the budget in each year in which aid was given was changed to include an interpetative declaration that this would not preclude deficit financing for the short period. Ministers also stressed the U.S. would not be allowed to interfere in or set the 'valid rate of exchange'<sup>2</sup>.

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1. See H.C. Debs. Vol. 452. Col.2011 Statement: Agreement 29th June 1948 UK-USA.
  2. Cab 124/316 Meetings Economic Policy Committee 8 and 21st June 1948; see also Cab 128/13 Cabinet meeting CM(48)43 25th June 1948.

The Economic Co-operation Agreement was signed 26th June 1948<sup>1</sup>. Apart from the vague concessions made on reducing trade barriers and financial stability, Article III contained the first expressed provision by a British government for the legitimacy of U.S. direct investment incursions into the U.K. and its dependencies<sup>2</sup>, a point about which Congress had been quite explicit<sup>3</sup>. Both the U.K. government and Mr. Hoffman, the European Co-operation Administrator, would guarantee the repatriation of the profits of projects undertaken in dollars. The future implications of multinational openings were not appraised. The government saw it as free investment in the sense of U.S. 'assistance' rendered by a physical addition of plant and know-how, as well as the free dollars which, as a result of the investment, would float round the monetary system.

Some commentators on Marshall Aid have made much of the supervision and monitoring by U.S. Officials of our public expenditure planning. Both Pritt and Dutt<sup>4</sup> drew attention to speeches before the U.S. Senate by the chief of the Economic Mission in the U.K. of the European Co-operation Administration, Thomas Finletter. Apparently Finletter had defended the

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1. European Co-operation Agreement UK/USA 26th June 1948 Cmnd.7446 (London HMSO 1948).
  2. H.C. Debs. Vol.439. Col.291. 6th July 1948. Debate on Economic Co-operation Act.
  3. *ibid*, Vol.439.
  4. Pritt, D.N., The Labour Government 1945-51. (London Lawrence and Wishart 1960); pp.184-6.  
Dutt, *Crisis of Britain*. pp.392-4.

programme of aid to Britain on the grounds that we would be holding down government consumption by cutting back on social programmes of health, education and housing in order to boost exports and capital investments. Despite being initially 'troubled' about the large 20% of our investment programme devoted to new housing he hoped the senators would appreciate the need to recoup houses destroyed by war and the fact that a smaller proportion of our national product was being planned for housing in 1949 than in 1938. Again it can be argued this is merely a form of words and below the level of appearances lies the real substance. The American was merely rationalising for an American audience figures drawn up by the British designed to give the appearance of substantial privation to justify the status quo.

How far the British government made Finletter their man can be seen from his justification of the level of house building and the comparisons with 1938. The 30's were a period of a substantial private enterprise house building boom amid economic slump and underutilised capacity<sup>1</sup>. To defend a similar level of housing progress in a post war economy short of labour materials and investment resources was a different matter. With regard to consumption the 1938 standard of living, for those in employment, was one of the best of the postwar years: real purchasing power in an environment of stable or even falling prices had substantially improved over

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1. Richardson, H.W. and Aldcroft, D., Building in the British Economy between the Wars. (London, Allen & Unwin, 1968).

the 1920s.<sup>1</sup> To make, however, 1938 the standard reference point for an economy where all were in employment and where inflation was present hardly represented tying Marshall Aid to increased austerity. In fact the British government did precisely the opposite. When the Economic Policy Committee met and agreed the revised import programme for July 1948 - July 1949, prepared by departments, it declared that

Broadly speaking its aim was to restore the level of food consumption maintained in 1947/8 to make full provision for the needs of industry for raw materials and machinery, to make possible the agreed increase in the housing programme and restore the basic ration for petrol. The U.S. authorities might be reminded that, at the Paris conference in 1947, the participant countries had agreed that the aim should be to recover the 1938 standard of living and that this had been generally recognised as a reasonable objective if the political stability of Western Europe was to be soundly established.<sup>2</sup>

At a further meeting Ministers noted that the standard of living would have fallen but for Marshall Aid: it had 'bought time' for our recovery<sup>3</sup>. Bevan, Morrison and Dalton all conveyed this to the public in speeches - without Marshall

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1. Pollard, S., The Development of the British Economy (London, Edward Arnold, 2nd edit. 1969) pp.289-94 see also Stevenson, J. and Cook, C, The Slump: Society and Politics during the depression. (London, Jonathan Cape 1977) p.5-6, 9, 16-19 and Table A1 p.283). This book is the fullest statement yet of the 'revisionist' thesis on the 1930's.
  2. Cab 134/216 Economic Policy Committee meeting 23rd March 1948.
  3. Cab 134/216 Economic Policy Committee meeting 13th May 1948.

Aid further cuts in food imports, rations and in raw materials, threatening employment, would have been necessary.<sup>1</sup>

The ease with which Britain surmounted the 1947-8 crisis must therefore be partly attributable to the ease with which the American government broke with Bretton Woods themselves by giving grants to Europe surpassing entitlements under the I.M.F., by tolerating discriminating practices against the dollar area, by encouraging a self-help preferential system in western Europe as well as by the use of existing preferences by the U.K. This temporary 'Retreat towards bilateralism' as Balogh calls it<sup>2</sup>, gave Britain another 'Policy Space' within which to manoeuvre. This was only a vague hope in August 1947 when the Cabinet decided to cut capital investment and make room for more exports. This implied shift in reconstruction priorities began to be discussed in the opening crisis months but by the time proposals were ready the initial assumptions - that there was a crisis that indicated an inescapable path had been replaced by a more secure and negotiated environment with the range of options extended as a consequence and the possibility of choice re-established. We are now in a position in the next chapter to examine the process of the planning of cuts in more detail for the light that it throws on political resource management.

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1. see Dalton, *High Tide and After* p.304; LPCR 18th May 1948 (Speech by Bevan) and Cab 129/24 Cabinet Paper CP(48/35 5th February 1948. *Economic Progress Report*.
  2. Balogh, T., *The Dollar Crisis, Cause and Cure*. (Oxford Basil Blackwell 1949) p.252.

CHAPTER VII

Adjusting the Cuts

## INTRODUCTION

In this chapter we shall illustrate how a changing rationale for reducing capital investment led to a change in the planned scale of cuts, their distribution and the measures chosen to effect them. The strategy of the government was to manage those in the opposition and the press who regarded reconstruction as 'overloaded', while at the same time to proceed with as few alterations in existing priorities and commitments as possible. The choices revealed in a full examination of the cuts illustrate the nature and underlying assumptions behind much of short term economic management.

## SECTION I : THE OBJECTIVES

Decision making on the scale and distribution of the capital cuts was delegated by the cabinet to an Investment Programmes Committee (I.P.C.) set up for the purpose.<sup>1</sup> This body was to be a sub-committee of the interdepartmental Steering Committee and would work 'in consultation with the departments' including representatives from the Treasury (who supplied the chairman, F. Vinter) and the resident economists in the Economic Section of the Cabinet Office. Edwin Plowden, who as Chief Planning Officer of CEPS was invited on to the Committee, began the process when he sent out a letter to departments inviting them to cut their investment projects and concentrate instead on exports and import saving. It was noted that construction used a high proportion of such scarce resources as timber and steel and that these had

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1. Cab 128/10. Cabinet meeting CM(47)68 1st August 1947. See also Cab 129/20 Cabinet Paper 13th Aug. 1947 Investment Programmes Committee Note by the Secretary of the Cabinet.

alternative uses in export and industries building. In addition the production of building materials consumed a large slice of energy output. Plowden was quite clear that cuts should fall:

Wherever possible on elements in the programme which contribute to the domestic standard of life rather than on productive industry.

Since, the letter went on, this required aim could not be achieved simply by not starting new projects, it would be necessary to review projects already in progress to see if their completion was justified and to concentrate investment on completing those allowed to go forward.<sup>1</sup> In drawing up points of principle for ministers as early as August 4th the stated aim appeared to be to cut as little as possible in the engineering industry that provided essential plant and machinery, and instead to concentrate on areas that 'set free large numbers of workers and this meant the housing programme'. Of the £1600m of gross investment planned for 1948 £300m was allocated for housing. This should be cut to £200m and £195m should be cut from plant and machinery. Total cuts of £300m were therefore indicated.<sup>2</sup>

It was in the field of housing that the committee encountered its first challenge. Plowden's letter to departments had talked of cuts in the proposed labour ceiling for June 1948.<sup>3</sup> Labour devoted to housing should fall from

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1. T229/66. Investment Programmes Committee: White Paper on Capital Investment. Letter from Plowden to Departments 15 August 1947.
  2. Cab 134/503. Ministerial Committee on Economic Planning. Memo for Lord President at meeting of Ministers 4 August 1947 proposed by CEPS (Sir Edward Plowden)
  3. T229/66. Letter from Plowden 15th August 1947.



582-490,000 and with cuts in other areas the total building labour force should contract to 820,000. Labour, materials and steel capacity could thereby be released. Plowden firmed up his view in a letter to Morrison. We could not afford to cut essential industrial building in order to re-house badly housed families outside mining and agricultural areas where labour was badly needed.<sup>1</sup> No further tenders should be approved before the committee reported. While Bevan was prepared to agree to this and had himself terminated existing licences for the building of houses for sale by private enterprise, he and his civil servants resisted the suggestion of Hugh Weekes, the Director of Programmes - CEPS, who argued that the rate of monthly completions should fall from 15 - 11,000, and that to effect this existing contracts ought to be cancelled so that labour on permanent housing would fall from 270-200,000. Sir John Wrigley, Bevan's Civil Servant, argued however that the Government was asking for a long legal battle with companies demanding compensation if this course were followed.<sup>2</sup> The final outcome of this issue and indeed

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1. Cab 124/453 Lord Presidents Office Post War Housing. Plowden to Lord President 11 August 1947.
  2. Cab 134/437. Investment Programmes Committee meeting 28th August 1947. Bevan believed at that time there were 240,000 houses under construction (which could be finished by the middle of 1948 at the earliest) and 110,000 (which could be finished by the end of 1948). How, he asked his fellow ministers, could he be expected to deal with the illhoused and blitzed cities such as London, Coventry and Plymouth if building was to be confined to mining and agricultural areas see Cab.132/8 Lord Presidents Committee Paper 8th August 1947 Housebuilding Memo by Minister of Health.

the whole fate of the housing programme would depend on how severe the overall cut in capital investment was to be and that could not be decided until the Investment Programmes Committee (IPC) had sorted out exactly what it took its vague brief to be.

From the start there was a crucial distinction made which would structure the subsequent policy in one or the other direction, and it was the Treasury representative on I.P.C., P.D. Proctor who outlined this choice. He divided the issue of cuts into two possible objectives. The first objective would cut programmes so that they could be in better balance with the supply of materials. The second objective would be to cut so that the labour and materials would be released on a scale sufficient to switch resources from existing programmes to a new export priority.<sup>1</sup> Both the Ministry of Works represented by Charles de Villiers, and the Ministry of Health, represented by Sir John Wrigley, looked for a micro-level balance within existing programmes based on the first objective. The second objective, pushed by the Treasury, was an attempt to establish a macro-balance for the economy as a whole. The real test in matching or co-ordinating micro to macro would be the extent to which any reduction in new building approvals was translated into a reduction of building employment. The first objective, as Proctor pointed out in his memo, would leave the industry with 900,000 men. This would not necessarily produce an increase of entrants to other

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1. Cab.134/444. IPC Working Party Papers 17 Sept. 1947. Note by P.D. Proctor (Treasury) on the building programme.

industries. The main labour control, the Engagement Order, only applied to those already unemployed it could not transfer men out. That could only occur if prior administrative measures had been taken to cut the programme to release labourers. The committee noted with regard to housing that if Bevan's policy of proceeding with the 350,000 houses under construction and under contract was agreed to, then the Committee would have to increase the allowed completions per month to 15,000 instead of the proposed 11,000 and this would affect the required labour force.<sup>1</sup> The Committee appreciated that the second objective would involve a sharp reversal of policy pursued since 1943 of expanding the building industry under state sponsored guarantees, which encouraged the entry of skilled operatives and apprentices.<sup>2</sup>

In August and September 1947 the I.P.C. was swaying between these two objectives and seems to have come down in favour of a total cut in investment of £200m (with up to £100m from a cut on plant and machinery). This appeared to be leaning in the direction of the first option. It was at this time that representatives of British industries come to the government with their much tougher plan. The Director General of the (F.B.I.), Sir Norman Kipping, sent it personally to the Prime Minister,<sup>3</sup> and later they discussed it verbally in a delegation to ministers.<sup>4</sup> The F.B.I. maintained the problem was not just an

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1. Cab.134/437 Investment Programmes Committee meeting 28 August 1947.
  2. Cab.134/444.IPC Working Party Paper 2nd Sept 1947 Problems of Reducing the building Programme. Note by Joint Secretaries.
  3. Federation of British Industries Industry and the Way to Recovery 1947 sent to Prime Minister 28th August 1947 see T229/63 F.B.I., discussion of Industry & the Way to Recovery.
  4. Cab.130/19 General Series 179/28. Report of Ministers Meeting with F.B.I. to discuss 'Industry & Way to Recovery' 5th Sept. 1947.

external dollar crisis but one produced by an internal policy of inflationary biases which reduced competitiveness. These inflationary biases were induced by excess demand. Too many ambitious schemes had been started which meant that the economy was overloaded. Public expenditure also involved increased demand, drew in imports using scarce dollar exchange in products, and produced no return in the form of exports. Public expenditure absorbed capacity manpower and reduced turnover through the creation of material shortages. In the planned capital investment for 1948 of £1,600m the F.B.I. drew a distinction between that in the public and private sector and claimed the distribution was 50:50. Since business and personal saving totalled £350m public investment should be equal or less. Cuts of £450 were suggested on housing, schools, hospital repair and nationalised industries.<sup>1</sup> Public current expenditure should also be reduced and all controls phased out. A crucial lack of concern was evidenced in the F.B.I. attitude towards industrial re-equipment. Increased output they maintained could just as easily result from the minimum essential expenditure on re-equipment. Attention should be concentrated on projects which would give quick returns in additional exports or reduced dependence on imports in the short term.

The F.B.I. did not however appear to have influenced the government to any degree. The role of this organisation in the determination of the cuts should not be overemphasised.<sup>2</sup>

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1. Industry the Way to Recovery p.3.

2. As for instance in Pritt, D.N. The Labour Government 1945-51 (London Lawrence & Wishart 1960) p.147.

The government pointed out they were already preparing their own investment reduction and had anticipated the F.B.I.

There was no serious difference of principle between the view of the Federation and the Government on this question ... but until the complete review the Government could not accept the Federation's estimate of £450m. as the extent of the reduction in the total investment programme.<sup>1</sup>

The government had been advised by Plowden and C.E.P.S. that the F.B.I. had ignored the fact that some of the £1,600m. planned investment was for replacement or repair to make good depreciation of existing assets, a basic minimum for survival. If their proposed reduction fell only on net new investment it represented about a 50% cut and would threaten much necessary public investment in infrastructure essential for export as well as the priority building programme.<sup>2</sup>

In discussions involving a method for controlling 'inessential' investment, the government used the willingness of the F.B.I. to concentrate on short-term rather than long-term capital equipment and asked them to consider ways of getting their members to voluntarily reduce expenditure on plant and machinery that did not produce the quick return for exports that was wanted, or an adequate return in increased productivity.<sup>3</sup>

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1. Cab. 130/19, General Series 179/28, Report of Ministers meeting with F.B.I. delegation to discuss 'Industry and the Way to Recovery', 5th September, 1947.
  2. T229/63. F.B.I. discussion of Industry and the Way to Recovery. Plowden to Morrison. 4th September, 1947.
  3. T229/67. Papers leading to 7th meeting of the Economic Planning Board, 25th September, 1947.

The FBI offered to do this but, in return, wanted the government to devolve its powers of control over construction through the building licences to the 'self-governing' trade associations. They would then vet applications by their firms according to tests of whether they contributed towards the export programme, cleared bottlenecks, set free manpower and materials or improved efficiency in the short term. Once the trade association had approved the sponsoring department would automatically grant the application.<sup>1</sup> But at the 5th meeting of the Economic Planning Board the government had already rejected the idea of reducing itself to a rubber stamp on the question of building licencing.<sup>2</sup> The time was not ripe for this sort of withdrawal since the government had only recently got the T.U.C. to agree to the mildest suggestion of labour direction. The cabinet had only recently re-affirmed that the spirit of compulsion over employers who produced non-essentials for the home market should continue.<sup>3</sup> Where the F.B.I.'s 'presence' may have been felt was in the government's reluctance to re-introduce the wartime system of licences to acquire plant and machinery as a means of restricting expenditure, preferring instead the 'good sense of industry'.<sup>4</sup> The industries themselves were to decide which firms should go

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1. T229/67. Economic Planning Board: Temporary limitation of Industrial Capital Expenditure Note by the F.B.I. 1st October 1947.
  2. T229/31. Papers leading to 5th meeting of the Economic Planning Board 4th September 1947.
  3. Cab.128/10 Cabinet meeting CM(47)75 9th September 1947.
  4. T229/31. Fifth meeting of the Economic Planning Board 4th September 1947 and Capital Investment in 1948 Cmnd. 7268 (London HMSO Dec. 1947) para 6.

ahead and invest in new equipment after being advised by government on what was 'essential'. But the government did not heed the warning of the industrialist Sir Graham Cunningham that the export of plant and machinery was 'short sighted'.<sup>1</sup> Even if the F.B.I. had not been willing to co-operate in the reduction of the home use of such equipment the government was never entirely dependent upon private decisionmakers for reductions since some 40% of planned plant and machinery production was to have been invested by the state run public utilities - with 26% on transport and shipping, some of which was again government controlled. Decision makers in the private sector were expected to be responsible for the rest.<sup>2</sup>

Whatever the FBI's view on the required cut in the total investment programme the Government went ahead and announced a much lower figure for the global cut - £200m.<sup>3</sup> The Treasury was not yet convinced and appeared to side with the F.B.I. in demanding a greater reduction.

Proctor wrote to Plowden in early October that the proposed cuts were not enough. He had a 'horrid suspicion that it was no bigger than the current inflation of programmes over Resources and not therefore enough to release resources to other forms of production'. The FBI were talking of a bigger cut and that is what 'people were expecting'. The reduction proposed for housing, said Proctor, was 'almost exactly equal

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1. T229/31 Fifth meeting of the Economic Planning Board, 4th September 1947.
  2. T229/32 Sixth meeting of the Economic Planning Board 18th September 1947.
  3. H.C. Deb Vol.443 Col278 23rd October 1947 Debate on the Address.

to the estimated cut in future supplies of materials'.<sup>1</sup> But the government had taken its advice from the interdepartmental body it had set up. This Investment Programme Committee was ready with its report on the 8th October. It indicated that it favoured the first of two options which in the early stages of its discussions it had wavered between and which it now proceeded to outline.

- (1) The need to concentrate resources on existing projects to ensure rapid rates of completion, this to be independent of any cut in the current level of activity.
- (2) The second objective was to reduce the demands of home investment for steel, coal and timber and other materials in order to provide greater quantities for the export programme and other vital needs.<sup>2</sup>

This second objective accordingly meant a real cut in the current level of work and not a paper cut in the hopes of Departments as involved in the first.

The first objective was a purely administrative one internal to the operation of particular programmes in order to increase their coherence. In particular the aim was to relate starts to completions in a way that prevented the limited supply of materials being spread over too many jobs, delaying the completion of work, particularly in building, increasing the labour turnover time involved and often rendering labour power idle. With timber a scarce resource, the dollar expenditure on it rationed, and the difficulty of getting more

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1. T229/66 Investment Programmes Committee Report on Capital Investment P.D. Proctor to Plowden 30th October 1947.  
 2. Cab.129/21 Cabinet Paper CP(47)284 Report of the Investment Programmes Committee 8th October 1947.



labour into the building industries, the objective of cutting investments to match materials and concentrating on a smaller total could almost be conceived as a requirement dictated by common sense.

The second objective arose as a direct consequence of raising export targets. The government could either do this by increasing output, reducing consumption or reducing investment.

Yet the report pointed out 'There is not in practice complete freedom of choice between these alternatives'. Increased production was limited by material supply which could only be obtained for exports by contractions in consumption and investment. Bricks and cement were limited by the coal requirements of industry, steel by exports, and timber by foreign exchange limits. 'Moreover the export targets in themselves require, to the extent they require increased exports of capital equipment, corresponding reductions in investment'. The further contradiction that cuts in investment prevented the increased production and the export target was surmounted by the formula that investment would go ahead in areas where returns were yielded in the short run. Paragraph 8 noted that the report was a direct reversal in the trend of fiscal policy which had been to encourage industrial re-equipment. For instance the 1945 Income Tax Act had given greater incentives for the undertaking of capital expenditure through a preferential rate on undistributed ploughed back profits. Given the commitment to increase building work in the coal and agricultural industries, yet at the same time to reduce the share of investment locked up in

building, the reports conclusion was that the heaviest cuts should come in the housing and industrial building fields which made up 60% and 12½% respectively of the total and also provided the bulk of new work. The Report proposed reducing the rate of housing starts from 15,000- 5,000 a month for at least a year. Completions should be reduced to 12,000 a month or 140,000 in 1948. Contracts should be cancelled on houses on which no work had been done, and in some areas work would be stopped on those which had not reached the damp course level. The programme was 'in balance' when the number of starts or those under construction equalled those completed at 140,000 and this position was expected to be reached by the middle of 1949. The report recommended cutting the costs of each house built by cutting the standards of size and amenity, dispensing with an outbuilding and a second lavatory. Further savings could be made if houses were built as flats.

For industrial building a complete standstill for 6 months was proposed on all but completions for the export drive. Those new industrial building or extensions on which the steel erection stage had not been reached would be postponed. Departments would notify the firms concerned. This was to apply from November 1947 to the whole country, including development areas, where a good half of the approvals since 1944 had been located.<sup>1</sup> Later it was laid down that maintenance and repair work was not to exceed the level of the past 12 months.<sup>2</sup>

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1. Cab.129/21. Report of Investment Programmes Committee Appendix on Industrial Building.
  2. HLG 102/278 HQBC - Building priorities. ECP.43 Revised Arrangements for the Control of the Building Programme 3rd December 1947.

Although school building was not to stop, nursery schools, community and adult education centres were cut. Building for the health programme was to continue only at a rate sufficient for the maintenance and repair of hospitals. Road building, new road vehicles including buses and railway stock modernisation (especially new locomotives) and electrification was to be cut. Work on New Towns would be stopped. This would result in a cut in building employment from 985-850,000 (or from 1,200,000 - 1,150,000 for the industry as a whole)<sup>1</sup> over the period up to June 1948. Housing employment would come down from 582-490,000. The Committee made a qualification in that it regarded it as acceptable if workers went into repair and maintenance below the £10 licence limit as this sector needed labour and used fewer materials. This implied a softening of the blow in the breaking of the 1943 bargain with the industry. It was pointed out that decisions would have to be carefully explained to the industry in order to stop 'demoralisation'. The report recognised the difficulty of cutting expenditure on plant and machinery in the private as opposed to the public sector given the reluctance to reintroduce the wartime system of licences to acquire. The threat of doing so might be enough to engender the required co-operation, with perhaps some discrimination in the distribution of materials.<sup>2</sup>

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1. A difference made up of self-employed, clerks, men over 64 and boy apprentices.
  2. The Government used its own Capital Issues Committee (C.I.C.) to help in the restriction of money capital outlay for construction and machinery except where immediate gains to the balance of payments could be shown. The C.I.C. was a wartime agency carried over into peace in order to control the issue of new shares on the stock exchange. Sec H.C.Debs Vol445 Col 195-7 2nd Dec 1947. Oral Answer Capital Issues Control.

This policy on capital equipment the report summed up as 'Make do or mend'. Overall plant and machinery was to be cut by 20%.

## SECTION II : MODIFICATIONS IN THE NATURE AND SCALE OF CUTS

The Report went to the Economic Planning Board (via the Chief Planning Officer Plowden) so to gauge their reactions for Ministers and C.E.P.S. appended a note highlighting the problem identified by Proctor of greater or lesser objectives. The Production Committee gave the strategic ministers a preview at the same time. The Steering Committee considered it and then together with Departmental comments it went to the Cabinet.

The Department with the most to lose if the report was implemented was not slow in responding. Sir John Wrigley attacked the way the IPC had ignored his earlier advice that the policy cancelling contracts would involve administrative 'chaos' frustration and resentment not least among local authorities on whom the Ministry was dependent for action. The policy of encouraging Maintenance and Repair involved going against the wartime commitment to additional accommodation rather than the reconditioning of existing stock. With regard to cuts in standards these could not be achieved for houses under contract and the suggestion that new starts could be restricted to 5,000 a month was a grave underestimate of what could be achieved.<sup>1</sup> The implication of these arguments was that if cuts went ahead on this scale and in this form it would be difficult to regain momentum in the housing drive. Having lodged a protest with the Steering Committee Wrigley spent the next few days briefing his Minister.

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1. Cab 134/190 Steering Committee Papers 12th Oct 1947. Report on Investment Programmes Committee Comments of Ministry of Health.

In order to carry out their promises of greater consultation, the Economic Planning Board had been allowed to see the Report. Despite the F.B.I.'s sympathy in August with the idea of cuts, now that the government had not gone for what they recommended, in particular a bigger reduction in the public sector, they became more critical. In particular they opposed the cuts in capital equipment, and attacked the export of plant and machinery. The measures were 'too drastic' and restricted our competitiveness. This view was shared by the T.U.C. Some civil servants were also worried. Sir Godfrey Ince, Permanent Secretary at the Ministry of Labour, thought the cuts of building labour insufficient to release men to the undermanned industries; they would just go into maintenance and repair. Sir John Woods of the Board of Trade opposed the cuts in industrial building, although Sir Bernard Gilbert of the Treasury generally thought it reasonable not to tie up our economic resources into too many half finished jobs.<sup>1</sup> Plowden let Cripps know that the F.B.I. and T.U.C. had registered a complaint, that, despite being able to see the report before Ministers they had been used 'as a rubber stamp'. Plowden thought however their case was weak: in a crisis 'decisions should be taken without prior consultation.'<sup>2</sup>

Key ministers in the Production Committee discussed the principles of the report and made it quite clear that it was still up to 'Departments to adopt the method of securing results.'<sup>3</sup>

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1. T229/33, 8th Meeting of the Economic Planning Board, 13th October, 1947.
  2. T229/34, 9th Meeting of the Economic Planning Board. Letter from Plowden to the Minister of Economic Affairs, 13th October 1947.
  3. Cab.134/635. Production Committee meeting, 13th October 1947.

Bevan repeated the arguments against the I.P.C.s housing cuts and in particular the restriction of 5,000 starts per month. He wanted the programme fixed at 180,000 to 200,000 completions per year, leaving it up to his Ministry to adjust the rate of approvals. Cripps opposed him by arguing that the housing programme should go down to a completion level of 140,000, but the issue was left suspended until the full cabinet could discuss the report. The global cut of £200m on gross domestic investment as proposed by I.P.C. was agreed, although the chancellor thought this a minimum and preferred a higher figure.

The Cabinet received the Report on the 16th October after CEPS and the economic section had appended its comments which bolstered up Cripps' 'note', also appended, that cuts should go ahead. Both the Economic Planning Board and the Steering Committee saw the total cut in investment as a minimum. The Steering Committee wanted more and was very firm on the figure for restricting housing starts. The note by CEPS and the economic section observed that 'the level of re-equipment in industry which the I.P.C. proposes for 1948 is well below what one could wish on a long term basis'. But at the Cabinet meeting Bevan got the Cabinet to refuse to close the options on the housing programme. The housing programme should be brought into balance but not by breaking contracts.

He understood that the proposal to restrict the allocation of labour and materials especially timber for the 1948 programme to the number and quantity required for the construction of 140,000 houses would not in fact mean that the number of houses actually completed would be restricted to that figure especially as many now under construction already had timber in them.

Bevan did not like the idea of confining the programme for 1949/50 to 140,000 at this stage, and his suggestion, taken up by the Cabinet, was that the whole position be reviewed in June 1948.<sup>1</sup> The Cabinet had thus ensured that the housing programme would return to the political agenda at a time that officials and economists wanted it fixed within fairly specific boundaries. The forthcoming agenda as it turned out would be heavily influenced by the possibility of more imports of timber made through the facility of Marshall Aid. The chancellor promised that any reduction in imports prepared in the meantime would not 'involve interference with the housing programme'. Since a decision on Marshall Aid had not yet been reached in Congress there 'would be no justification for adopting emergency measures which must seriously distort the country's economy.'<sup>2</sup> By February 1948 the Cabinet was already jumping the gun. The timber position was not quite as bleak as once thought, and work could start on many more houses so that the output could continue throughout 1949 at a rate of 200,000 a year. Unless this were done there would be unemployment in the building trade. The decision was taken however despite protests that other industrial building would not be getting the same concession.<sup>3</sup>

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1. Cab.128/10 loc. cit.

2. Cab.128/12 Cabinet meeting CM(48)14 16 February 1948.

3. Cab.128/12 Cabinet meeting CM(48)16 23rd February 1948. discussing Cab 129/24 Cabinet Paper CP(48)56 18th February 1948. The Housing Programme in 1948-9 memo by the Chancellor.

Further protests were made by Plowden who complained to the Chancellor that too many resources were going into 'levelling up' instead of industrial equipment.<sup>1</sup> Despite this the Government went ahead on 25th June and published their adjustment in the Housing Return Figures.<sup>2</sup> Since the 1949 completion rate would depend on the number of new approvals permitted in the second half of 1948 this decision eventually dashed the I.P.C. aim of having a rate of completion of 140,000. The Cabinet decision in February was all the more surprising since the extra timber was allocated before the Marshall Aid position was known. Housing was being made a special case when I.P.C. had declared such cases should be reserved for those projects making a significant contribution to export and import saving. The September housing return statistics revealed that together with the help of war damage repair, conversion and adaptations the government programme of new houses had topped the target of 750,000 set by the Coalition White Paper in 1945.<sup>3</sup> The Labour government did not at this point consider whether, having achieved the modest wartime commitments, the housing programme should stop. No one at the time appeared to notice this either. The programme had achieved a momentum of its own rolling on into 1952 and being increasingly justified with reference to the relief of

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1. Cab.124/453 Lord Presidents Office Post War Building  
Plowden to Chancellor of the Exchquer 30th April 1948.
  2. Housing Return for England and Wales up to 31 May 1948  
Cmnd 7448 (London HMSO June 1948)  
The Announcement was made in Commons see H.C. Deb Vol.453  
Col.1321 14th July 1948.
  3. Housing Return for England and Wales up to 30th Sept 1948  
Cmnd 7552 (London HMSO October 1948).



overcrowding.<sup>1</sup> Nevertheless the continuation of housebuilding could be justified. The provision of additional housing for general needs was far from satisfactorily completed as the 1951 census would eventually reveal: the number of households having grown faster than the dwellings provided.<sup>2</sup>

In order to account for this adjustment in the cuts we need to return to the crisis months of 1947. In the October 1947 meeting, the Cabinet had reserved its position holding out on the possibility of a review in June. If the government needed a demonstration of the political opposition that housing cuts would stir, it was soon to be apparent. Deputations were received from the Metropolitan Boroughs Standing Joint Committee on the 6th November and the L.C.C. 4 days later.<sup>3</sup> The former gave details of the rising tide of waiting lists, warned of 'the expectations of the inadequately housed' and conjured up fears of a renewal of the squatting campaign of 1945. It was 'the Borough Councillors on the spot who bore the brunt of the disappointment and dissatisfaction'. Bevan decided to reveal his hand and calm the discontent. The Ministry would, via the principal Housing Officer, help local authorities plan their letting of new contracts after an examination of progress made on existing schemes. The new

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1. Cab.134/445 Investment Programmes Committee Working Party Paper 29 April 1948. Housing Programme 1948-52 Note by Ministry of Health.
  2. Bartlett, C.J., A History of Post War Britain 1945-75 (London Longmans 1977) p.60.
  3. HLG 101/414 Deputations concerning tenders and loans for Housing 6th and 10th November 1947.

policy would operate after March. ...Until that time an emergency standstill was planned. But what pleased the local authorities was the promise to review the whole position in June 1948. A previous circular had talked of a standstill on new tenders and contracts to last until a review in August.<sup>1</sup> These concessions by Bevan, given on a departmental basis, were possible given the Cabinet's vagueness on the matter. Foot in summarising this affair congratulated Bevan on mitigating the 'full severity of the cut' and of 'getting a last minute reprieve in Cabinet which helped remove the worst limitations on the potentialities of the programme'.<sup>2</sup> This view is supported by Dalton's memory of the same events.<sup>3</sup> A substantial protection had been effected for a programme in the middle of a crisis. The Cabinet had agreed to Bevan's and the Ministry of Health's demands that the period to be allowed for bringing the programme into balance should be mid-1949 and not end-1948 as the I.P.C. Report recommended, and it had been left open to the Ministry of Health to settle the methods by which that balance was to be achieved - a fact which enabled the Ministry of Health to deal flexibly with the complaints of the local authorities. The Cabinet had said nothing about cancelling contracts, stopping work on houses which had not got beyond damp course level, or cuts in standards, all of which were supposed to be achieved by end 1948. In discussing what

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1. HLG 101/414 Deputations concerning tenders and loans for Housing Circular 160/47 dated 24th October 1947.
  2. Foot, M., Aneurin Bevan: a biography Vol.2 1945-60 (London Davis-Poynter 1973) p.96.
  3. Dalton, H., High Tide and After: Memoirs 1945-60 (London Muller 1962) p.268.

should be said by the government in Parliament officials noted that the housing decision was a reflection of the softer of the two possible objectives that had faced I.P.C. They were

not proposing to cut the housing programme in the sense of aiming at a rate of completions below that possible with labour and materials but to balance the programme: to steady the flow of completions with what available. The government would not be reducing the housing programme below what the shortage of materials, particularly timber, compelled them to do.<sup>1</sup>

The decisions on housing were inextricably tied up with decisions on the overall level of the building labour force. While it is true to say the former had consequences for the latter, the influence worked in the reverse direction as well. The Ministry of Works, responsible for co-ordinating the building programme as a whole and as sponsoring Department for the building industry, objected to a cut in total operatives down to 850,000 as recommended by I.P.C. Bevan thought the cut of 90,000 was inconsistent with his housing compromise.<sup>2</sup> The Minister of Works said he had discussed the general effect of the report with the National Consultative Council on which both unions and employers in the building industry were represented. While the Council agreed the building programme was overloaded in relation to materials, any necessary adjustments had to take account of sensibilities or risk

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1. T229/66 Investment Programmes Committee White Paper on Capital Investment. W.L.Gower-Barnes to Plowden 14th October 1947 with enclosed draft of possible passage for inclusion in the Prime Minister's speech. on the Debate or address.
  2. Cab.134/635 Production Committee meeting 4 November 1947.

'destroying the atmosphere of co-operation', thereby endangering the possibilities of future expansion.<sup>1</sup> The Minister of Health agreed that if the cuts were to go ahead the published statement should be shown in expenditure or value terms, and any figures that showed the labour employed should not be illustrated in a form that revealed the scale of the cut.<sup>2</sup> This statistical massaging was apparently achieved, as the published White Paper on Capital Investment reveals, despite the earlier opposition of the Chancellor.<sup>3</sup> It was particularly noticeable in housing where the figure for labour planned at June 1948 was indicated (at 525,000) but the figure for June 1947 was not shown at all.<sup>4</sup> The reduction in housing labour was therefore lower than I.P.C. envisaged (490,000) and fell to only 550,000 in June 1948.<sup>5</sup> Despite all the talks of cuts the total building labour force was still going to be larger than 1947.<sup>6</sup> The government could not be sure of getting it down to the proposed figure given the difficulties of ensuring that men did not drift into licenced or unlicensed maintenance and repair work, for which there was still a great demand.<sup>7</sup>

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1. T229/66. IPC White Paper on Capital Investment. Minister of Works to Chancellor 27th October 1947. Further details of discussions between the Ministry of Works and the industry via the National Consultative Council have not been available to the author since the relevant file includes meetings beyond the period allowed under the 30 year rule. The file WORKS 45/64 will be open in 1985.
  2. Production Committee meeting 4 November.
  3. ibid and meeting 18 November.
  4. It was in fact 559,000 in June 1947 and 575,000 in October see Rosenberg, N., Economic Planning in the British Building Industry (Philadelphia, University of Pennsylvania Press 1961) p.94, see also Capital Investment in 1948 Cmnd 7268.
  5. Rosenberg, Economic Planning in the British Building Industry pp.126-7.
  6. T229/66 IPC White Paper on Capital Investment Notes for Chancellor by Sir Edwin Plowden 10 December 1947.
  7. ibid

The unpalatable truth is that these men are not likely to go into other jobs where we want them so long as there is a prospect of working in some form of building and that the Ministry of Labour, from a natural fear of unemployment, would tend continuously to press for such work to be found rather than to wait and see what happens when<sup>1</sup> the men have actually had a period out of work.

These political aspects were quite rational in their way, in the sense of staving off possible social discontent and retaining the co-operation of the building industry, in the event of future expansion. These aspects are not appreciated by Rosenberg who sees only the administrative failure.<sup>2</sup> The politics of the issue is more complex, Bevan had, as his own contribution to building cuts, tried to get as much of the reduction as possible from the private sector. In August he had instructed local authorities to ban the licensing of further building of houses by private enterprise.<sup>3</sup> Deputations from the National Federation of Building Trade employers, and the small building lobby via the Master Builders Association warned Bevan their businesses might be forced into liquidation resulting in further unemployment.<sup>4</sup> Given this, and Bevan's keenness to keep workers in the industry for when public housing took off again, we can understand why the housing and works ministries so rapidly gave in to the campaign to

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1. T229/66 loc. cit.

2. Rosenberg Economic Planning in the British Building Industry pp 141-2.

3. HLG102/107 National Building Programme Licencing for Housing Circular 134/47 10 August 1947.

4. HLG102/108 National Building programme: Licencing for Housing Policy. Letter from Federation of Master Builders 20 May 1948; see also HLG102/107 National Building Programme Licencing for Housing Policy Deputation from the National Federation of Building Trade Employers and London Master Builders Association 6 February 1948.

relax maintenance and repair licencing. The circular in March 1948 relaxed housing repair licencing in local areas where unemployment had appeared: the financial limit being increased from £10 to £100. The Ministry of Works and the Ministry of Labour had discussed the issue and the former's top civil servant, Henri de Villiers, talked about the 'political impossibility of unemployment'.<sup>1</sup> The National Consultative Council had made its influence felt on the issue of relaxations: Ministers agreed to pursue the case and eventually agreed to raise the exemption limit for non-housing building licences from £100 - £1000.<sup>2</sup> So it hardly mattered that the government brought to an end the housing priority for placements for unemployed men at labour exchanges, since unemployment in the building industry was not going to be forthcoming at a level which would achieve substantial transfer of labour to non-building occupations. This physical control was no longer seen as crucial for the successful continuance of the housing programme. As Bevan noted at the time 'the essential needs of housing could be met by other means'.<sup>3</sup>

So the cuts were made with no real determination to reallocate workers outside the building industry or to ensure repair and maintenance did not absorb those released from new work; all of this overlaid by fear of unemployment. In a way a real lack of contraction was inevitable given the effects

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1. HLG102/270 HQBC - Licencing of Maintenance and Repair  
20 Jan.1948 Villiers to Hugh Weeks C.E.P.S. at Cabinet  
Office enclosing draft submission to Ministers 14 Jan 1948.
  2. Cab 134/637 Production Committee Meeting 27 February 1948.
  3. Cab 128/10 Cabinet Meeting CM(47)95 15th December 1947.

of the October housing compromise, that, with the supply of materials available, it would be possible to employ a higher labour force on housing than previously envisaged. Unlike the IPC, which set completions at 12,000 a month and starts at 5,000, the new I.P.C. published White Paper<sup>1</sup> was not specific, again reflecting the October Cabinet decision to cut housing not according to the number of houses finished, but the number started. The consequences of this lessening of the cut in the housing labour force by 35,000 (to reflect the fact that more houses could be completed after all since all the timber needed was already in place) meant that housing investment in 1948 would be greater in value by about £20m. (as calculated by Plowden). This implied the cut in the gross overall capital investment would have to be lower at £180m. not £200m. The total reduction in the annual expenditure on capital investment would be £180m. less than the £1600m., originally forecast for June 1948, at £1,420m. As this reduction was to be brought into operation progressively the actual rate of investment would be higher at the beginning of 1948 and lower at the end of the year when it would be rising at the annual rate of £1,320m. The proposed 11% cut of £180m. was a cut in the anticipated planned amount not a cut below the estimated volume of current investment. In terms of investment resources actually used in 1947 the cut was smaller at £130m.<sup>2</sup>

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1. Capital Investment in 1948.

2. The Economic Survey for 1948 noted that planned total investment for 1948 outlined in the White Paper on Capital Investment in 1948 of £1420m included only fixed plant, equipment and construction at 1947 prices. It made no provision for increases in stocks and works in progress over the low level of 1947. Allowing for this, and the larger than anticipated rise in prices, the 1948 survey revised the gross investment figure for 1947 to £1,900m or 18% of G.N.P. compared with the figure given in the Capital Investment White Paper of £1,550m (see Economic Survey for 1948 Cmnd.7344 (London HMSO March 1948) para 183. For further discussion of unprogrammed miscellaneous investment not accounted for in the figures, see Rosenberg, Economic Planning in the British Building Industry, pp. 117-18.

Table 3. GROSS INVESTMENT IN THE U.K. FOR 1948. fm.<sup>1</sup>

|                                       | Col. 1.          | Col. 2.                                | Col. 3.                               | Col. 4.  | Col. 5.   |
|---------------------------------------|------------------|--|---------------------------------------|--|---|
|                                       | 1938             | March 1947<br>(June)<br>Annual<br>Rate | June 1948<br><br>Original<br>Forecast | June 1948<br><br>Revised<br>(After<br>Oct. 1947<br>cuts) | End 1948<br><br>Revised<br>(After<br>Oct. 1947<br>cuts) |
| Construction<br>and Equipment<br>etc. | 555<br>170<br>45 | 850<br>610<br>90                       | 825<br>680<br>95                      | 770<br>555<br>95   | 700<br>525<br>95  |
|                                       | 770              | 1550                                   | 1600                                  | 1420   | 1320  |
| Net Investment<br>and Maintenance     | 320<br>+450      | 900<br>+650                            | 950<br>+650                           | figures<br>unavail-<br>able                              | figures<br>unavail-<br>able                             |

Since the cut in construction investment had to be related to an equivalent cut in labour employed, and it was increasingly difficult to think in terms of reducing the labour force given the decisions on housing and maintenance and repair, it was rather optimistic to think that construction investment could fall.

1. Sources: Col. 1/2 and the figures on Net Investment derived from Burchardt, F.A., 'Cuts in Capital Expenditure', Bulletin of Oxford University Institute of Statistics X No. 1. January 1948. Table 1, p.2, Cols. 3, 4, 5 from Capital Investment in 1948, p. 7,



from £850m (at June 1947) to £700m (for end 1948). As it turned out the reduction in building employment was much less than anticipated. It was, according to the government, expected to decline from 978,000 at June 1947 to 890,000 at June 1948 and about 850,000 by the end of 1948. Yet by October labour had risen to 1,004,000 falling to 978,000 in February 1948 but rising to 1,005,000 in April, from where it continued to rise until it stood at 1,013,000 in June<sup>1</sup>. In terms of the more comprehensive figures, that included all men employed as opposed to just operatives, total employment in 1948 was 1,357,000. It had been 1,364,000 in December 1947. The government's plan<sup>2</sup> had called for a cut of 164,000 by December 1948 to 1,200,000 but the actual fall was 7,000<sup>3</sup>.

In conclusion we may say that the reduction in new building starts, and the increased rate of completions were not translated into reduced employment in the building industry because maintenance and repair took up the slack and increased its share of the labour force, especially in the maintenance and repair of housing. As a consequence the figures for construction investment generally in value terms were shown in the Economic Survey of 1949 to have increased over 1948<sup>4</sup>.

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1. For these figures see Cab.129/24 Cabinet Paper CP(48)50 16 Feb 1948. Fortnightly Economic Report Note by Chancellor; Cab 129/26 CP(48)50 13 April 1948 ditto; Cab129/28 CP(48)186 20 July 1948 ditto; Cab129/30 CP(48)232 14 Oct 1948 ditto; and Cab129/31 CP(48)288 6th Dec 1948 ditto.
  2. re-asserted in Economic Survey for 1948, p.43.
  3. Economic Survey for 1949 Cmnd 7647 (London HMSO Feb.1949); see also Rosenberg Economic Planning in British Building Industry p.111 and Wilson, T., 'Manpower' in G.D.N.Worswick and P.H.Ady (eds) The British Economy 1945-50 (Oxford The Clarendon Press 1952) Table 2 p.235.
  4. Economic Survey for 1949 Appendix Table 7; see also Rosenberg, Economic Planning in the British Building Industry, p.119.

Nevertheless the government had made provision for this inflexibility having considered that possible largesse from the Americans in the form of Marshall Aid would make a cut unnecessary.<sup>1</sup>

The scale and nature of the cuts in construction investment revealed the reluctance of the Labour government to restructure reconstruction in a way that would fully satisfy the opposition, the F.B.I. and certain elements in the Press. The total strategy pursued reflected the underlying commitment to full employment and social policy. The package of cuts announced in Parliament on the 23rd October<sup>2</sup> also preserved the commitment to maintain overseas military spending. Only £10m of cuts had been planned in that field. The cuts in timber, steel and food imports were much less than the Treasury wanted. On food the Treasury demand for £100m had been pared down by the Cabinet to £60m<sup>3</sup>. As a result of such concession cuts in expenditure planned for industrial building and plant and machinery were more extensive than the F.B.I. wanted. With regard to industrial building, such concessions that were made derived from a social rather than economic logic: the Cabinet agreeing to exempt the development areas from the more stringent restrictions<sup>4</sup>. This preferential treatment reflected the wartime commitment to relieve regionally based unemployment. One third of factory building had up to September 1947 been concentrated in such areas.<sup>5</sup>

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1. Economic Survey for 1948 p.43.

2. H.C.Deb Vol.443 Col.277-91 23 October 1947. Debate on Address.

3. Cab.128/10 Cabinet Meeting CM(47)82 23rd October 1947.

4. Cab.128/10 Cabinet Meeting CM(47)81 20th October 1947.

5. Statistical Digest; information quoted in H.C.Debs.

Vol.445 Col.1958 18 Dec 1947. Debate on Capital Investment.

Since January 1947 there had been £15m of licenced work on factories, industrial and commercial premises. £2.8 million of that was new building, the rest repair and maintenance. £8m was to be cut from the period running up to June 1948. £4m of that would occur because licences were withdrawn from building which had not yet reached the steel erection stage, and the other half would be under review. As the monthly licencing rate fell anyway due to steel shortages the added impact of I.P.C. cut meant a total reduction of near 75%. This was a lower rate for industrial building than in the next worst year 1935.<sup>1</sup> While building licences for industrial purposes for the last quarter of 1947 and the first quarter of 1948 were cut down - the latter being 54% down on the previous year - no significant decline took place in the licencing policies of local authorities for maintenance and repair in housing.<sup>2</sup> Although restrictions were eased in April 1948 and industrial building increased after then<sup>3</sup> much of the improvement came in the socially important development areas which now contained in value half of all factory building.<sup>4</sup>

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1. Cab.134/637 Production Committee Paper 18 March 1948 Steel for Industrial building memo by President of the Board of Trade.
  2. Rosenberg Economic Planning in the British Building Industry p.100.
  3. ibid Note 27 p.115.
  4. ibid p.149 see also Bartlett A History of Postwar Britain p.82 and Cab.129/30 Cabinet Paper CP(48)255 9th November 1948 Economic Report. Note by Chancellor.

With regard to plant and machinery expenditure was expected to dive from £610m at June 1947 to £527m by the end of 1948: a cut of 14%. The reduction was however greater at 23% when taken from the planned investment of £680m.

TABLE 4. ESTIMATED GROSS INVESTMENT IN PLANT MACHINERY & VEHICLES FOR 1948.1

| Programme of specialised Plant & Machinery | Col 1<br>Mid(June 1947)<br>Annual rate then<br>£m | Col 2<br>Mid(June 1948)<br>Original forecast<br>£m | Col 3<br>End 1948<br>Ext annual rate then<br>£m |
|--|---|--|---|
| (a) Utilities,<br>Coal & Steel             | 135   | )  | 180   |
| (b) Private Sector                         | 65  | ) 590  | 50  |
| Other machinery                            | 275   | )  | 240   |
| Road Vehicles                              | 135   | 90   | -   |
|  | 610   | 680  | 525   |

While some 40% of all newly produced plant and machinery had been exported this was to rise to 59% reducing gross supply for the home market as shown below:

TABLE 5. SPECIALISED PLANT AND MACHINERY PRODUCTION FOR 1948. 2

|   | Current Annual Rate<br>mid-1947<br>£m | Annual Rate<br>end-1948<br>£m |
|---|---------------------------------------|-------------------------------|
| 1. Total Production                     | 110                                   | 121                           |
| 2. Exports                              | 45                                    | 72                            |
| 3. Production for Home Market (1-2)     | 65                                    | 49                            |
| 4. Imports                              | 2                                     | 1                             |
| 5. Gross Supplies for Home Market (3+5) | 67                                    | 50                            |

1. Source: Table in para 27 of Report of Investment Programmes Committee Cab 129/21 CP(47)284.
2. Source: Appendix 16 para 2 ibid.

Cripps outlined how the government would compensate for this. The strategy was to be the one followed since 1946 of increasing productivity by increases in labour intensity.<sup>1</sup> He spoke of the need for the re-organisation of labour, an end to restrictive practices, the use of time and motion studies, better utilisation of existing machinery and the development of 'managerial skill' - a reference to the eventual government support for the work of the Institute of Personnel Management. The way these decisions were taken is also important. First of all the Cabinet delegates the cutting exercise to the I.P.C. but then having done so places their recommendations, and therefore their analytic capacity, in doubt by proceeding to modify and select out the possible alternatives chosen on rational lines by the officials anything which threatens reconstruction priorities. I.P.C., like the Investment Working Party before it, could not amend or modify individual programmes of departments: it had no executive powers and when reconstituted on a permanent basis for the continual supervision of the investment programme was attached as a sub-committee to the interdepartmental 'demand driven' Steering Committee.<sup>2</sup>

With respect to the detail of the cuts, particularly in the construction field the government had been influenced by possible unemployment and loss of support in the building industry and local authorities, factors crucially important

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1. H.C.Deb Vol.443 Col277-82 23rd October 1947 Debate on Address.
  2. Cab.129/22 Cabinet Paper CP(47)322 5th Dec.1947. Investment Programmes Committee. Note by the Secretary of the Cabinet.

for politicians not anxious to impose constraint on the building industry beyond what shortages of materials made necessary. It was this factor which led the government to tolerate the seepage of resources into maintenance and repair and explains why the government did not set about trying to hold that back. It was reluctant to reintroduce the wartime system which regulated the setting up of new small firms in the field and was anxious to keep labour; thus the government was prepared to permit the relaxation of licensing limits. To have switched labour and materials out of building into export would have contradicted the commitment of politicians to social peace. In terms of the two possible objectives the I.P.C. had identified, the government opted for the softer option of cutting programmes to fit material supply and not the more ambitious one of restructuring for export. Those houses which were under construction and already had enough timber in them could keep their labour. The rejection of the I.P.C. recommendation to cancel existing projects rather than just restrict new starts meant the housing programme survived in a form that assured its future expansion. Tougher measures were instead taken against factory building and extensions in industry, and engineering products of plant machinery were driven to export rather than home re-equipment because they would swell the export stream immediately without involving much inter-industrial transfer of resources. This was a reversal of the advice of the government's Chief Planning Officer Plowden, in the early days of the I.P.C., that the domestic standard of living rather than industry should be reduced and that the building programme rather than the

engineering industry should suffer. Much of what the government did was informed by the silent assumption that further economic aid was on its way, a facility which made a strong attack on social reconstruction unnecessary.

SECTION III : THE ALTERNATIVES: DEFLATION, DEVALUATION  
AND ADMINISTRATION

This section will examine the extent to which the government considered ways of reinforcing its export strategy by measures other than cuts in programmes for what this indicates further about the nature of the government's priorities.

The classical solution to the problem of trade deficits and external competitiveness is to deflate home demand and thereby the demand for imports mainly through the operation of a 'dear money' policy which raises interest rates. This should be accompanied by cuts in government current expenditure and increases in direct and indirect taxation sufficient to create a budget surplus, resulting in a level of unemployment that stabilises industrial costs. By a reduction in the supply of money and the easing of inflation, the generation of sound money makes price control unnecessary. Such a policy was followed in Italy, where a tight credit squeeze was introduced resulting in 2.3 million unemployed and in West Germany where the anti-inflationary currency revaluation led to the wiping out of Trade Union funds. America had withdrawn price controls in 1946. According to deflationists excess purchasing power deflected manufacturers from the export market in preference to an inflationary and easy home market. Excess purchasing power was created by the high wages bargained at full employment, price control, food subsidies and demand-creating state-

induced capital investment. Even when wages were held, as they were in 1948, by wage restraint, a concessional price was extracted from the government in the form of controls on prices and dividends, a maintenance of a shortened working week<sup>1</sup> and an increase in food subsidies<sup>2</sup>, the cost of which had nearly doubled in three years as import prices rose<sup>3</sup>. In addition (although not specifically tied to state wage bargaining) the government had granted free school milk and dinners, cash family allowances, increases in education provision, housing subsidies, improved housing standards, a national health service, improved state insurance and pensions - all a result of wartime and immediate postwar pledges. This resulted in massive increases in state spending not only from the grants and subsidies but also in the expansion of the proportion of the population taken in on the state pay roll with more teachers, doctors, nurses and dentists being paid by the state, and on the equipment to be purchased on government account such as drugs and books on which no economic price was to be charged to the final users. The deflationists implied that in order to effect the kind of shift and transfers commensurate with reducing inflation, increasing productivity and restoring convertability, the only real solution was to squeeze out other claimants on resources.

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1. Balogh, T., The Dollar Crisis, Cause and Cure (Oxford Basil Blackwell 1949) p.244.
  2. Cab.124/903 Central Planning of Economic Development: verbatim report of Deputation to Chancellor of Exchequer, from the Economic Committee of the T.U.C. 12 July 1948. Cripps mentioned that the T.U.C. could offer their summer conference a government promise to increase subsidies from £400-470. See also Bartlett A History of Post War Britain, p.68.
  3. H.C.Deb. Vol.463. Col.2085 6th April 1949. Financial and Economic Statement.



A monetary deflation, dear money, and cuts in public spending would get capital back into the hands of the right kind of capitalist i.e. those who were cost effective and whose profit rates were high enough to pay the increased interest charge. Profit alone would indicate the 'desirability' and the quality of investment and not political decision or the ease of credit. Profit was the best discriminator, whereas cheap money favoured the more doubtful investment project including the whole panoply of government induced public sector programmes. Materials being allocated on a quota basis by bureaucracy to 'essential industry' froze production on a prewar basis, bolstering inefficient and costly firms at the expense of new entrants and growing firms who could afford the higher rate of material supply. The only thing that could rapidly transfer Britain back to profitable production and high output would be if resources were 'freed' and the best way of doing this was not by marginal alterations in the controls but by the creation of capacity: a pool of unemployed and therefore cheaper inputs, and by cuts in public investment which was not only costly but tied or locked up capital for long periods of time and made it unavailable for other purposes. It was no good capitalists having money capital available (as they did with their large unspent reserves gained in war production or saved in the form of deferred tax refunds) if shortages of labour and raw materials prevented the profitable spending of it.

When we refer to deflationists we are referring less to a coherent political movement than to a current of opinion,

including non-resident economists such as Hubert Henderson<sup>1</sup> and Frank Paish<sup>2</sup> and back bench Conservative M.Ps of the Neville Chamberlain faction such as Sir Waldron Smithers, Sir Herbert Williams and Alec Erskine-Hill, Chairman of the 1922 Committee who had been vocal in their opposition to the principle of the Beveridge Report. The official opposition leadership led by Churchill were placed in an awkward position having agreed to the broad outlines of Labour's policy when in coalition, all they could argue now was that Labour had gone too far, too fast<sup>3</sup>. The F.B.I. had asked for cuts in current as well as capital expenditure and had talked of the dollar crisis being the result of excess demand, inflationary biases and uneconomic controls<sup>4</sup>. Another group of deflationists centred around the City of London, including stockbrokers and merchant bankers, whose views were articulated by financial journalists. Their position, elaborated in the media, classed them as popular experts and powerful critics of financial policy.<sup>5</sup> What all the deflationists shared, despite differences in the detail of their recommendations, was the belief that the nation's external difficulties could not be separated from what happened in the internal economy. By maintaining excessive aggregate demand

1. See journal articles written in this period and collected in Henderson, H., The Inter War Years and Other Papers (Oxford the Clarendon Press 1955).
2. see Paish, F., The Post War Financial Problems and Other Essays (London MacMillan 1950).
3. H.C. Deb Vol. 435 Col. 1003 10th March 1947 speech by Oliver Lyttleton.
4. see F.B.I. Industry and the Way to Recovery.
5. Deflation had been demanded by The Economist on 12th July, 9th August and 20th September 1947.

export prices could not fall and the volume of goods that could be exported was reduced.<sup>1</sup> Cheap money, insofar as it reduced incentives to save, increased consumption and encouraged all sorts of investment projects whose long term yield would not be justified at a higher rate of interest.

We have already mentioned in Chapter 2 the consensus built up in wartime for maintaining full employment, government spending, cheap money and price control. This consensus was facilitated by the declining power of Treasury orthodoxy, and the rise of the Keynesian rationale. The minority position of the deflationists was partly a result of the understanding that their strategy involved an immediate and premature breaking of the consensus and intensification of the class struggle, the moderation of which had been one of the key elements in the creation of that consensus. As Balogh puts it governments had opted for the 'maintenance of industrial and social peace'<sup>2</sup>. It seems difficult to deny that among the social and political consequences of maintaining the consensus was a strengthening of the negative defensive posture of trade unions: their membership having increased by 50% in the ten years since 1938<sup>3</sup>. The concessions, which were in effect a transfer of resources across class lines, were reflected in the way effective purchasing power of the working class increased by 16% over that of 1938. A social wage of more than 10% of

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1. Henderson, H., 'Cheap money and the Budget' in his *Interwar Years and other Essays*.
  2. Balogh, *Dollar Crisis* p.258.
  3. Hopkins, H., The New Look: A social History of the 40's and 50's in Britain (London Secker and Warburg 1963) p.114

of national income, rising every year with the increasing cost of the social services, also resulted from these concessions. In such an environment it is hardly surprising to find benefits accruing to capital in a quiescent labour force. Unions continued to accept the wartime ban on strikes, and compulsory arbitration procedures via the National Arbitration Tribunal, both of which were derived from the Conditions of Employment Order No. 1305. Strikes were mostly unofficial, working days lost in the three post war years were 1/20th of those lost in the three years of class struggle after World War I and were a fraction of those current in the U.S.A. or on the continent where the economy had been decontrolled.<sup>2</sup> On the cost side however the deflationists would soon point to trade union activity that later became dignified with the title of 'restrictive practices', an early manifestation of which occurred, in our period, when dockers resisted the introduction of bulk loading equipment unless it could be manned by the same number of men.<sup>3</sup> But similar negative tendencies set up by the same protective environment were apparent on the other side of industry, a fact the deflationists did not ignore. This was the question of how far the existence of price control was inimical to competitiveness by stereotyping the pattern of production. Sir John Woods,<sup>4</sup> Chief Civil Servant at the Board of Trade

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1. Brady, R., Crisis in Britain : Plans and Achievements of the Labour Government (Cambridge University Press 1950), p.655.
  2. Hopkins, The New look, p.119; Balogh Dollar Crisis, p.241.
  3. Hopkins, ibid, p.123.
  4. Cab. 134/89 Wages and Price Policy Committee (Sub-Committee on Controls and Efficiency Committee) Memo by Sir John Woods, May 1948.

argued that this was so. If controls fixed the maximum price to cover the costs of the marginal firm then efficient producers would have little incentive to lower their prices given that they could supply at lower cost, if they could earn super profit by not doing so. Price controls took costs as given and therefore built rigidities into the structure of production which harmed exports, contributed to inflation and fostered the type of protective trade associations which tried to ban new entrants as a risk to their sheltered world. Decontrol would restore flexibility, and deflation by removing the possibility of easy sales, would give firms every incentive to cut costs and sell at lower prices. This argument was countered by Sir Robert Gould at the Ministry of Labour<sup>1</sup>, who maintained that the controls did at least ensure that all consumers got products at a lower price than would be the case if excess demand balanced supply. This argument could not satisfy the deflationists whose keen interest was in removing that very excess demand, but it did sway the Committee looking into economic controls, who, while agreeing to a number of relaxations, later included in Harold Wilson's 'bonfire'<sup>2</sup>, recognised the necessity of exempting from decontrol those sectors associated with working class consumption: any other decision was 'politically unfeasible'<sup>3</sup>.

The government's reply to the deflationists was to deny there was a problem, to deny any connection between home financial policy and the balance of payments troubles: between

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1. Meeting 15th May.

2. Cab.134/89 Controls & Efficiency Committee meeting  
16 August 1948.

3. ibid

the internal and the external. Dalton was quite clear on this. This crisis was not related to what we were doing at home:-

The contrast is remarkable between the general difficulty of the overseas position and the relative ease of the purely domestic financial position in which things are very much better and easier than we had any reason to expect two years ago.<sup>1</sup>

Yet despite this Dalton, partly as a response to the Americans in the suspension of convertibility negotiations, partly to assist the transfer of resources from home to export market decided to engage on a mild deflation or 'disinflation'. The rationale was that where resources were diverted to export home market supply would be reduced leading to demand inflation unless purchasing power was cut. But this 'disinflation' took the form of fiscal not monetary policy: increases in taxation on profits, not higher interest rates and cuts in public spending. The November 12 budget doubled the tax on distributed profits to 25% and from 5-10% on undistributed profits. There were increases in Purchase Tax and drink duties. Dalton maintained that boom profits would disturb the wage restraint policy, while excessive distribution of dividends would add to the circulation of purchasing power.<sup>2</sup>

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1. quoted in Robertson, D.H., 'The Economic Outlook' in D.H. Robertson, Utility and All That and Other Essays, (London, George Allen & Unwin 1952), p.56. Dalton denied that our external difficulties could be blamed on what we were doing at home, see Dalton, High Tide and After, p.259.
  2. H.C. Deb, Vol.444, Col.401, 12th November 1947, Ways and Means budget proposals.

That the government's November budget was not deflationary is hardly surprising given the stand taken on the question twenty days previously when an unnamed member of the Economic Planning Board had spoken out of turn on the need for a 'pool of unemployment'. He was promptly slapped down in Parliament<sup>1</sup>.

However deviant the view of deflation was in 1947 there was a strong economic logic in the deflationist case. Deflation and unemployment would force firms to engage in a price struggle. Since we imported necessities and exported mainly luxuries and capital goods for which demand was unstable the deflation necessary (if there was a slump in foreign markets) to limit imports and force exports might have to be very large indeed given the pent up demand in post war Britain<sup>2</sup>. Since deflation reduced imports as purchasing power fell, then one of the contradictions would be deflationary reactions abroad as others cut their imports in retaliation. Incomes would fall all around. Yet despite this cumulative decline it would work to balance our international payments 'provided that this country kept ahead in creating unemployment and restricting the standard of living'<sup>3</sup>. Because of tight trade union organisation a large unemployment rate would be needed to keep wage costs down: unemployment, therefore, functioned as a discipline as well as a liberator of resources. We have seen, despite the apparent logic in the deflationist case, the government opted for rationing and controls rather than

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1. H.C. Deb Vol.443 Col.692-3 28th October 1947 Statement by Hilary Marquand.
  2. Balogh Dollar Crisis p.99
  3. ibid p.197

unemployment as a means to limit home demand and import. Full employment did keep the need for imports high but the government staked its hopes of the continuance of the U.S. led world-wide boom which would carry our high price level and obviate the need for adjustments in costs. The government received a rude shock in the middle of 1949 when the U.S. fell into recession, the post war boom having been exhausted in that country. As a result of this, sterling area dollar supplies and primary products sales declined and commodity prices fell<sup>1</sup>. The dollar deficit grew and dollar reserves dropped with speculative attacks on the £ adding to the difficulties. Marshall Aid could not cover this drastic drain. Here was another crisis stimulant. The deflationists were ready. In June 1949 the City had convinced the Treasury and Cripps that a tighter monetary policy with high interest rates, cuts in subsidies and public expenditure was necessary. On June 15 Cripps put his case to a meeting of the Economic Policy Committee. He talked of reserves disappearing and a complete collapse of the currency. The Prime Minister believed it was '1931 all over again'<sup>2</sup>. Attlee, Dalton, Bevin, were all against deflation and it soon became apparent that another option was available in the form of devaluation. The Americans through Snyder the Treasury Secretary, were apparently prepared to wait for a full restoration of convertibility given what some saw as an economic collapse with openings for Communism.

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1. Pritt The Labour Government p.259.

2. Donoghue, B., and Jones, G.W., Herbert Morrison: Portrait of a politician (London Weidenfeld and Nicolson 1973) p.437



Instead they offered the countries receiving aid the soft option of devaluation. The I.M.F. was apparently also in favour of 'exchange adjustments' for countries with dollar deficits whose currencies were apparently over-valued<sup>1</sup>.

A long and contentious meeting of the Economic Policy Committee followed in July where these two options were rehearsed. Attlee and Morrison supported devaluation and opposed cuts in food subsidies and public expenditure. Harold Wilson, President of the Board of Trade, lined up with Cripps and the Treasury-City axis in supporting deflation in the hope of avoiding devaluation. The City opposed devaluation as it would hit sterling balances and the confidence of overseas lenders as well as harming fixed interest invisible earning from abroad. Dalton, Gaitskell and Jay who had sat on the fence were now ready to go for devaluation rather than contemplate cuts in the welfare programme, or in the case of Bevin, in Defence.<sup>2</sup>

Devaluation is an action of the State where an improvement is gained in the competitive position of national capital through a simple declaration by the central bank. The conditions for the success of devaluation are fairly straightforward in the sense that the increase in the volume of our exports must be greater than the percentage of devaluation if we are to get the same receipts as at the old rate of exchange. Unless this is done exports are being given away, a

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1. Blackaby, F., 'United Kingdom' in E.S. Kirsten et al (eds) Economic Policy in our own Time 1949-61 (Country Studies) Volume II (Amsterdam, North Holland 1964) p.102.
  2. Bartlett. History of Post War Britain p.69.

position made worse if other countries devalue at the same time, at a similar rate. One of the problems of devaluation is that it raises the price not only of imports we would rather do without, given their competition with our own goods, but also of essential food and raw materials. As a consequence it can have inflationary effects raising the cost of living and stimulating wage demands<sup>1</sup> unless there is already a slump in the home market when prices and wages would not rise.<sup>2</sup> This cost factor is only really a problem if, over time, internal cost and final prices outstrip the exchange depreciation: wage restraint and price control are therefore suggested as a way out of this problem. The government however found it difficult to sustain a policy of wage restraint after an initial success.<sup>3</sup> Despite this, the evidence suggests that devaluation worked to the extent that all of the loss of reserves was recovered by April 1950. A significant recovery in dollar exports was achieved with the U.S. economy recovering from recession and the sterling area selling more to them while cutting down imports<sup>4</sup> - an event assisted by the Americans short term toleration of discrimination in trade. When domestic costs caught up with the extent of depreciation the benefits of devaluation for long run competitiveness became doubtful. But as a short term response devaluation certainly involved fewer social and political costs than deflation. This did not mean

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1. Henderson, H., 'The price system' in his *Inter-War Years and other papers*.
  2. Henderson, H., 'The function of exchange rates' *ibid*.
  3. Pollard, S., The Development of British Economy 1914-1967 (London, Edward Arnold 2nd edit. 1969), p. 395.
  4. Dow, J.C.W., The Management of the British Economy 1945-60 (Cambridge University Press 1970), pp. 46-7.

however that there was no need for policy responses on the home front. If the volume of exports was to increase the resources internally devoted to them had to rise. This meant home demand had to be held back to leave resources and physical capacity free to flow into the export trade, to prevent excess purchasing power diverting production back the home market and to prevent the same purchasing power from causing excess demand inflation as producers contracted home supply. What this in fact implied, given a government reluctant to engage in deflation was further attempts along the lines of 1947 to try and regulate programmes in capital reconstruction, while being very wary of cuts in current spending. Nevertheless the urgency of 'the disinflation' seemed demonstrated when France, Italy and Germany devalued their currencies and threatened Britain's early advantage. In October 1949 the government announced modest measures to save £250 million a year<sup>1</sup>. £100m of this was to be on current spending and the rest on capital projects, deducted from the volume of fixed investment of £2,100m planned to be effective from March 1950. £70m of this was to come from reductions in industrial and administrative building and the long term investment plans of the fuel and power industry, the shifting to export from home re-equipment of engineering products, plant and machinery and commercial vehicles. School building was to be maintained. The biggest single cut was again to fall on the housing programme by a reduction in planned authorisations to yield £30m a year. This would involve a

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1. H.C. Deb Vol. 468 Col. 1016-18 October 24th 1949. Economic Situation - Government Proposals; see also Blackaby 'UK' in Economic Policy in our Time pp. 107-9.

reduction of 25,000 in the annual rate of completed houses (from 200,000 - 175,000). When Cripps elaborated on this<sup>1</sup> it was apparent that the cut would be effected mainly by curtailing all licences granted to builders in the private sector part of the new building programme. The local authority sector would roll on. Another £35m would be found by tightening controls on miscellaneous small works mainly maintenance and repair.

The cuts in current expenditure were very mild. In the field of defence Bevan had asked Attlee<sup>2</sup> that a cut in housing be matched by a cut in defence. This was eventually agreed at £30m<sup>3</sup>. Some marginal cuts in social programmes were made for the first time but nothing was done which really undermined the post-war settlement. Food subsidies were set according to a ceiling and a penny was added to school meals. The introduction of a shilling charge for N.H.S. prescriptions was revoked almost as soon as it was introduced<sup>4</sup>, while the increase in the tax on distributed profits from 25-30% was not. The Conservatives had advocated a cut of £500m which they felt should not touch industry. With regard to the housing programme a similar backtracking occurred to that of 1947. Just under 6 months later the Chancellor announced in his budget

The continuing need for housing which is a symptom of a better standard of living that the people are now enjoying makes it desirable we believe that housing should be given a special preferential place in our capital investment programme

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1. H.C.Deb Vol.468 Col.1339 October 24 1949 Economic Situation. Debate.
  2. Foot Aneurin Bevan p.276.
  3. H.C.Deb.Vol.468.Col.1016-18.
  4. Dow. Management of the British Economy p.46. Note 2.

He went on to say that the government would revert to the pre-devaluation cuts programme and that new housing would be stabilised at 200,000 a year: the government promising not to alter the programme again for 3 years up to 1952<sup>1</sup>. In fact the housing concession did not have to wait until the budget since decisions had already been taken in December to restore the private housebuilding/local authority ration to 1:9 with effect from February<sup>2</sup>. The effect of this promise to maintain the housing programme for 3 years was that it was protected against a round of cuts consequent upon the massive rearmament programme undertaken in 1950-51. These cuts fell heaviest on capital despite there being some inroads into the free National Health Service by the introduction of charges for spectacles and dentures. Income Tax was raised, tax on distributed profits went up from 30-50% and initial allowances for depreciation in capital investment by private industry were suspended.<sup>3</sup> A month after these cuts in May 1951 the government announced an increase in pensions.

The devaluation crisis illustrates once again the reluctance of the government to reconstruct reconstruction. In a similar way to the convertibility crisis there was a short term policy response that in the long term was adjusted away. As Cripps noted, temporary expedients were concocted

1. H.C. Deb Vol. 474 Col. 50-1 18th April 1950. Debate on budget statement. Fixed investment increased in 1950 compared with 1949 see Dow Management of the British Economy p. 46 Note 2.
2. H.C. Deb Vol. 470 Col. 122/3 1 Dec. 1949 Written answer on licencing for private building. In May 1950 this was relaxed still further, back to the point of 1:4 see H.C. Deb. Vol. 474 Col. 1887 4th May 1950. Oral Answer private building ratio.
3. Blackaby 'UK' in Economic Policy in our Time p. 130.

together quickly: each crisis was produced because the temporary expedients of the previous crisis became exhausted<sup>1</sup>. For the government to have pursued long term objectives or goals, in particular long term export competitiveness, it would have been necessary for it to provide a disciplinary base for judging short term choice. This did not happen and the government opted for social security.

The last discriminatory method available to the government, given that monetary deflation was ruled out, was that of administrative direction. This meant trying to utilise and extend the physical controls available in order to transfer resources. We must recognise that such controls could only work if the government accepted the need for a cut in programmes, which the government, as we have seen, were not prepared to tolerate on any scale. Despite this, much of the explanation for the unwillingness to follow this administrative option in other realms must lie in the reluctance to extend or even render efficient existing controls. An ideological preference for democratic or persuasive as opposed to command methods of planning had been announced at the outset, and it could hardly be reversed without an alteration in the balance of class forces.

With regard to the question of labour control the measures taken on the 6th August 1947 involved a restoration of direction. Despite what the Conservative opposition maintained it was quite clear direction would be applied as a last

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1. Dutt., R. Palme., Crisis of Britain and the British Empire (London Lawrence and Wishart 1953) p.392.

resort, and then only to those workers registering unemployed. The areas chosen as undermanned were coal-mining, agriculture and textile export industries. But the unemployed could refuse up to 3 essential job offers before direction was considered. Ministers made it quite clear to the suspicious TUC that there would be no resumption of general powers of direction over labour, the intention was only to stop workers remaining un-employed. The regulation devised did not involve industrial conscription or compulsory transfers from those industries like building, distribution and entertainments thought to be hoarding labour. Isaacs, the Minister of Labour attacked suggestions that entitlements to the dole should be tied to a policy on essential industries with the argument that 'essential employment was not a determining factor in giving benefit, only employment'<sup>1</sup>. Since many of the industries were poorly paid a wage policy attracting workers by the manipulation of wage differentials seemed possible, but was effectively ruled out in 1948 when the government introduced wage restraint in order to counter inflation.

Penalties and controls on capitalists were rendered inoperative by decisions taken earlier in the government's

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1. Cab.129/20 Cabinet Paper CP(47)244 28th August 1947 The Control of Engagement order. Memo by the Minister of Labour. 700 Directions were issued from August 1947 until direction powers were withdrawn in March 1950. The majority of these required men to remain at jobs in coalmining or agriculture. 29 persons were directed to take up new employment after appearing at the Labour Exchange. See Walker, G., Economic Planning by Programme and Control in Great Britain (London Heinemann 1957) p.89.

term and by the reluctance to introduce the command principles in opposition to the method of voluntary co-operation. The programme entitled 'export direction' was therefore a bit of a misnomer. In the middle of the convertibility crisis the government set about re-structuring the planning apparatus concerned with external trade and the balance of payments to relate imports to export programmes on the assumption that decisions in other fields would further the export drive. A new balance of payments 'joint staff' comprising the Board of Trade, Bank of England, Treasury and Economic sections, the Lord President and Secretary for overseas trade, with Harold Wilson as Chairman, was set up to co-ordinate the work of the old Exchange Requirements Committee and Import Licencing Committee<sup>1</sup>. This new body did not involve any of the claimants in import demand. The import programme being submitted directly by the Chancellor to the Economic Policy Committee of the Cabinet. However, since these latter bodies were to opt for protecting reconstruction priorities the significance of this departure from 'departmentalism' carries less weight. CEP'S ran machinery for a more detailed direction of exports in relation to the imports but the final strategic co-ordination between the two still rested with the inter-departmental steering committee. There had already been set up in 1946 an Exports Guidance working party and an Exports Target Committee concerned with trying to work out a policy to prevent exports going to soft currency areas and to direct them to hard currency havens (so called unrequited exports problem). These bodies were now to be aggregated into a new

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1. Cab.129/21 Cabinet Paper CP(47)287 21 October 1947 Inter-departmental organisation for handling Balance of Payments Questions. Note by P.M.



Exports Committee concerned with the determination and progress of export targets, and in theory avoiding the division of the export target between production departments sponsoring various industries. Earlier, since the announcement of a special programme in November 1946, talks had proceeded with trade associations in order to press the view that not all export markets were equally as good from a national point of view. One of the technical problems encountered was that many firms with long term order books committed to soft currency areas found the hard currency areas such as the USA, Canada, Switzerland and Sweden were very competitive producing for their own home market what we wanted to export.<sup>1</sup> Despite this export quotas were fixed for each industry. For instance, motor car manufacturers were supposed to export 75% of their gross output. Within these quotas, quotas were fixed by the association for each firm. Once the targets were arranged steel allocations followed. The government possessed no legal powers to compel any volume of export sales nor prescribe destinations. The government, given its reluctance to deflate home demand on a scale that would effect transfer had to rest content. It could not prosecute firms for using materials for home production<sup>2</sup>. Although it was possible to refuse materials for non-priority uses with the allocations it did grant, it was very difficult to ensure manufacturers used

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1. Cab.134/44 Committee on Exports Memos 27 Sept.1947 Direction of Exports memo by Board of Trade; 6th Dec. 1947 Hard and soft Currencies Note by Treasury.

2. Walker Economic Planning by Programme... p.144.

them on commodities of the government's own choosing rather than theirs. Like labour direction, this was negative rather than positive control.

Decisions taken early in the government's life discontinued the licencing of exports<sup>1</sup>. This was a wartime control whose essential function was again negative in the sense of preventing the export of goods whose scarcity on the home market threatened the war effort. More crucial was the winding up of the organisation most capable of managing the direction of exports and a possible state monopoly in foreign trade, the U.K.C.C. (United Kingdom Commercial Corporation). The view taken in 1945 was that it was best to leave it to private traders to use their own judgement and a review of the activities of the U.K.C.C. was called for.<sup>2</sup> The chairman of the U.K.C.C. argued that a complete state-monopoly in foreign trade was incompatible with the mixed economy and would go against our international commitments to phase out bulk purchase of food and raw materials.<sup>3</sup> As for argument that the organisation could be used to manage trade with the Soviet Bloc 'surely the big combines like ICI and Unilever could arrange their own contracts'. With regard to ordinary trade it was impossible to co-ordinate the production of 50,000 or so

1. Cab.71/21 Lord Presidents Committee memo 5th September 1945 Export Licencing memo by President of Board of Trade discussed Cab 71/27 Lord Presidents Industrial Sub-Committee meeting 11th September 1945.
2. Cab.71/27 Lord Presidents Industrial Sub-Committee memo 24th October 1945 Development of the Export Trade Report by President of the Board of Trade.
3. Cab.134/165 Committee on External Economic Policy and Overseas Trade Memo 24th April 1946. The Future of the United Kingdom Commercial Corporation Memo by chairman.

individual firms, and, where it was possible, groupings were already in existence with trade associations. Ministers agreed to phase the organisation out. Later, however, they had to admit the lack of export control in relation to imports, a fact which made any reversal to bilateral trade agreements that much more difficult since bargaining power was weakened by our limited ability to direct exports and guarantee deliveries<sup>1</sup>. Near the end of 1947 there was some talk of reviving an organisation for state trading but nothing came of it. Attlee had expressed the view that the export drive could be conducted with the wartime spirit of service to the community. But to others there seemed to be a contradiction: in wartime service to the community was easier for private manufacturers not only because of the overriding consensus on goals in war, but because the government in wartime guaranteed a market by awarding contracts, being more or less sole purchaser, and thereby as Devons points out controlling the course of production<sup>2</sup>. In peacetime the position was different. It was quite possible for the government to give the car industry an export target and threaten them that they must not divert to home supply when

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1. Cab.134/635 Production Committee meeting 5th December 1947 discussing Framework of Economic Planning Memo by Chancellor of the Exchquer. A few bilateral deals were arranged in 1948. The Anglo-Danish Trade Agreement exchanges dairy products for exports of coal, iron and steel, textiles and vehicles (see H.C.Deb Vol.448 Col.48-49 2nd March 1948) An Anglo-Argentinian Trade Agreement followed (see LPCR May 17-21 1948).
  2. Devons, E., 'Economic Planning in War and Peace' Manchester School of Economic and Social Studies XVI No.1 Jan 1948 pp.1-29.

selling abroad became difficult or face some diminution in their allocation of raw materials. But such a threat would mean less if the losses were likely to be greater in selling in a market selected for them by Government.

At the centre of this matter lies the dilemma of government in a mixed economy where the state attempts to skew the direction of the economy by acting at a distance from the private sector through the offer of incentives and the threat of mild deprivation. Contradiction between two decision making logics complicate the issue still further. The individual firm is concerned to maximise profits by selling in any market it chooses including soft currency areas if these offer the greatest return. It does not matter whether this return is in dollars or lira so long as a surplus is evident and there is some degree of convertability. The state on the other hand might prefer export targets to be fixed in relation to a macro requirement for reserves of hard currency or gold. An adequate return as far as the state is concerned lies in whether or not exports earn imports, save expenditure or increase the existing holdings of dearer currencies. As the planners put it at the time:-

The fact that the exporter received payment for his goods did not mean that the country received an adequate return for them ... the price the exporter could get was not an adequate measure of the advantage to the U.K. of the transaction - prices secured in weak currency markets might be relatively high and prices received in dollars markets low, but then these latter markets were more desirable.<sup>1</sup>

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1. T229/36 Economic Planning Board 11th Meeting. C.E.P.S. Paper 8th November 1947, unrequited exports and Direction of Exports discussed 13th November 1947.

To the private decisionmaker, as non-agent of the State and sovereign subject constrained only by market competition, the concept of an 'unrequited export' is difficult to grasp. All that concerns the individual capitalist is whether the commodity produced is paid for. There is a risk of loss and waste in the outlay of capital if firms begin to switch production and sell in markets specified by the State. If the government at the time needed reminding of the limits of possible intervention in this field the letter from William Verdon-Smith of the F.B.I., written from his Bristol Aerospace Company, was warning enough. He would

not be a party to the very broad recommendation that the Board of Trade be asked to take such measures as may be appropriate to direct exports.<sup>1</sup>

The problem for capitalists at this time was that given scarcity on the home market firms would find it more profitable to sell here than abroad, where foreign competition and fluctuations in demand were ever present dangers. In addition the home market was attractive for the very reason that prices could keep pace with the pressure of domestic costs, which given industry wide unionisation affected all firms. Foreign markets might not be so hospitable to the high cost producer.

#### CONCLUSION

In summary then it can be seen that even if there had been willingness to consider a transfer of resources through an alteration in priorities this would have been offset by the inadequacy of the state apparatus chosen to affect the transfer: this

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1. T229/36 Economic Planning Board 11th meeting Verdon-Smith to Plowden, 12th November 1947.

weakness reflecting not the inadequacy of administrative technique as such, but the capitalist states unwillingness to transcend its own ideology - however mystified-of free social labour and the independence of the entrepreneur. As far as the individual manufacturer is concerned labour should be controlled by nobody except fellow capitalists. As far as trade unions are concerned the belief in the free sale of labour power remains an essential precondition for the notion of democracy. As Poulantzas has pointed out, the capitalist state presents itself in the form of governmental institutions which do not impose or distribute roles on its citizens as agents of production<sup>1</sup>. Nowhere in its actual institutions does strictly political domination take the form of a political relation between dominant classes and dominated classes<sup>2</sup>. The process of individualisation, or as he puts it 'the effect of isolation'<sup>3</sup>, in the ideals of liberty, free and equal access are linked to an abstract and formal law. Class relations appear as inter-individual commodity categories: worker versus employer worker versus worker, employer versus employer. The Feudal State directly, through its institutions, tied producers together in relations of personal dependence ultimately backed by the force of state power. For the government to have gone in for the extensive direction of labour affixing individual workers to employers and affecting transfers by

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1. Poulantzas, N., Political Power and Social Classes (London New Left Books 1973) p.123
  2. Ibid p.188
  3. Ibid p.188-9

regulation would have meant a fundamental change in the nature of the State power. To have reduced individual capitalists to agents of a foreign trade plan would have meant a regime resembling the one just defeated in war. The Housing programme had, in any case, not achieved its shared labour by direction but by adult training, extensive use of apprenticeship schemes, encouragement at the labour exchanges and special category demobilisation. Once these priorities were established, and once there was full employment for the rest, with monetary deflation and un-employment ruled out as a means of affecting changes, the government was a prisoner of its own assumptions. So even if the government had been willing, given full employment, to render its physical controls over investment effective but cutting where they had once expanded they faced crucial limits at the implementation stage: limits they themselves recognised as legitimate. The idle labour could only switch to what the state saw as newly essential employment if other trades and activities which had 'vacancies' in the full employment boom were banned from taking labour and the labourers already employed were taken away from them in an arbitrary fashion. A similar unwillingness to engage in administrative measures to compel exporters to fix themselves to particular markets reflected the same and surviving liberal ideology. For a government anxious to plan this was a considerable fetter but one of its own making and somewhat inevitable for those committed to maintain social peace and to reconstruct without stepping on anybody's toes.

CHAPTER VIII

The Placing of Investment



INTRODUCTION

In this chapter we undertake an analysis of the function and scale of the investment undertaken in the UK, comparing it with the scales of investment thought necessary by resident economists and with that pursued abroad. In Chapter 5 we suggested that Keynesian theory relegated the category investment to a component of aggregate demand which might be excessive or deficient in relation to existing purchasing power, with given resources and rates of saving. This view, it was noted, was built into the planning apparatus and as such accounts for the choices adopted in the crisis of 1947. However, in championing the application of Keynesianism in theory the government was still able to choose and dull the edge of its less palatable recommendations. For instance, in an influential text of the times, Keynes's protege Roy Harrod urged the government to cut all investment - public and private<sup>1</sup>. According to Harrod the balance of payments deficit was due to 'excess capital outlay', i.e. investment-generated spending power which could not be taken up by the already fully employed economy, and instead generated demand for imports financed by borrowing. Investment should only be pursued at planned levels if current consumption were held back and more money were saved. The government were trying to do too many things at once. If consumption were held then the purchase of capital (plant and machinery) as well as construction should be held back. He advocated cuts of £500m to fall mainly on

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1. Harrod, R., Are these hardships necessary? (London Hart-Davis 1947).

construction, including factory building, housing, railway electrification, basic industry and new Towns<sup>1</sup>. With regard to housing he wanted a cut in standards, the building of flats not houses and an end to rent restriction<sup>2</sup>, none of which the government took up.

#### SECTION I : INVESTMENT AND GROWTH

We have hinted at the alternative argument; that the Keynesians, by lumping together all investment in an aggregate to be exceeded or cut, were ignoring the need for growth produced by the very industrial investment sacrificed for reasons of macro-balance. This growth was a prerequisite for a country anxious to achieve a positive balance of payments in conditions where disproportionate technical development led to displacement effects on formally equal commodity producers, and where investment of new technology led to economies of time in the production of existing goods and to the development of improved or new prototypes. The labour thus freed by the restructuring process from overmanned sectors would flow into new industry. As commodities cheapened and profits grew, cumulative growth or extended accumulation would take place<sup>3</sup>. This process, as Balogh and others argued, would be essential once the revival of W. Germany and Japan was under way and the seller's market disappeared. In the short term cutting home investments might be used as a 'shock absorber' for a balance of payments crisis, but in the long run it would aggravate the position of deficit countries by weakening their competitive position<sup>4</sup>. There was no lack of information for policymakers

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1. *ibid* pp.41,48.

2. *ibid* pp.93-4.

3. Balogh, T., Unequal Partners, Vol. II (Oxford Basil Blackwell 1963) pp.18-37, 236-7.

4. *ibid* p.163-4.

at the time about the lack of productivity in British industry<sup>1</sup>. In the textile industry for instance, which had been selected by the Government as a key exporter, the low rate of replacement of the equipment was in evidence. Obsolescence, low production and therefore low profits in the machine tool industry was reinforced by a lack of orders<sup>2</sup>. Those new cotton spindle machines which were ordered were exported leaving the home industry with spindles well over 20 years of age<sup>3</sup>, and in the case of weaving 40/50 years<sup>4</sup>. It was the same story for coal, as the Reid Report had shown, with productivity not only below the United States but all our European rivals including Poland<sup>5</sup>. The work of Laslo Rostas was another informative source for the government. Rostas was a resident economist employed with the Board of Trade<sup>6</sup>. In two notable pieces he pointed out that productivity measured as output per man hour in American industries was two to three times greater than in the UK<sup>7</sup>. A similar finding was evident in Germany and Japan.

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1. Cab.134/211 Economic Planning Board Paper 24 13th July 1948 Tables Presented by Sir John Woods of the Board of Trade.
  2. Cab.134/210 Economic Planning Board meeting 3rd June 1948 Progress Reports on industrial productivity.
  3. Brady, R., Crisis in Britain: Plans and Achievements of the Labour Government (Cambridge University Press 1950) pp.537-9, 540.
  4. Young, M., Labours Plan for Plenty (London Gollancz 1947) pp.23.
  5. *ibid*
  6. Cab.134/191 Official Committee on Economic Development (prior to 26 Nov.1947 known as Official Steering Committee on Economic Development) meeting 15th June 1948 considering Paper ED(48)3 4th June by Sir John Woods summarising and appending the work of Rostas. It was agreed at the meeting to let Dr. Rostas publish his findings independently of government and ministers were to be advised not to refer to his work for them.
  7. Rostas, L., 'Industrial Production, Productivity and Distribution in Britain, Germany and the United States 1935-7' Economic Journal Vol.LIII No.209 (April 1943) pp.39-54 See also Rostas, L., Comparative Productivity in British and American Industry: Occasional Paper No.XIII National Inst. of Economic and Social Research (London Cambridge University Press 1948).

This result was achieved by using more machinery per worker. The US annual capital investment in new equipment was six times the British level with greater use of automatic and mechanical power. Rostas' studies were based on figures from 32 industries in the mid 1930s but the gap widened after 1948. This was hardly surprising due to the fact that Britain had failed to replace capital equipment during the war to a much greater extent than the USA and net investment per head in manufactures since had been lower. The Americans it seemed were more prepared to write off and scrap fixed capital and replace it with new equipment<sup>1</sup>. The greater productivity in the machine tool industry permitted US capitalists to purchase it at a reasonable price. Possible explanations for this disparity of productivity (much larger when account is taken of the shorter US working week) look to the peculiarity of the American market i.e. that the primary cause may not be the fact of new machines but the massive home market stimulating standardised, mass produced goods, which together with a larger firm size, made rapid additions to the stock of capital economic<sup>2</sup>. In addition labour in the USA was historically expensive given the need for American capitalists to cope with the problem that wage labour could escape through opportunities on the Western frontier. The long duration of unemployment in Britain from 1922 to the war compared with the US boom from 1919 to 1929 made British labour cheaper, especially after the

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1. Leyland, N.H., 'Productivity' in G.D.N. Worswick and P.H. Ady (eds) The British Economy 1945-50 (Oxford Clarendon Press 1952) pp. 381-98.

2. E. Rothbarth, 'Causes of superior efficiency of USA industry as compared with British industry' Economic Journal Vol. LVI (Sept. 1946) pp. 383-90.

crucial defeat in the strike of 1926. This may have led British capitalists to be indifferent to new investment in machinery and the unemployment of those years may have reinforced union resistance to new technique, as reflected in various restrictive practices. The postwar Labour government continued this trend by stressing 'labour intensity' as a solution to the productivity problem as evidenced in the already cited 'prosperity campaign'<sup>1</sup>. In July 1948 the more continuous liaison between the UK and the US government through the Marshall Aid body - the European Co-operation Administration (E.C.A.) - produced the Anglo-American Productivity Council which issued a great deal of publicity calling for management innovation and improvements in industrial relations. The Council was composed of representatives from industry on both sides of the Atlantic and it excluded the Government. Very little came of it. The government's own Committee on Industrial Productivity set up in December 1947 did however include government representatives and in addition resident economists, and members of the Economic Planning Board. Much of its work was centred on the 'Panel on Human Factors' which stressed labour intensity rather than re-equipment<sup>2</sup>. The Lord President Morrison, announcing the committee in the Commons said,

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1. The stress on labour intensity became all the more essential for the government given the shortening of the working week. From V.J. Day to 1947 some 5½m workers had gained reductions from 3-4 hours from 47 or 48 to 44 hours per week. See H.C. Debs Vol 439 Col.1622 3rd July 1947 Debate on Productivity.
  2. See Cab.132/31 Committee on Productivity. Terms of Reference.

in general it should be added that the recommendations to be of great value should obviously not require any considerable capital expenditure in the future even if highly desirable results could be achieved thereby<sup>1</sup>

As the 1949 Economic Survey pointed out, given the planned increase in the export of machinery 'we could not hope to obtain large increases in productivity by increasing capital per head'. Re-equipment would be mainly for replacement and major improvements in productivity could be gained instead from greater skill, energy, adaptability, man management and design<sup>2</sup>. The panel set about in depth work on time and motion studies, industrial psychology, schemes for the better use of existing plant layout, technical research improvements for an average level of output, intensity and length of work. Research into the 'adaptability' of labour stressed joint consultation and schemes for improving managerial efficiency. The British Institute of Management had already been set up under government auspices in January 1948 and one of its leading members was the daughter of the chief theorist in the field, a Miss Elton P. Mayo, who joined the research advisory group attached to the Committee on Productivity<sup>3</sup>

From the outset Labour had been prepared to recognise the importance of re-equipment for cost reduction, especially as we had scarcely been maintaining capital in the long depression.

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1. H.C. Deb Vol.445 Col.1863-6 18 Dec. 1947. oral answer. The Panel of Human Factors was to be chaired by Sir George Schuster, member of the British Institute of Management.
  2. Economic Survey for 1949 Cmnd 7647 (London HMSO March 1949) para.122.
  3. See Cab 132/31 Committee on Industrial Productivity. Terms of Reference and membership list.

Moreover, gradual industrialisation in the third world with their rice standard wages would mean more competition<sup>1</sup>. Working parties set up by the Board of Trade revealed this fact in the boot and shoe industry, cotton, textiles etc.<sup>2</sup> While the working parties drew attention to the need for amalgamations, the need for product research and schemes for the writing off of obsolete plant by means of special depreciation allowances, the government set about trying to encourage such schemes by the sponsoring of tripartite Development Councils for each industry. The lack of consequent re-organisation and investment has often been blamed on the opposition of the FBI and key trade associations<sup>3</sup>, but there seems little doubt that the government itself envisaged, from the start, nothing more than counselling bodies and was itself wedded to the idea of the voluntary principle. With regard to drastic restructuring the Working Party on Cotton for instance, did not recommend any shedding of labour and the subsidy available for the purchase of new equipment (under the Cotton Spindles Act of 1948) was not related to any measure of efficiency but merely to the size of the plant. By April 1949 less than one twelfth of the total amount the government allocated for the purpose had been taken up in orders for new spindles and the subsidy was due to expire soon after then<sup>4</sup>.

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1. Cab.134/189 Official Steering Committee Paper ED(46)42 22nd Nov. 1946 'Distribution of the Labour Force: overmanned and undermanned industries' Note by Joint Secretaries.
  2. Brady Crisis in Britain pp.531-7.
  3. *ibid* pp.548-559 see also Rogow, A.A. and Shore, P. The Labour Government and British Industry 1945-51 (Oxford Basil Blackwell 1955) pp.76-92.
  4. H.C. Debs Vol.463 Col.2726 12th April 1949 Debate on budget.

It is difficult to select out for causal primacy any factor as being of significance in the low rate of investment and lack of interest in rationalisation. What we are doing here is purely drawing attention to the role of the state in this field, in the peculiarity of British government's position in discouraging investment expenditure beyond a set scale in its investment programming. Before we go on to an evaluation of the investment undertaken in relation to investment needs, there is one more aspect of the policy which needs to be examined as it involves the state through its legitimate monopoly of the power to tax. The link between investment and accumulation or saving is crucial here in so far as private investment intentions may be affected by what the government is doing fiscally. Having already detailed the reluctance of the government to deflate by monetary means, or cut public expenditure and shown its preference for fiscal policy, the impact of the discrimination against capital can now be shown. In part this was intended and was a reassertion of the policy of 'fair shares' called for by Labour MPs to stimulate higher labour intensity among the working class.<sup>1</sup>

## SECTION II : INVESTMENT AND ACCUMULATION

Apart from the cuts in programmes themselves and the instructions that went out to the Capital Issues Committee discouraging share dealing, it was not until the 1st January 1947 that the wartime Excess Profits Tax was removed. Excess Profits Tax (E.P.T.) took the whole of company profits in

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1. Attlee Papers letter from 19 Backbench Labour MPs  
23rd July 1947 (Oxford)



excess of a 'standard' rate set on the basis of pre-war profits<sup>1</sup>. It penalized firms who were thinking of expanding post-war on a higher profit basis. Although much of excess profit was refundable, the timing of the refunds was at the government's discretion. The 1945 Income Tax Act had been sold to industry as a measure to encourage investment by allowing firms to write off 10% of the value of new factory buildings when declaring tax and 20% on new machinery purchases. Yet by 1947 these allowances were not sufficient to allow replacement at existing prices and it was not until 1949 that Cripps doubled the initial allowance in respect of newly purchased plant and machinery to 40%<sup>2</sup>. In a sense, as many in the budget debate pointed out, increasing the initial allowances was only advancing the date for remission of tax. It did not help the individual whose plant was already half worn out and had to find the capital to replace it. The doubling of the initial allowances did not mean any total addition to the allowances since sooner or later 100% of cost would be allowed. It might, as Osbert Peake pointed out<sup>3</sup>, have been better to have reduced the actual incidence of taxation on industry by abolishing the 1/- in the pound tax on undistributed (i.e. ploughed back) profits or the standard rate of income tax which at that time was 9/6d or 47p in the £<sup>4</sup>. Peake quoted

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1. Young Labour Plan for Plenty p.89.
  2. H.C.Debs Vol.463 Col.2097 6th April 1949 Budget Speech. Col.2105 see also HC Debs Vol.463 Col.2691/2713 12th April 1949 Debate on Budget.,
  3. H.C. Debs. Vol.463.Col.2753. 12th April 1949 Debate on Budget.
  4. Rogow and Shore. Labour Government and British Industry.pp. 119. Profits Tax had increased in every year 1948-50.

Table 6 of the 1949 White Paper on National Income and Expenditure which showed under 'Company Profits and Dividends' the heading 'Addition to Free Reserves' the figures for undistributed profits given as follows:

|      |       |
|------|-------|
| 1947 | £405m |
| 1948 | £545m |
| 1949 | £575m |

Peake noted that in 1948 addition to reserves totalled £1,215m, but with profits subject to tax of one kind or another totalling £670m (or 55%), less than half, or £545m, was left available for industrial re-equipment. Another MP Norman Smith in the same debate put it more graphically giving the example of a key exporter in his constituency, Raleigh Cycles<sup>1</sup>. In 1948 it had made profits of £1,300,000. Taxation took £700,000 shareholders got £170,000 and £423,000 was ploughed back. Put another way of the 1.1d. surplus on each bicycle, 7d went to the government in taxation, 1¾d to the shareholder, and 4¼d ploughed back. Later research, based on figures gleaned from Inland Revenue Reports, testified to the same overall position in 1949, where Gross Business Saving was some £705m (after deducting of dividends) while the taxation on business saving was shown at £400m, leaving net accumulation at £306m. The position was similar for 1948<sup>2</sup>. The cumulative consequences of such taxation placed restraints on accumulation. The reduced demand for equipment meant less incentive to invest in the machine building industry. The restrictions by the Capital Issues Committee on share dealing and lending on the stock

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1. H.C.Debs.Vol.463 Col.2257-8 7th April 1949 Debate on Budget.  
 2. Hart, P.E.(ed) Studies in Profit, Business Saving and Investment in the UK 1920-62 Vol.II (London George Allen & Unwin 1968) pp.111 Table 13.2 Appropriation of Profit in Corporate Manufacturing 1936-62.

exchange meant that large firms or wealthy individuals with big reserves would find it difficult to lend to small firms and many found they could not float their own issues to raise money for investment, except where an immediate export gain could be shown to follow. The two tiered profits tax was designed to favour internal self financing but the smaller firms raised capital more by share issue and bank lending, which was also restricted. Taxes on inheritance hit the family firm and purchase taxes fell especially on luxury goods which many of these firms specialised in. Even without Capital Issues Control the low dividends produced by the 25% tax on distributed profits (raised to 30% in 1949) would dull the market and hit share values. Since the tax burden varies depending on the rate of economic growth or accumulation and that itself is partially dependent on the rate of expected profit, and since it is necessary to have a reasonable or rising rate of profit to convert savings into investment, then the rate of taxation must, as a consequence, have some bearing on all these aspects of accumulation. This situation may have had some influence on the way enterprises began to locate abroad, and on the increase in the export of capital<sup>1</sup>. From 1946-9 public companies with issue capital of over £80m either migrated or radically extended their manufacturing capacity abroad<sup>2</sup>.

### SECTION III : SCALE OF INVESTMENT

It is difficult to maintain with any degree of accuracy that there existed a scale of necessary investment which

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1. Rogow and Shore. Labour Government and British Industry pp.119  
 2. ibid p.122

should have been undertaken in this period, but there are enough indications of levels of requirement deduced from social and economic changes consequent on full employment. Before dealing with this it seems wise to examine the claim that substantial investment was unnecessary. An influential little booklet that circulated in the forces put the matter so:

only a small proportion of the total stock of manufactured equipment needs renewing annually to produce the goods we need. The rest is easy to make up by War Damage repair and depreciation... (possibly in a year,..) Furthermore a great deal of what is spent on the war will remain useful in peacetime... Many of the factories now built for the purposes of the war can easily be adapted to the needs of peacetime industry<sup>1</sup>.

If the government needed a theoretical rationalization for their 'make do and mend' policy here it was. There were two assumptions present in this argument. Firstly, that there was no competitive 'necessity' not just to maintain but to continually improve the capital stock and that repair and maintenance was adequate for a nation to re-enter the world market with equipment dating back to Queen Victoria supplemented by wartime factories. Others however took a less optimistic view stressing that wartime losses due to destruction damage and 'disinvestment' (the reduction in value from overuse and the inability to repair and maintain) were not to be underestimated. The decline in the national capital caused by living off and running down our capital equipment without maintenance, repair or replacement was alone said to be equal to about 6 years net investment at the existing rate of 1938 of about £300m. In addition we needed to be able to carry

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1. Joseph, M and Kaldor, N. Economic Reconstruction after the War Handbook produced by the Association for Education in Citizenship (London English Universities Press 1943) p.4.

the larger working population which followed from the full employment policy absorbing perhaps 1,200,000 ; 1,700,000 unemployed of 1938, as well as the investment necessary to sustain a population which had increased by about 6%. In total that amounted to an addition to capital equipment of something like 9 years net investment costed out as follows:<sup>1</sup>

TABLE 6

| <u>ESTIMATED SCALE OF REQUIRED INVESTMENT</u>  |         | 1945/46         |
|--|---------|-----------------|
| To make good War Damage .. .. .  | .. .. . | £1,500m         |
| To make good arrears of Maintenance  |         |                 |
| Repair and Replacement .. .. .   | .. .. . | <u>£3,000m</u>  |
| Total Loss of Capital due to War   |         |                 |
| needed to restore position to 1938 .. .. .   | .. .. . | £4,500m         |
| Partially offset by sale of Wartime  |         |                 |
| machinery and government factories .. .. .   | .. .. . | <u>- 500m</u>   |
|  |         | <u>£4,000m</u>  |
| To this should be added the losses of our net external wealth as compared with 1938  |         |                 |
| The sale of foreign securities totalling .. .. .   | .. .. . | £1,000m         |
| Incurred Debts of .. .. .  | .. .. . | <u>£3,000m</u>  |
|  |         | <u>£4,000m</u>  |
| Making grand total capital loss due to War of £8,000m equivalent according to Paish of one year's National Income or 1/5th of the total National Stock |         |                 |
|  |         | £8,000m         |
| In addition: To provide 6% Growth in population (schools etc)  |         | £1,800m         |
| In addition: To employ 11% more men under full employment  |         | <u>£1,000m</u>  |
|  |         | <u>£10,800m</u> |

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1. Paish, F., 'The Finance of Reconstruction' London and Cambridge Economic Service Bulletin Vol XXV Feb 10th 1947 pp 18-23; also reprinted in Bareau, P, The Industrial Future of Great Britain - lectures arranged by London University and Institute of Bankers' 1947-8 (London Europa Press 1948) Ch.VIII.  
See also Robinson, E.A.G., 'British Economic Policy 1945-50' London and Cambridge Economic Service Bulletin II Vol XXVIII May 1950 pp.41-8.

Some allowance had to be made for additional investment to sustain the higher demand for imports made possible by full employment, and the effect of the rising propensity to consume, the increasing numbers of people employed in the state sector and new and higher levels of public spending in so far as this be construed as unproductive.<sup>1</sup>

All this investment therefore was construed as 'necessary' even before thought could be given of investing to cheapen and expand manufacturing, especially exports, after foreign borrowing ceased, or for reducing the cost of wage goods by increasing productivity in consumer industries so that higher wage rates pushed at full employment could be financed without increasing costs of production. If the cost of machinery produced for the consumer sector could not be cheapened by investment in engineering it could not be employed in manufacturing without reducing the rate of profit.

#### SECTION IV : INVESTMENT UNDERTAKEN

The scale of investment planned in 1949 had, despite the devaluation crisis, largely determined the outline of state policy up to 1952. The Investment Programmes Committee had in 1949 drawn up a Report on Capital Investment for 1950 recommending that plant and machinery investment be cut unless it could make a direct and early contribution to the balance of payments<sup>2</sup>. Investment generally was to be held at levels of 1948, with that devoted to social services also maintained at the previous year's level. Attempts in the report to slow

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1. For a modern discussion see Bacon, R and Eltis, W. Britains Economic Problems: too few producers (London McMillan 1976)
  2. Cab.134/191 Official (Steering) Committee on Economic Development meeting 20th July.

the completion of houses to below the 1948 level were vetoed by Ministers<sup>1</sup>. The decision to cut plant and machinery reflected the IPC desire to facilitate the achievement of the export target again through the export of some 45% of plant and machinery production<sup>2</sup>. These decisions were later confirmed by Ministers, despite the known opposition of the FBI on the Economic Planning Board<sup>3</sup> (who were also upset at the allocation for industrial building being kept well below demand), and the President of the Board of Trade, Harold Wilson<sup>4</sup>.

Decisions taken about the trade off between investment and export were closely related to the politics of cuts in reconstruction. If exports of machinery were chosen for their immediate swelling of the export stream, then the Cabinet could hope to achieve its target without switches and transfers in manpower. In November 1947 the Cabinet noted that exports were already at 114% of the 1938 level compared with a target of 140% by mid 1948, and 160% for December 1948, and hoped that the extra 150,000 workers to achieve the former and a further 250,000 for the latter would be unnecessary. At that time it expressed the hope that supplies to the home market need not be cut<sup>5</sup>. Unfortunately the achievement of the 147% of the 1938 volume by end 1948<sup>6</sup> was gained partly as a result of that

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1. Cab.134/636 Production Committee meeting 6th September 1948
  2. Cab.134/438 Investment Programmes Committee meeting 4th May 1948
  3. Cab.134/210 Meeting Economic Planning Board meeting 21st July 1948
  4. Cab.134/636 Production Committee meeting 23rd July 1948
  5. Cab.128/10 Cabinet meeting CM(47)92 2nd December 1947
  6. Economic Survey for 1949 Table 8.

very circumstance. Although part of the export increase could be achieved by an expansion of world trade, if our share of world manufactures had declined from the pre-war period (and 25% of the 1938 achievement comprised exports of coal), the export figure to be achieved in manufacturing commodities alone, would require an increase of over 200%<sup>1</sup>, with the required numbers in new manufacturing employment needing to rise further still<sup>2</sup>. More of the production of plant and machinery would also have to be used to re-equip at home. The fact that much of the export target was achieved by the export of machinery<sup>3</sup> only testifies to the way the trade-off was made: it being recognised that home investment and manufacturing would suffer<sup>4</sup>. The consequences of continuing this strategy into 1948 meant renewing the policy of refusing to extend and improve on the capital stock. The capital investment report for 1949, as agreed by the Government, opted again for the short term, maintaining that:

a policy of make do and mend as necessary in 1949 as 1948 means that extra capital expenditure should be devoted to getting more output from existing plant rather than the creation of fresh capacity....

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1. McKay, R.W.G. Britain in Wonderland (London Gollanz 1948) pp.43
  2. Robinson, E.A.G. Economic Planning in the U.K.- some lessons (Cambridge University Press 1967) pp.26-7. In fact labour on manufacturing only increased by 7% from mid 1939-to end 1948 (computed from Economic Survey for 1949 Table 18) Labour employed in distribution and on public administration did not fall. The building labour force was also rigid as we have seen.
  3. European Co-operation: memoranda submitted to the organisation for European Economic Co-operation relating to Economic affairs in the period 1949-53 Cmnd 7572 (London HMSO Dec 1948) para 109.
  4. Economic Survey for 1949 para 122; see also Economic Co-operation memorandum submitted para 158.



by keeping old and obsolete plant in use, by working overtime or double time, results may be obtained earlier and with less capital expenditure than by more ambitious projects which in other circumstances might be pushed ahead<sup>1</sup>

Thus there would be less new plant and machinery to reduce costs in manufacturing, and some damage to our long term competitive position. This fact was recognised by the planners<sup>2</sup>. Investment would be primarily directed to remedying existing supply deficiencies particularly in basic industry and where 'direct' contributions to immediate import savings and increased exports could be achieved<sup>3</sup>. Finally a 'limited number of projects aimed at reducing costs'<sup>4</sup> which were 'part of the ordinary process of industrial progress' should go ahead but only if it could be shown that these would produce 'very marked cost reductions in the short term'<sup>5</sup>. The phrase 'make do and mend' was a slogan first used during the war<sup>6</sup>, and its continuous use in peace reflects the expediency of policymaking in this field.

The following table illustrates the distribution of investment as indicated by the Government's Economic Survey for 1949. Even though the position for 1949 was to be roughly the same as for 1948 some modest increases in industry are evident. However this table should be studied in relation to subsequent tables for the full significance to be apparent.

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1. Cab.134/439 Investment Programmes Committee Paper 'Report on Capital Investment for 1949' 16th July 1948, para 29.
  2. Cab.134/191 Official Steering Committee on Economic Development meeting 20th July 1948.
  3. Cab.134/439 Investment Programmes Committee Paper 'Report on Capital Investment for 1949' 16th July, 1948 para 249.
  4. *ibid*
  5. *ibid* para 247
  6. Ian McLaine Ministry of Morale: Home Front Morale and the Ministry of Information in World War II (London Allen & Unwin 1979) p.252.

TABLE 7<sup>1</sup>

ESTIMATED DISTRIBUTION OF GROSS FIXED INVESTMENT IN THE UK 1947 - 49 (PRINCIPAL SECTORS) £m.

|   | 1947   |       |       | 1948   |       |       | 1949 <sup>(a)</sup> |       |       |
|---|--------|-------|-------|--------|-------|-------|---------------------|-------|-------|
|   | Const. | Plant | Total | Const. | Plant | Total | Const.              | Plant | Total |
| Fuel and Power                              | 40     | 90    | 130   | 60     | 105   | 165   | 80                  | 140   | 220   |
| Transport, Communications<br>& Shipping     | 105    | 220   | 325   | 115    | 240   | 355   | 140                 | 220   | 360   |
| Agriculture, Forestry<br>& Fisheries        | 25     | 45    | 70    | 25     | 60    | 85    | 35                  | 60    | 95    |
| Other Industries                            | 95     | 275   | 370   | 100    | 305   | 405   | 125                 | 325   | 450   |
| Housing (including repair<br>& maintenance) | 460    | -     | 460   | 475    | -     | 475   | 420                 | -     | 420   |
| Other Social Services                       | 40     | -     | 40    | 65     | -     | 65    | 100                 | 5     | 105   |
| Defence Administration                      | 45     | 5     | 50    | 55     | 5     | 60    | 60                  | 10    | 70    |
| Northern Ireland <sup>(b)</sup>             | 15     | 5     | 20    | 20     | 5     | 25    | 25                  | 10    | 35    |
| Total <sup>(c)</sup>                        | 825    | 640   | 1465  | 915    | 720   | 1635  | 985                 | 770   | 1755  |

Notes: (a) At current prices in 1947/48 and for 1949 at 1948 prices

(b) Excludes investment in agriculture

(c) Excluding miscellaneous fixed investment, which para 48 of the Economic Survey estimated in 1948 to be about £370m. Of this about  $\frac{1}{3}$  was machinery and equipment and the rest construction, building & repair of hotels, offices and shops etc. office machinery and equipment. As these totals were not expected to change in 1949 the total of Gross fixed investment was not expected to rise much above the level of 1948 (the fall in housing being due to the ceasing of the temporary programme of completion of building of war destroyed houses). New housing, in other years regularly took from £250-£270m. Maintenance and repair on housing ranged from £150-£170m. Total capital spending on housing in any post-war year up to 1949 was never below £400m<sup>2</sup>; in 1948 was £475m, nearly 30% of the total of £1,635m gross domestic investment.

1. Source Economic Survey for 1949 Table 7.

2. Cab.134/445 Investment Programmes Committee Working Party Paper 'Housing Programme for England and Wales' 28th April 1948 memo by Ministry of Health. For details of maintenance and repair on housing see Cab.134/439 Investment Programmes Committee Paper IPC(48)2 'Estimated Gross Investment 1948/9' Note by Joint Secretaries.

The analysis so far must suggest a degree of scepticism regarding government statements of what they were attempting to do, and this must apply also to the Government's long term investment plan prepared for the Marshall Aid organisation OEECD<sup>1</sup> - the wishful thinking of which the planners themselves recognised<sup>2</sup>. The statements about how productivity per man had risen by 10% in the last 2 years concealed the effect of reduced hours and the taking as a base figure the year 1946 when productivity growth was almost non-existent. The impression was given that we would be investing 20% of national income in future, some £2,050m (£250m of which was on colonial development)<sup>3</sup>. The report stated 'that the needs of industry must come before the needs of social investment'. The report noted that we were only slowly overcoming wartime arrears of maintenance and repair, and that investments that would raise productivity were smaller than needed. However, the report gave the impression that any additional resources would go for investment in industry. Industry would 'take precedence'<sup>4</sup>. Closer analysis of the distribution of investment revealed that although 20% of national income was the planned figure, only a proportion of that was to be for capital equipment and factories. The bulk of it, on equipment for the nationalised basic industries, and social investment of one kind or another is revealed in the following distribution overleaf<sup>5</sup>.

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1. Economic Co-operation: memoranda submitted
  2. Cab.134/191 Official Steering Committee on Economic Development meeting 10 Sept 1948 (particularly comments of Sir John Woods, Board of Trade)
  3. Economic Co-operation: memoranda submitted para 156 (figure given in dollars)
  4. *ibid* para 159
  5. Economic Co-operation: memoranda submitted para 158.

TABLE 8<sup>1</sup>

Estimate of Total Resources Available for use at Home 1937-48

|                               | 1937 |      | 1938 |      | 1946 |      | 1947  |      | 1948  |      |
|-------------------------------|------|------|------|------|------|------|-------|------|-------|------|
|                               | £m   | %    | £m   | %    | £m   | %    | £m    | %    | £m    | %    |
| <u>National cost of:</u>      |      |      |      |      |      |      |       |      |       |      |
| Total resources               |      | 100  |      | 1    |      |      |       |      |       |      |
| Used at home                  | 9050 | 100  | 9050 | 100  | 9680 | 100  | 10220 | 100  | 10400 | 100  |
| Government expenditure        | 1140 | 12.6 | 1260 | 13.9 | 2520 | 26.1 | 2115  | 20.7 | 2000  | 19.2 |
| Gross Investment at Home      | 1950 | 21.5 | 1730 | 19.1 | 1330 | 13.7 | 1944  | 19.0 | 1950  | 18.8 |
| Consumption                   | 5960 | 65.4 | 6060 | 67.0 | 5830 | 60.2 | 6161  | 60.3 | 6450  | 62.0 |
| Gross Investment as % of 1938 |      | 113  |      | 100  |      | 76   |       | 113  |       | 113  |

1. Source Cab.134/267 Economic Survey Working Party unpublished Table II p.2 'The Scale of Investment Programmes in the 1950's' 14th May 1948. The figures for investment include investment abroad by British oil companies and the lag between exports and payment for them. It also includes changes in stocks at home. For this reason the figures are not directly comparable with the estimate of investment in buildings and fixed capital in the IPC Report.

The following unpublished table by the Working Party is revealing compared with pre-war years.

|  |   |
|--|---|
| Fuel and Power                                     | 15%   |
| Transport  | 18%   |
| Agriculture  | 6%  |
| Industry (including iron & steel/<br>shipbuilding) | 33%   |
| Housing  | 16% (excludes maintenance<br>& repair on housing) |
| Social Services (Health &<br>Education)            | 7%  |
| Defence  | 5%  |
|  | 100%  |

The Working Party noted that for 1947 'The ratio in terms of 1947 values of the gross investment to the total resources available was about equal to 1938 and appreciably below 1937' The planned investment for 1948 would not only be below that of 1937 but also 1938<sup>1</sup>. Much of it was government induced<sup>2</sup>. Another unpublished table showed that investment in new fixed assets at home in 1947 was 10% lower than in 1937 with total investment also lower.

TABLE 9<sup>3</sup>

Analysis of Total Investment (£m at 1947 factor costs)

|  | 1937          | 1938          | 1947          | 1952          |
|--|---------------|---------------|---------------|---------------|
| Cost of maintaining existing capital at home                           | 695           | 695           | 775           | 855           |
| New fixed assets at home   | 1075          | 1035          | 965           | 1055          |
| Changes in stocks & works in progress                                  | 50            | -80           | 100           | 5             |
| Total of Home Investment   | 1820          | 1650          | 1840          | 1945          |
| Overseas Investment: Oil Companies; Empire Development; debt repayment | 30            | 30            | 100           | +205          |
| Surplus & deficit on current balance of payments                       | -175          | -175          | -675          | +             |
| Total Overseas Investment or disinvestment                             | -145          | -145          | -575          | -205          |
| <b>TOTAL INVESTMENT</b>  | <b>£1675m</b> | <b>£1505m</b> | <b>£1265m</b> | <b>£2150m</b> |

1. Cab 134/267 Economic Survey Working Party 'The Scale of Investment' para.7 p.
2. Another very similar and unpublished table pointed out that 'Government Expenditure' did not include state investment but only current expenditure on purchasing goods and services by central and local government. See Cab.134/267 Economic Survey Working Party Table XXV 'Division of Total Resources Available' in E.S.W.P. (48)15 Draft Economic Survey for 1948-52 undated p.28.
3. Source Cab.134/267 Economic Survey Working Party unpublished Table XXVII p.30.

Arthur Lewis maintained that in 1947, for instance, gross investment was shown to be around 20% of national income but since 7% of national income was borrowed abroad, domestic saving contributed only 14%. Making an allowance for price inflation we get a reduction to 12%. With investment necessary to replace worn out capital of 10%, he concluded that, in the absence of inflation and foreign borrowing, net investment in 1947 would probably not have been much higher than 2% of gross national income<sup>1</sup>. According to Balogh<sup>2</sup> the cuts of 1947 meant net investment at £750m (or in 1938 prices less than £400m), roughly equal to investment in 1938. Paish comes to a similar conclusion about true net capital creation<sup>3</sup> and calculates that, where foreign debts and sale of assets are taken into account, we were expanding capital in 1947 at even less (at £325m) than the equivalent figure in 1938. Government spokesmen were fond of quoting the comparison with the 1930s and maintaining that we were at least keeping up with what we did then, but the point should be made that they were making the comparison with a period when there was unemployment, excess capacity and a marked reluctance to invest. Another point is pertinent when evaluating the Government figures for investment: the mounting cost. For an accurate estimate of the true increase in capital stock these

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1. Lewis, W.A. The Principles of Economic Planning (New York Harper III. edit. 1969) pp. 53-4).
  2. Balogh, T. The Dollar Crisis, Cause & Cure (Oxford Basil Blackwell 1949) p. 255
  3. Paish 'The Finance of Reconstruction' in The Industrial Future of Great Britain p. 121.

figures must be written down to the actual cost which fixed capital had been installed in the past<sup>1</sup>. Robinson recalculates official figures at comparable constant prices for immediate post-War gross and net investment, and compares this with the scale thought necessary by himself, Paish and others.

TABLE 10<sup>2</sup>

Estimates of Net Investment 1946-50 at prices of 1945/46 fm.

| FIXED CAPITAL FORMATION AT HOME |   |                     |   |                                   |
|---------------------------------|---|---------------------|---|-----------------------------------|
| YEAR                            | GROSS INVESTMENT  |                     | Cost of Keeping Capital Intact (Maintenance & Repair) | Net Investment (Inc. Replacement) |
|                                 | AT CURRENT PRICES   | AT PRICES OF 1945/6 |   |                                   |
| 1945                            | No significant investment, gross merely kept capital intact |                     |   |                                   |
| 1946                            | 1550  | 1550                | 750   | 800                               |
| 1947                            | 1800  | 1610                | 770   | 840                               |
| 1948                            | 2015  | 1640                | 790   | 850                               |
| 1949                            | 2160  | 1660                | 810   | 850                               |
| 1950                            | 2160  | 1660                | 830   | 830                               |
| TOTAL                           | 9685  | 8120                | 3950  | 4710                              |

Robinson as a noted ex-resident economist pointed out that net investment by the end of 1950 would have done little more than cover war damage, wartime arrears of maintenance and replacement. At that rate of investment the 6% growth in population would not have been made up until the end of 1952 and the level of capital per head in industry would not have been restored to its pre-war standard until some time in 1954; only then could we start to improve on our 'pre-war standards' for competitive effect in the world market<sup>3</sup>. These points are even more strongly based when the analyst takes into consideration how much of even this paltry net investment is actually

1. Robertson, D.H. 'British National Government Policy' in D.H. Robertson Utility and All that and Other Essays (London George Allen & Unwin 1952) pp.121.
2. Source Robinson 'British Economic Policy' Table 5.
3. Robinson 'British Economic Policy' p.42. E.A.S. Robinson was economic advisor to the Board of Trade & member of C.E.P.S. 1947-8.

expended on private industry. Robertson calculates the ratio of investment between social and industrial purposes of 1-3. If a further calculation is made to isolate out how much can be regarded as adding to capital and how much replacement, and if one regards the whole of social building and only  $\frac{1}{3}$  of industrial expenditure as net investment, we get a ratio of social to industrial of about 9-8<sup>1</sup>.

#### SECTION V : COMPARISONS

At this point a brief comparison is in order. In one sense we can only prove the importance of this analysis if we can show that what happened in Britain between 1945-9 was unique. A full comparison with other countries is, however, beyond the scope and intent of this thesis, although possibly suggestive of further research. Enough material is introduced in this section, however, to illustrate the crucial difference: it is clear that no other major western country undertook a large scale housing and building programme for general needs in the immediate post-war period. In France the housing problem required the construction of 300,000 houses a year, yet from 1945-8 only 53,000 new houses had been erected with a concentration on the bare essentials of repair<sup>2</sup>. In West Germany the situation was similar, with nothing new being built until 1949. The situation was similar in the USA and Italy<sup>3</sup>. By the end of 1949 Britain had completed 623,347 new houses<sup>4</sup>. In France only a proportion of those eventually

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1. Robertson 'British National Investment Policy' p.122.
  2. 'Housing in Britain, France & West Germany' P.E.P. Planning Vol.XXXI No.490 Aug.1965 pp.233-49, Table 4.
  3. Eckstein, O. 'USA' in E.S.Kirsten et al (eds) Economic Policy in Our Time 1949-61 (Country Studies) VolIII (Amsterdam North Holland 1964) pp.71-5.  
Tosco, E. 'Italy' in E.S.Kirsten et al (eds) Economic Policy in Our Time 1949-61 (Country Studies) VolIII (Amsterdam North Holland 1964) pp.245-6
  4. see Appendix V



built were subsidised and subject to a variety of means tests and largely took the form of flats<sup>1</sup>. Public housing in France took only 10% of the total up to 1958. There was little public outcry for action: housing appeared to have a low saliency as a party political issue despite the fact that French working classes seem to have been more overcrowded with less facilities per family and household than their British counterparts<sup>2</sup>. The French it seems gave greater priority to establishment of economic balance and productive investment<sup>3</sup>.

The British on the other hand pushed on with the housing programme both during the times of crisis and when later enquiries showed its mounting capital cost. In Chapter 3 we illustrated that in the planning of the programme little had been done to check the cost of labour and materials. On the former the reluctance to confront the building unions, and the method of giving increased wages as a means of attracting labour into the related materials industry, was matched by the reluctance in the latter case to confront the prices of the materials manufacturers or cut out the profit of the merchant middle men by extended bulk purchase. The allowable cost formula built into price control protected the least efficient high cost producer and was defined for the Government by the Trade Association. The Building Unions had gained several wage increases from 1945-7 before agreeing to a productivity deal and had won a guaranteed weekly wage and holidays with pay.

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1. Bernard, J. 'France' in Economic Policy in Our Time, Vol III pp.287-389

2. Duclaud-Williams, R. The Politics of Housing in Britain and France (London Heinemann 1978) pp.124-6.

3. *ibid*

This was one of the reasons identified by the Girdwood Committee as causing the rise in the cost of housing to  $3\frac{1}{4}$  times the figure for 1938<sup>1</sup>. The increase in standards was the largest single item in the cost of housing over the pre-war period and the Committee recommended a cut, a recommendation consistently resisted by Bevan<sup>2</sup>. The subsidy and required rates, based on a lower calculated capital cost of housing, were not sufficient to cover more than half of the annual costs<sup>3</sup>. Although Labour did not increase the state subsidy to reflect this they were prepared to see rents rise a little above what it had planned: a position eased somewhat by the way in which many local authorities ran deficits rather than see tenants penalised. Of a survey of 162 Local Authorities 72% were revealed to be charging rents less than those required to meet expenses after subsidy<sup>4</sup>. Despite the raising of working class purchasing power consequent on full employment, and food subsidies, housing costs still took a very small proportion of working class income: a fact which distressed some local officials<sup>5</sup>. According to Bevan the proportion was 10%<sup>6</sup>. In the USA ability to pay was defined as 20% of weekly wages<sup>7</sup>. Bevan

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1. First Report of the official Committee of Enquiry into the Cost of Housebuilding: Ministry of Health (London HMSO 1948) quoted in Lewis, B, British Planning and Nationalisation (London George Allen & Unwin 1952) p.234-5
  2. Foot, M. Anuerin Bevan: a biography Vol.2 1945-60 (London Davis-Poynter 1973) p.80-
  3. Wood, A.R. Housing: The Reckoning, who shall Pay? (London Institute of Municipal Treasurers and Accountants May 1948) p.14
  4. 'Economics of the Council House' P.E.P. Planning Vol.XVI No.308 Jan.1950 p.158.
  5. Wood, Housing: The Reckoning.
  6. L.P.C.R. October 6th 1950
  7. Ecksteen, 'USA' in Economic Policy in our Time, Vol.II p.74.

pointed to the contrast with America, where despite its large resources, highly productive machine-based industry and its having escaped a blitz, there was 'less chance of getting a house there at anything like the rent charged here and we are doing these things when every single piece of machinery and in industrial capacity is being used to its utmost extent'<sup>1</sup>. Post-war federal-aided apartment building, which allowed subsidised rented accommodation did not start until 1949. By 1954 only 202,500 had been built. This was about the equivalent of one year's achievement in Britain pre 1949<sup>2</sup>. Yet compared with the U.K. the U.S. in 1948/49 spent more (as a percentage) of its GDP on investment, indicating that non-housing investment was much higher. This fact is born out by the larger proportion of the labour force in manufacturing and the larger investment spent in industry<sup>3</sup>. The French also pushed the priority of industrial investment, as did the Norwegians where investment in building was held back for investment in shipping, the modernisation of old industry and the development of new enterprise<sup>4</sup>. In Belgium the Government pursued its priority of combatting inflation through balanced budgets and a monetary policy rather than protecting the country from unemployment, which in fact rose. Keynesian methods went untried and public expenditure and social programmes did not rise to any extent<sup>5</sup>.

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1. L.P.C.R. May 26th - 30th 1947

2. Eckstein 'USA' in Economic Policy in our Time' Vol.II pp.74-5

3. Balogh, Dollar Crisis p.29, Table IX

4. Faaland, J. 'Norway' in Economic Policy in our Time. Vol.II pp.155-6

5. Morissens, L. 'Belgium' in Economic Policy in our Time. Vol.III pp.1-68

The case of West Germany is one where a country which entered manufacturing late had the 'benefit' of greater war damage and destruction which enabled re-equipment to be undertaken on a grander scale and at a higher technical level. Yet we also have, as in the U.K., the existence of a housing problem compounded by returning refugees from the East. This greater destruction obviously gave it an advantage over the UK where new techniques were introduced more slowly given the reluctance to write off masses of capital invested in older kinds of equipment especially where that engendered unemployment. Despite this physically-provided advantage we should not ignore the positive discrimination in favour of industry followed by German Governments in their economic policy. Under the intellectual leadership of the Austrian and Freiburg schools of economists which included Hayek, Eucken and Muller-Armack and the political guidance of Ludwig Erhard and Konrad Adenauer, the so called 'new economics' reacted strongly against the dirigisme of the Third Reich by a renewed emphasis on a market led dynamic capitalism effected by high interest rates, balanced budgets and a hostility to all forms of price support and control<sup>1</sup>. These negative stances were matched by a strong emphasis on profits and low taxation. The tax burden was switched to weigh more heavily on wage earners and although

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1. Halm, G, Economic Systems: a comparative analysis (New York, Rinehard and Winston, Third edit. 1968) pp. 119-20, 324-9, 392-3. Besters, H., 'West Germany' in Economic Policy in our Time Vol. III pp. 389-434. see also Streit 'Government and business: the Case of West Germany' in Griffiths, R.T. (ed) Government, business and Labour in European Capitalism (London Europotentials Press 1977) p. 123.

eventual economic growth meant that everyone was better off, the distribution of income became very unequal<sup>1</sup>. The beginning of the recovery programme was initiated by the occupation powers before the final declaration of the new state in June 1948. The carrying through of a currency reform revaluing the Deutchmark was crucial in this respect. This had the effect of intensifying competition by forcing capitalists to accumulate from internal sources rather than relying on borrowed sources which were scarcer with the tightening of capital markets consequent on the high interest rates that accompanied revaluation. The reform also had the effect of wiping out the value of Trade Union funds. Special measures were introduced to stimulate modernisation, technological re-equipment and capital write off. Investment that was in government hands, via taxation, was channelled into industry. When unemployment appeared from 1948-54 there was no flirtation with Keynesian ideas<sup>2</sup>. As for the housing problem the massive housing deficit (of families over available apartments) dragged on into 1950. Residential investment was kept as a low proportion of the total. No apartments were built with public aid until 1953 and those built without it totalled only 215,000 by 1950<sup>3</sup>. The Germans were expanding the supply side of the economy and not as in the UK, concentrating on distributing scarcity. In Chapter 2 we identified the changing balance of class forces as a principal reason for the adoption of demand orientated policies directed to the

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1. Roskamp, K. Capital Formation in West Germany (Detroit Wayne State University Press 1965) pp.229-37.

2. *ibid* p.55-141

3. *ibid* p.179 Table 38.

preservation of social security in its widest sense in the UK. If we note the Federal Republic's production or 'supply side' emphasis, a policy orientated towards monetary stability, it would certainly not be inappropriate to suggest that a very different class balance may have led to the difference. Certainly we can indicate a lower level of necessary working class support: strong defensive organisations were effectively destroyed by the previous regime, the currency reform and restructured along the lines of least resistance by the occupation forces. This question must however remain open for further research. The contrast is, however, noticeable.

#### CONCLUSIONS

There are three ways of looking at housing and construction generally as investment. The first is sometimes termed product effect, the second process effect<sup>1</sup> and the third (which derives from this thesis) the extraction effect. The product effects of residential construction are said to be the direct social utilities or satisfactions produced and from this general statement two more detailed effects can be separated out. Firstly, political benefits may accrue to a state extending provision to a defined constituency or class whose satisfactions under a market system are less than adequate. Secondly, and this is arguable and often used as a theoretical rationalisation to cover the first contention, state housing

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1. For 'product' and 'process' effects see Public Investment and Full Employment (Montreal International Labour Office 1946) p.23.

aids industrial investment in the sense that it improves mobility and the quality of labour. A housing shortage can add to industrial costs as the rents and prices of scarcity housing rise and tend to lead to wage push inflation. Both of these justifications are also linked to the second process effects. Investment in housing by generating demand acts through the Keynesian multiplier first to allied industries and then more remote sectors to keep up employment in the economy. Housing is labour intensive, therefore a small outlay results in a bigger increase in pay rolls. There may be contradictions between the two effects. When housing investment is used as an economic regulator for counter-cyclical employment policy this may involve contracting investment when full employment is reached and inflationary or trade deficit consequences follow. For this to be an adequate response indifference to product effects must be assumed. Yet this assumption is difficult to make precisely because of the competitive political environment amid which decisions of this nature are taken. To the beneficiaries and sponsors of such product effects housing cannot be treated as a residual. The need for houses does not fall off with the change in economic policy. There is also the technical problem of time lag and adjustment in the sense that building cannot be expanded or contracted at will.<sup>1</sup> Such technical problems are seized upon by those who have an interest in extending the time lag and moderating the effects of cuts. We have seen this in Chapter 7, where arguments centred around the question of need, but

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1. Sweet, M.L. and Walters, S.G. Mandatory Housing Finance Programmes - a comparative International Analysis (New York Praeger 1975) p.17.

also on the apparent waste involved in unemployment and loss of skill, on the difficulty of cancelling contracts and the loss of 'good will' and co-operation between the State and the building industry which would make the re-establishment of programmes more difficult.

The third type of effect - the extraction effect derives from the relations established between this type of production and other calls on resources. Housing competes for labour, materials and components. Bricks, metal goods, steel, glass, cement, paint, asbestos, copper, lead, electrical and heating fittings and timber etc., have alternative building uses other than housing and can also be embodied in different forms of manufacturing including that destined for export. Construction investment withdraws raw materials and machinery from circulation for a long period of time and without producing a quick surplus which can be realised as profit on the capital outlay. Such a 'lock up' of capital is accentuated if projects are pushed ahead to such an extent that new starts exceed and impede completions. This lock up of capital<sup>1</sup> has several consequences. It requires the borrowing of huge sums of money in the first place and this causes disturbance in the money market. Monies are taken out of the market without any equivalent commodities supplied to it and if the building is financed by borrowing the interest payments have to be set against the future national income<sup>2</sup>. The size of borrowing

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1. explanations of different aspects of the 'lock up' of capital are developed extensively by Marx in K. Marx Capital: A Critique of Political Economy Volume II: The Process of Circulation of Capital (London Lawrence and Wishart 1974) Part II pp.156-355.
  2. B.Kilroy 'Housing Finance - Why so Privileged?' Lloyds Bank Review July, 1979 No.133 pp.37-52.



is also a factor. If one man or firm borrows £20,000 he can pay back £1,000 per year (20 year personal loan), if 20 men or firms borrow £1,000 they can all pay back sooner and the whole £20,000 is returned to circulation and the sum borrowed is available for other purposes<sup>1</sup>. The cost of building also affects the size of borrowing, and housing is likely always to be costly given the historic and peculiar resistance of building industry to increases in productivity<sup>2</sup>. We can therefore talk about the extraction of resources when talking about a large and continuing housing programme. It is debatable whether we can go further and categorise the position as a drain on productive industry. This argument is dependent upon the contentious issue of productive versus unproductive labour<sup>3</sup>. We can at least note that for publicly subsidised and induced housing a special position pertains. Although the programme is largely contracted out with private building firms receiving a profit, in so far as the final prices are not realised on the market as a sale, but are paid for by a State that has no real money of its own, except what it borrows at a cost, taxes or creates by expansion of credit, then we can

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1. Lewis, J. Parry Building Cycles and Britains Growth (London MacMillan 1965) pp.265-6.
  2. Ball, M. 'British Housing Policy and the Housebuilding Industry' Capital and Class 4 Spring 1978, pp.78-100.
  3. for a provocative discussion of the debate involving Marxist and non-Marxist political economy see Howell, P., 'Once Again on Productive and Unproductive labour' Revolutionary Communist 3/4 Nov 1975, pp.46-68  
also I. Gough The Political Economy of the Welfare State (London MacMillan 1979) Ch.6.  
see also Bacon & Eltis Britains Economic Problem pp.23-32 and Mattick, P., Marx and Keynes: The limits of the mixed economy (London Merlin 1974) pp.150-168.

certainly talk about the State pre-empting resources, the consequences of which might threaten the basis of the mode of production. This possibility was recognised by the sponsors of extended public works...

If public investment programmes require taxation of private investment so large that private investment is displaced such encouragement might displace a further amount of private investment, necessitating still further encroachment and so on. The extreme limit of such a process might be the complete socialization of the economy<sup>1</sup>

Planners anxious to maintain some balance or mix between the public and private sectors of investment will be anxious to co-ordinate the relations between the two in ways in which one is not a threat to the other. But the exact balance is not pre-given even if apparent 'correct' relations are presupposed in dominant economic logic. To an ill-housed family the logic is simple and entirely different. To a politician such social demands may support the electoral logic on which his position depends. For the bureaucrat an expansion or maintenance of programmes and consequently the departments or bureaus concerned may be equivalent to the preservation of position and status<sup>2</sup>. To the extent then that there is a rival logic of functioning and dynamic market capitalism this can only be imposed by a process of political struggle within the state and through its government. The struggle may be confined to debates, division in committees, bargaining and resignation but it may also involve the mobilisation of extra-governmental

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1. International Labour Office Investment and Full Employment p.44.
  2. For a concise exposition and review of past and current literature concentrating on the 'rational' choice of politicians and bureaucrats see Frey, B.S. Modern Political Economy (London Martin Robertson 1978).

forces such as strikes and capital exodus. The resolution of that conflict is indeterminate in the sense that there are too many participants and too many variables involved to be able to predict the outcome in any simple way<sup>1</sup>. While capitalism may be subject to contradictions which can be theoretically stated in a pure form as laws or tendencies<sup>2</sup>, the direction, speed and intensity of such contradictions are aggravated by frictions deriving from the complexity and difficulties of policymaking and implementation. In this sense, a political economy is unique and peculiar. These issues will be developed further in the next and concluding chapter.

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1. One of the Althusserian theses likely to remain is his development of the idea that contradiction is complex rather than simple.

L. Althusser 'Contradiction and Overdetermination' IN Althusser, L., For Marx (London Allen Lane Penguin Press 1969) pp.89-116.

2. Yaffe, D., 'The Marxian Theory of Crisis, Capital and the State' Economy and Society Vol.2 No.2 May 1973 pp.188-232.

CHAPTER IX.

Social Democracy and the Management of  
the State : A Conclusion.

This concluding chapter draws together aspects of the reconstruction experience and relates them to the broader theoretical questions surrounding the type and scope of discretion available to social democracy in the management of the capitalist state. Many of the concepts that have emerged - insulation, policy space, adjustment, will be used to advance middle range propositions on the nature of British social democracy in its most advanced form when in possession of extensive controls over the capitalist economy. The strength and novelty of the choices open to government as a result of such widened administrative discretion will be counterposed to theories which emphasize the other ingredients in the modern government of capitalism, the constraints or 'necessities' emerging from the structural determinants of the mode of production. The empirical content of these issues were explored in the context of a case study which looked at the balance between social and industrial reconstruction, the setting of priorities, the nature of policy combination, consequential contradictions and attempts at corrections or adjustment at the point of crisis.

Conventional policy science looks at 'actors', and decision making constraints, these being opportunity costs, time, information and bureaucratic behaviour rather than structural determination.<sup>1</sup> Orthodox Marxists who have concentrated on this latter

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1. For instance Dunsire, A., Administration: The word and the Science. (Oxford, Martin Robertson 1973), Self, P., Administrative theories and Politics. (London, George Allen and Unwin, second edition, 1977), and Dror, Y., Public Policymaking Re-examined. (Scranton Penn. Chandler 1968) esp. Ch.5.

aspect in their studies of the state have underestimated the existence of discretionary behaviour in favour of the logic of choice implicit in the abstract requirements of capital. Here the capitalist state is derived or deduced from categories of capital accumulation, it being assumed that capitalism can enforce its own needs through crisis to which the state eventually responds. The state in these theories comes to know the choices it ought to make because of the existence of a relationship between it and the capitalist class and the crisis consequences of not adopting the necessary policies. Possessing the power and capacity sufficient to achieve the required adjustments it follows that only one set of decisions is rational for 'Capital in General' - that revealed as necessary by the process of accumulation. Such a course involves the state not trying to regulate or manage in areas that can only intensify economic stagnation. The best strategy to follow is one of restructuring production which reduces costs by re-allocating labour, reducing 'unproductive' expenditures and promoting sound money. Hidden within this argument is the belief that the laws of motion of capital will ensure that stagnation cannot be sustained and the state cannot tolerate such stagnation for any period of time.<sup>1</sup> While it will be clear that we have some sympathy with the idea of the contradictions involved in Keynesian state management and expenditure and the constraints of accumulation inherent in the laws of motion, constraints are only real constraints at the

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1. Altvater, E., 'Notes on Some Problems of State Interventionism (II)'. Working Papers on the Kapitalistate 2/1973. pp. 76-83.

level of the state if they can force policy changes that accord with the need of the system as a whole. Since we have argued throughout policy changes depend on political capacity, this school of thought is too mechanistic to be able to explain the conjunctural complexities and possibilities of social democracy. But since this school of thought has gained considerable ground in explanations of the relationship between state and economy there is a need to examine further such writings in order to account for such empirical blindness.

Firstly there is the handling of history. The behaviour of the state can be predicted from the course of the development of the capitalist mode of production and its resulting laws of motion. There is therefore a necessary structural correspondence between state and economy with concrete conjunctures becoming essential sections of longer periodizations. The period corresponds to the epoch. The role of the state is theorized as nothing but a moment in the history of capital. The pace of political change, novelty and peculiarity of response to crisis are of little interest to these historicists who regard political management as peripheral and as an inessential source of study in the historical process. The reductionist and unicausal explanation in their analysis makes it resistant to the notion that changes in the form and behaviour of the state may result from developments in the internal structure of the state itself.

In the work of Muller and Neuss for instance, the state is obliged, by the force of necessity in crisis, to sustain the operation of capitalist production, thereby reproducing the long term future of capital-in-general, even if this means short term attacks on particular capitalist interests and concessions to

the labour movement in the reform of working conditions and the provision of Welfare.<sup>1</sup> If any of these measures should begin to threaten the system, the state as the 'ideal collective capitalist' will take corrective action to ensure that the working class bear the brunt of any adjustment.<sup>2</sup> Redistribution and real gain for that subordinate class is an illusion. Distribution is constantly subject to the imperatives of the underlying link with the necessity to maintain profitable production.<sup>3</sup> In the long run, one of the key functions of the state must be the 'promotion of national capital in the capitalist world market.'<sup>4</sup> The liberal democratic state with its equally weighted votes and juridical equality between citizens is the form of state most appropriate for commodity exchange<sup>5</sup>. Any notion that the development of 'mystified' electoral politics could produce parties which hold up or impede this process is rendered an illusion by the assertion of the logic of the laws of motion of capital.<sup>6</sup> This economic logic asserts itself by being translated into political action and in order to provide an explanation for this relationship many of the authors, in this and other schools we shall discuss, operate by utilizing, in its various forms, the concept of

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1. Muller, W., and Neuss, C., 'The Illusion of State Socialism and the Contradiction between wage labour and Capital'. Telos No.25, Fall 1975. pp.13-90.
  2. ibid. p.29 and pp.72-4.
  3. ibid pp.48-59.
  4. Altvater, E., 'Notes on some Problems of State Interventionism (I)' Working Papers on the Kapitalistate 1/1973, pp.100-2.
  5. for extracts demonstrating this equivalent relationship see Holloway, J., and Picciotto, S., (eds.) State and Control: A German Debate. (London, Edward Arnold 1978). esp. the article by Bernhard Blanke.
  6. Muller and Neuss, pp.88-9.



'structural selectivity'. Hirsch, for instance, argues that while the state's structure enables the representation of demands, it possesses certain selective mechanisms that enable it to sort them out, process them and make them compatible with the long run needs of capitalism. Part of this 'selection' is achieved through the central position of a Finance Ministry over the various clientele agencies.<sup>1</sup>

Arguments about the necessarily functional aspects of state intervention are developed in the early work of Poulantzas and are inscribed in the very existence or definition of the state itself.<sup>2</sup> A reproductive balance of policies is guaranteed because compromise is structured by the requirements of the system as a whole. The incapacity of the capitalist class to organize itself politically as a force requires the state to step in and realize their political hegemony by cancelling out the competitive isolation of individual capitalists, and their division into fractions or special interest lobbies, so developing long term strategies for the common interest of the bourgeoisie as a whole. The state not only organizes the dominant class but disorganizes the subject class by posing as representative of a national interest, legitimated through civic freedom, universal

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1. Hirsch, J., 'What is the Fiscal Crisis of the State? On the Political Function of the Fiscal Crisis Paper given to the Bradford Conference of Socialist Economists 1977. pp.9-10. see also Hirsch, J., 'The State Apparatus and Social Reproduction: Elements of a theory of the Bourgeois State' in J. Holloway and S. Picciotto (eds.) State and Control op.cit. This and the following sections were written before the publication of Jessop, B., The Capitalist State: Marxist theories and Methods. (Oxford, Martin Robertson, 1982) which has substantially enlarged on the exposition and the critique offered here.
  2. Poulantzas, N., Political Power and Social Classes. (London, New Left Books 1973).

suffrage and concessions on social policy enforced, where necessary, at the expense of particular capitalists. Relative autonomy is thus the defining characteristic of the state and this is developed theoretically at the outset. Such autonomy does not depend on the nature of the balance of class forces revealed empirically.<sup>1</sup> So while Poulantzas concedes much more than Altvater on the discretionary behaviour of the state he renders it restricted by making it, a priori, compatible with the long run stability and success of capitalism. The state loses the 'dysfunctional' characteristics it possessed in the work of the previously discussed German 'capital logic' school and becomes instead a 'factor of cohesion' 'condensing,' and sorting out contradictions by 'prioritizing,' 'regulating' and 'coordinating.'<sup>2</sup> His use of the term equilibrium suggests a form of planning of which the state is assumed capable.<sup>3</sup> The processes through which a functional combination of intervention compatible with the long run reproduction of capitalism is produced are developed using a similar concept of 'structural selectivity' as that of the German school. While in his early work he saw the structure of the state as a centralized, undifferentiated and internally cohesive unity<sup>4</sup>, this was later revised to account for the evident polycentrism of the state apparatus as a field of class and fractional struggle.<sup>5</sup> Despite this he still argues in favour of selectivity via such decision making mechanisms as

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1. Poulantzas, N., Political Power and Social Classes. (London, New Left Books 1973). pp.271-3.
  2. ibid. pp.44-5.
  3. ibid.
  4. ibid. pp.255-61, pp.303-5.
  5. Poulantzas, N., State, Power, Socialism (London, Verso 1980) pp.127-139.

'prioritization', 'system grading', 'short circuitry', and 'non-decision making'.<sup>1</sup> Although he recognizes the disorganizing and 'muddling through' aspects of public policy<sup>2</sup>, the complex bargaining does not prevent the tendency for unity and coordination to re-assert itself even if it is not by the principle of hierarchy.<sup>3</sup> The most efficient and cohesive functional apparatus is that devoted to matters of economic intervention or the 'accumulation-reproduction process of capital'.<sup>4</sup> The main problem with all this is that Poulantzas assumes rather than demonstrates such capacity. If, as he recognizes, much of the interdependence between different levels of intervention is not given but established through a process of bargaining and often struggle, then, as this thesis has demonstrated there can be no guarantee that the outcome - the resulting combination of interventions - reflects a correspondence with the long run needs of capitalism unless one assumes at the outset such an inbuilt tendency to self-correction through structural selectivity and integration. This thesis has shown a post war British conjuncture with ideology, state and economy dislocated rather than integrated. While Poulantzas may set down a rationale for the role of the state, only an examination of the content and events of intervention can assess whether what is done is rational. according to a hypothesis regarding the maintenance of a reproductive balance in favour of capitalism. As Saunders points out

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1. Poulantzas, N., State, Power, Socialism. (London Verso 1980). pp.134-7.
  2. ibid. p.194.
  3. ibid. pp.136-9.
  4. ibid. p.171.

the relationship between political action and structure is an empirical question and cannot be achieved a priori.<sup>1</sup>

Similar difficulties are encountered in the third and most recent attempt at analysing the relationship between state and capital, that of corporatism. According to Winkler until recently the state was subordinated to the interests of private capital but has now expanded from SUPPORT of the accumulation process to its DIRECTION.<sup>2</sup> The course and cause of this 'transition' are not really explored save that it has been in response to certain 'problems' such as declining profitability, the increasing scale of production, high research and development costs and international competition which necessitate collectively organized action.<sup>3</sup> The form of this new 'direction' is taken by new agencies such as the National Enterprise Board which exists to control investment by infringements on what was previously a solely managerial prerogative, and institutions for the determination of wage and price levels. In order to avoid the hostility of private capital and labour to such developments and to reduce the need for more bureaucracy the process of determining policy in the sphere of production is increasingly delegated to tripartite bodies, the participants of which, in exchange for privileged access to the state and policy concessions, agree to a hierarchical restriction on rank and file pressure and accept the legitimacy of the state's role. The result is that the particularism of the pressure group is

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1. Saunders, P., Urban Politics: A Sociological interpretation (London, Hutchinson 1979), p.58.
  2. Winkler, J., 'Corporatism', Archives Europeenes de Sociologie No.17, 1976. p.103.
  3. ibid. pp.117-32.

replaced by the integration and mediation of the corporate world.<sup>1</sup> Despite disclaimers by Winkler<sup>2</sup>, Rhodes<sup>3</sup> and others that they are not describing a system but suggesting a trend or bias<sup>4</sup> in social and economic development, the historicism of such writers is apparent in the way in which agencies are invested with the seeds of the future on the basis of the stated and predicted aims of their originators rather than a thorough examination of their operation when applied to the sectors in question. Such examination may often betray a far lesser impact than envisaged.<sup>5</sup> This must surely be the case with the National Enterprise Board, the National Economic Development Council, the National Board for Prices and Incomes and the Community Land Act.

Much of this overambitious tendency to invest phenomena with significance they perhaps do not possess, or are prevented from possessing, derives from the way in which concepts emerge within the paradigm. This reveals a somewhat surface rather than real treatment of the phenomenal forms of the state. Winkler for instance, it seems, operates with a Weberian method where one 'interprets' events through the rationalizations and apparent acts of the participants themselves. He erects corporatism in Britain from the discourse of current affairs where order, unity,

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1. for a detailed specification of terms such as hierarchy and intermediation in this context, see Schmitter, P.C. 'Still the Century of Corporatism?' Review of Politics, Vol.36, No. 1. January 1974. esp. pp.93-4.
  2. Winkler, J., Corporatism, p.114.
  3. Rhodes, R.H.W., Control and Power in Central-Local Government Relationships. (Farnborough SSRC Gower 1981). pp.113-4.
  4. Middlemas, K., Politics in Industrial Society. (London, Andre Deutsch 1979). Chs. 13,15.
  5. for a demonstration of this lesser impact see Cox, A., 'Corporatism as Reductionism', the analytic limits of the corporatist thesis Government and Opposition, Volume 16, No.1. Winter 1981. pp.78-95.

nationalism, and success are teased out as the guiding lights.<sup>1</sup> The idea of 'concertation'<sup>2</sup>, the result of the organizational form known as Tripartism is an almost direct synthesis and therefore reproduction of the appearance of order, of everybody appearing to get together on the basis of a value consensus and excluding would-be trouble makers by apparent controls on organization membership. In place of the rather less than orderly worlds of pluralism with its competition and conflict and marxism with its contradiction and struggle, we are given the processes of 'intermediation', 'integration' and 'management'<sup>3</sup>. Yet these processes might well be a reflection of the promises of policymakers rather than a description of the actual result of their action or even its origin. Connolly has warned of the danger of constructing ones concepts from established discourses prevailing in the polity.<sup>4</sup> The meaning of established practices can only be properly appropriated by a detailed look at particular outcomes and this means eschewing the sociological impressionism of Winkler and others in favour of an intensive study of decisions within specific conjunctures: a task attempted in this thesis.

Another problem with corporatist theory derives from an apparent division between its advocates which results in some confusion about exactly what wider system of order is being produced or reproduced.

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1. Winkler, Corporatism. pp.103-9.
  2. A concept developed by Bonnett, K., and Jessop, B., 'A cross national study of intervention and Political Representation with particular reference to Keynesianism, monetarism, interventionism and Corporatism'. SSRC Panel on Corporatism and Accountability. Canterbury. April 1981.
  3. Rhodes, Control and Power. p.118, p.119.
  4. Connolly, W.E., The Terms of Political Discourse (Lexington, Mass. D.C. Heath 1974). pp.1-2.

For Winkler corporatism is a system in its own right neither capitalism or socialism, but some sort of hybrid<sup>1</sup>. For Rhodes corporatism is rather an administrative method for achieving the twin aims of 'regulating capitalism' and 'regulating for the states own needs for growth and power'.<sup>2</sup> This leaves unexplored the possibility that these aims are contradictory as the orthodox marxist school and others have pointed out in their stress on the states tax dependence.<sup>3</sup> The centre cannot arbitrarily assume that a sufficient surplus will be produced in order to carry on an existing and positive level of provision for the maintenance of social consensus, if the state grows at the expense of the private sector. With Jessop corporatism is a form of representation, a means of gaining consent within a capitalist order whereby labour and capital 'participate in the formulation and implementation of state intervention in the economy and in other matters relevant to capital accumulation'.<sup>4</sup> Corporatism is linked to the process of 'concertation' whereby 'such participation involves accepting the imperatives of capital accumulation and subordinating all policies to those imperatives'.<sup>5</sup> The various accounts of corporatism seem then to vary on the

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1. Winkler, *Corporatism*. p.113.

2. Rhodes, *Control and Power*. p.119.

3. for instance Mattick, P., Marx and Keynes: the limits of the Mixed Economy. (London, Merlin Press 1974). Buchanan, J., and Wagner, R.E., Democracy in Deficit: The Political Legacy of Lord Keynes (New York Academic Press 1977). Bacon, W., and Ellis, W., Britain's Economic Problem : too few Producers. (London, MacMillan 1976).

4. Jessop, B., 'Capitalism and Democracy: the Best Possible political shell' IN G. Littlejohn et al (eds.) Power and the State. (London, Croom Helm 1978)p.41.

5. ibid. For a further development of Jessop's view see Jessop, B., 'Corporatism, Parliamentarism and Social Democracy' IN P.G. Schmitter and G. Lehmbruch (eds.) Trends towards Corporatists Intermediation. (Beverly Hills Ca. Sage 1979) pp.185-212.

nature of the functions being performed by the 'bias'.

Apart from the more obvious points concerning the instability of corporatist bargains, the non-compliance or breakdown in wage and price policies and the conflicts with more traditional forms of representation, there is the problem in these theories which centres on their rather loose specification of terms. Nearly every analysis of corporatism mentions its adequacy for economic intervention directed at the imperatives of 'capital accumulation', yet seem unclear on what type of intervention corporatism is an adequate vehicle for. What is the level and scale of accumulation possible under a system where the condition for such arrangement is to secure the active consent and participation of both sides of industry? Stability, cohesion and class balance in the economy may be assured by the bargained arrangement that is corporatism, but what if the imperative needs of capital accumulation require a disturbance of agreed patterns of behaviour so that bargains need to be broken, resources freed, and a more flexible and dynamic mode of production restored? Certainly for our period the tripartite bargain with the building industry was seen as a substantial obstacle to the re-introduction of a dynamic and competitive response to the onset of crisis and was believed to impose a number of pertinent economic costs.

The liberties that can be taken using corporatism without a proper examination of particular conjunctures are immense. For instance, with Jessop, if corporatism is adequate to late capitalist state intervention, then social democracy becomes the political force most suited to corporatism because of its



facility in integrating the labour movement. 'It manages to integrate popular-democratic and economic corporate claims into a programme that favours state intervention in the interests of accumulation'.<sup>1</sup> With its bureaucratism and instinct for ideological control this view of social democracy as a front organization is virtually indistinguishable from the view of the movement as essentially incorporative held by Muller and Neuss. and Poulantzas. Rather than see corporatism, pace Winkler, as 'fascism with a human face' Jessop finds it the 'highest form of social democracy.'<sup>2</sup>

Another problem with corporatism is that its largely internal focus prevents it from apprehending in full the role of external constraint on particular national economies. Winkler writes of the end of market determination and competition within the nation state, of oligopolies and price fixing growing in line with industrial concentration<sup>3</sup>. Yet international economic competition still exists and takes place on the basis of commodity producers exchanging on the basis of competitive price with free multilateral trade rather than the regulated or bilateral trade bargains, which would be more suitable for the corporatist mode.

Lastly corporatism assumes that over time the problem of the internal coherence of the state apparatus and its agencies will be solved by greater co-ordination, so that functional compatibility or correspondence between state form and the

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1. Jessop 'Capitalism and Democracy' p.45 and Jessop, 'Corporatism, Parliamentarism and Social Democracy', pp.204-9.

2. *ibid.*

3. Winkler, Corporatism, p.11, pp.119-20.

required dynamic in the economy is produced. This is corporatism equivalent of 'structural selectivity'. Conflict within the state is reduced by various administrative techniques such as Planning, Programming and budgeting systems (PPBS), cost benefit analysis, and corporate planning in local government. The potential for co-ordination is improved alongside the emergence of hierarchical and non-competitive relations between agencies. Yet again the evidence falls short of the prediction. The failure of PPBS both in Britain and the United States, and the stunted initiative of the Ash Reforms under Nixon, bear witness to the weakness of such initiatives against departmentalism, clientilism and local autonomy.<sup>1</sup>

The production of policies and strategies that result in a total functional entity known as 'the state' is still as problematic as that revealed in the period investigated in this thesis. Each period or conjuncture is, in many respects, unique and the nature of the political capacity available to participants varies. As such this does not rule out the possibility of corporatist forms becoming inbedded. They cannot however be assumed on the basis of an impressionistic glance at past or present events.

Our case study illustrated precisely such a unique phase. Firstly in the sense of an experiment confined to Britain, and

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1. see Glennerster, H., Social Service budgets and Social Policy (London, Allen and Unwin 1974), also Liebfried, S., The Bureaucracy of the Statist Reserve: the Case of the U.S.A. (Western Societies Program Occasional Paper No.112, Cornell University Ithaca New York, 1979), and Van Gunsteren, H., The Quest for Control: A critique of the Rational-Central Rule Approach in Public Affairs. (New York, Wiley and Sons 1976).

secondly, insofar as a range of administrative controls based on war economy were used to supplement the operation of a peacetime economy in order to further and protect social priorities. Where apparent corporatist bodies did exist for the general co-ordination of economic policy, such as the Economic Planning Board, they acted as areas for the legitimation of decisions already determined elsewhere rather than the forums for the making of them. Any apparent 'concertation' was clearly led by the government and in some crucial areas the orchestra was left to play a different tune, often with no audience in Whitehall.

All the theories so far surveyed then, share a particular method. They are constructed with concepts that contain built in solutions to the problems posed. They begin with the language of 'imperative necessity' 'reproduction' 'regulation' 'management' 'intermediation' and posit the existence of a structural selectivity, uncharted, but deep within the state apparatus which guarantees the requisite policy. Yet to assert such mechanisms without an empirical demonstration of their operation is a risky enterprise for those who wish to advance theory. A number of authors have recently retreated from this concept of structural selectivity, in particular Clause Offe. His later work at last appears to have jettisoned his schools eclectic relationship with functionalism and systems analysis in favour of much more cautious response. He doubts now whether the capitalist state can perform all of its 'functions' simultaneously and successfully for any length of time. If its social activities seem to reproduce capitalist social relations by legitimation, the provision of such legitimation is dependent on a certain rate

of surplus accumulation which is continually being extracted to pay for social control.<sup>1</sup> This lack of compatibility or even contradiction in state functions leads him to state that

There is neither visible nor to be anticipated a strategy that actually does reconcile these functions and thus achieve a balanced integration of the state and the accumulation process, that is, a reliable and workable strategy of 'system maintenance.'<sup>2</sup>

Rather than assuming internal selection that prevent non-capitalist interests and forces from fusing the black box, we now have a growing literature on 'overload', where the result of electoral competition, bureaucratic 'muddling through' and the particularism of pressure groups begin to invade and distort the aims of industrial and economic policy.<sup>3</sup> In addition, this thesis has shown, for at least one conjuncture, that crisis cannot of itself steer a correct path for functional intervention for long run accumulation, since the crisis still has to be interpreted and acted on by proximate decision makers who may, despite the odds, be able to resist the directional pull to some considerable extent depending on the balance of class forces.

Rather than, as with Offe, resting content with theoretical scepticism on the concept of structural selection this thesis has undertaken, as part of its task, a dissection of the 'black box' in order to empirically demonstrate the presence or absence of selection and consequently the scope for manoeuvre for social.

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1. O'Connor, J., The Fiscal Crisis of the State, (New York, St. Martins Press, 1973).
  2. Offe, C., The theory of the Capitalist State and the Problem of Policy formation in Linberg, L., et al (eds.) Stress and Contradiction in Modern Capitalism. (Lexington Mass. D.C. Heath and Co. 1975), p.144.
  3. for instance King, A., 'Overload: Problems of Governing in the 1970's' Political Studies Vol. XXIII, Nos. 2 and 3, 1975, pp. 162-174, also Rose, R., and Peters, B.G., Can Government Go Bankrupt? (New York Basic Books 1978) and Hood, C., and Wright, M. (eds.). Big Government in Hard Times (Oxford Martin Robertson 1981).

democracy. The search revealed a lack of equilibrium, i.e. no management of demand and supply of public policy to ensure adequate co-ordination but the beginnings of, what others might call, a slow stagnation and even expropriation of the capitalist basis of the Nation state<sup>1</sup>. What follows is a more detailed synthesis of the findings of the empirical work and their significance for an understanding of social democracy.

The conjuncture - Britain in the 1940's - we argued constituted a unique political economy which was the result of a combination of many policy objects each with its own particular determinations. What we have demonstrated empirically can be summarized as the evident uneven relations between politics, ideology, bureaucracy and the requirements of the economy. These uneven relations stemmed from the fact that each of these practices had their own particular histories and momentums which set up dislocations or lags in adjustment resulting in constant shifts in the terms on which problems could be solved in a particular period. Such uneven relations prevented any mechanical adjustment of society to economy via the medium of a rational order - the state. The problem of adjustment has figured a great deal in the thesis, particularly adjustment in crisis. We have indicated empirically the capacities of the state, and in examining this capacity in relation to British Social Democracy, we have concentrated on its uneven relations.

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1. Mattick, Marx and Keynes, pp.161-3.
  2. for a discussion of unilinear versus differential time see Althusser, L., and Balibar, E., Reading Capital (London New Left Books, 1970), pp.94-107.

We outlined the existence in Britain during the War of an integrated working class. In terms of political effects, we identified this as its strength not its weakness. It's history of struggle had taught it the benefits to be gained by combining bargaining at the point of production with participation at the political centre. The particular configuration of bureaucratic power and control over the war economy was at the same time a result and a cause of the strengthened defensive position of the working class in the eyes of the government. The fear of this potential strength had driven the government into a series of guarantees designed to cater to a climate of postwar expectations. This commitment involved retaining many of the wartime controls for the peace in order to reduce market uncertainties and provide extended social security, so reinforcing the position the labour movement had achieved in war. A set of social programmes was given priority, and their success was judged to be dependent upon administrative insulation from resource competition. These state-managed allocations, particularly the building programme, produced a unique history which we argue was non-functional in terms of a rationality read off from the abstract requirements of capital. The phase of reconstruction was an attempt to order a re-emerging capitalist economy into set of activities or parts determined and controlled by the state. In the absence of such controls the performance of the economy might have taken a different form. The only way capital could impose its interest on society was through just such an absence.

We outlined the conditions for the existence of a dynamic capitalism. This required, as its spokesmen indicated, an element

of disorder just as rational in its way as the claims for control. In place of planning and fixity in the structure of production, what was needed was flexibility, some uncertainty and therefore the recreation of social insecurity. In a situation where mechanisms, structures, priorities and ideology had been developed to sustain the given environment, those demanding adjustment of priorities not only had to challenge the existing policies but the whole administrative system, the guarantees given to particular social groups and the given 'appreciative setting' or values which created the very facts which were held to be important.<sup>1</sup>

With wartime pledges so recent and Keynesian economics so novel and entrenched in key decision centres, critics of government policy faced an uphill task. Decisions taken in the past became embodied in institutions and given assumptions. The institutionalisation of prior commitments meant that policy makers accepting these institutions as means, and the theory accompanying it as their language, reconfirmed the assumptions and therefore the appropriateness of past policy over and over again. Decisions to remove commitments protected by such means and such theory had to proceed on the basis that such means and theory could be changed; if they could not then political capacity was wanting. There was no automatic mechanism at the political or administrative level that could determine that investment and exports became key objectives.

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1. The notion of an 'appreciative setting' is taken from Vickers, G., The Art of Judgement: A study of Policy making. (London, Chapman and Hall 1965), pp.92-6.

Paradoxically, the liberal opponents of state intervention would have had to engage in a form of centralism of their own in order to seek to break the contradictions between the objects of reconstruction as expressed in departmental programmes. With a more dynamic strategy of adjustment and displacement being posed, adaptations or restructuring within the state apparatus would have had to have been more determined than those which took place, almost as token gestures, in 1947. A hierarchy in policy was difficult to impose without a hierarchy in departments, and getting departments to alter or reduce their programmes, even with a hierarchy, would have had to have assumed away all the clientilist pressures the government of the time was pleased to encourage as a facet of functional representation. Departments of state were encouraged to receive as well as give policy. This was deemed necessary if the 'democratic' fabric of planning was to be maintained. The 'representativeness' of planning set specific limits on the further extension of administrative state intervention for the strengthening of the competitive power of national 'capital in general' without deflation. Such an alternative option came up against the barriers set by the nature of capitalist ideology. This was embodied in notions of individual rights, autonomy and freedom from directions that would tend to reduce individual capitalists and trade unions to agents of the state, despite the good intentions behind the sanctions, intended as they were to increase exports and capital re-equipment.

Administrative controls were a little more tolerable if they were negative in the sense of setting restraints on



behaviour rather than positive controls that involved compulsory shifts and transfers and breaches in capitalist prerogative. Instructions what not to do were far more easy to accept than instructions what to do. The government could not transcend the earlier liberal ideology, which became a fetter on the further development of state power. But this fetter on development was also useful in the sense that, if it had been absent, it threatened to expose (by such measures as the compulsory direction of labour), in visible, form the underlying coercive nature of the class relation in the management of labour power and consequently the capitalist nature of the state.

The government shied away from adjustment by maintaining intact the bias of priority planning based on labour intensive investment, social expenditure and employment policy. This resulted in a crystallisation or rigidity in the structure of production which led to a parallel crystallisation of social relations as class forces were stabilised at a level which fundamentally reduced opportunities for flexibility inherent in the concept of dynamic capital and regarded as essential for a successful refit into the competitive world market. So there is a reciprocal causality here. The economic structure conditions the balance of social forces but once crystallised these same social relations could act to resist the further adaption and development of production.<sup>1</sup> Therefore any opting for a policy of adjustment by the state had to recognize that economic logic could only be imposed by fundamental clashes on class lines.

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1. On these points, see Levine, A., and Wright, E.O., 'Rationality and Class Struggle' New Left Review 123 (September - October 1980) pp.47-68.

Social democracy could not countenance such self-renunciation and therefore found the very condition for its existence a limit on its potential manoeuvrability.

We looked in detail at how the planning machinery institutionalised the demand side economics that had become dominant and was reflected in departmental requests. The reduction in the supervisory role of the Treasury, and the fact that resident economists had no power to interfere in the sector programming of 'sovereign' departments reinforced the bias against a re-scheduling of priorities. Yet it was these priorities that created the very scarcities planning was supposed to remove. Committees ostensibly in the business of review and allocation were essentially formal while those priorities remained intact. 'Corporatist' machinery was devised in order to prevent the private sector from interfering in government policy and to legitimate the latter's strategy with those who might oppose it. To solve the question of production without altering the balance of reconstruction priorities, or removing the restraints on capital equipment (that would increase productivity permanently), the government opted for a policy of encouraging increases in labour intensity. The 'prosperity' campaign tried to link the maintenance of social priorities with the achievement of harder work, yet the force of such an implied threat was reduced because the government had made a prior commitment not to reduce its concessions a commitment which had forced them into mobilisation of this sort in the first place. Adjustments were consistently delayed. Recognition that a crisis would be produced, or if it already existed would intensify, led the proponents of

existing priorities to devise new discretionary responses (many of them negotiated around the apparent external constraint of the international economic environment) in order to manage in the short and medium term. It is this external environment which formed the focus of central chapters of the thesis. Here we showed that the type of relations established between internal and external markets was not just a question of the management of constraints since the form in which they were to emerge and therefore their impact was still subject to political manipulation. The hostility to the multilateralist option in its pure form, even to its advocates, derived from the requirement to expose the nation to renewed uncertainties undermining internal planning and involving a decision to renounce political choice and discretion over trade and exchange, allowing the allocation of resources to be determined by the international distribution of productivity. That would mean that countries like Britain, whose commodities were relatively uncompetitive, who were subject to inflation in costs and payments deficits, and whose currency was as a consequence unpopular on the fixed exchanges, would suffer a drain directed from outside the boundaries of the nation state and its 'politicians'. Such a drain would penalise those who had not concentrated as many resources as possible on capital equipment and exports.

The bilateralist alternative on the other hand was believed to be consistent with the protection or insulation of the home economy and therefore social reconstruction. It involved extending the use of administrative and imperial controls in order to discriminate. Such controls made it possible to

regulate the extent of incoming supplies to match the essential needs and ration foreign exchange. In its extreme form it also involved discrimination between suppliers. The peculiar dependence of the U. K. at this time, however, on the dollar area for crucial supplies meant that the United States, as a powerful advocate of multilateral trade, was in a position to insist on a degree of commitment to multilateralist principles with the bilateralist alternative consequently weakened. However the dependence of the United States on the European market - particularly a Western-orientated Europe - created the bargaining situation that resulted in a policy mix avoiding the worst extremes of both alternatives. The United Kingdom could use bilateralist practices for the short term but agreed to re-enter the world market on American terms at a date fixed by them and abandon such practices in the long term.

During these two post war years then the political discretion open to social democracy was enhanced by the bargained retention of protectionist trade. This so-called 'transition' phase we have entitled a policy space. A negotiated time and space but one which was structurally determined. Firstly, because we had been forced to abandon discretion at a pre-determined point re-entering a competitive process; and secondly, because our weak negotiating position was the result of an objective resource deficiency. We have seen that the best negotiators were those that recognised structural weakness and used it to their advantage. Those who deceived themselves into imagining that they were stronger than they were began with posturing and ended with disappointment. They played for too high stakes and risked

losing everything. If the aid and the transition period of bilateralist control had provided the policy space in which the government could manoeuvre for social reconstruction without having to submit to the competitive process, that space was short enough to indicate that the most rational moves for the state would be to prepare for re-entry into the system negotiated for the long term. The conditions for success in this longer time period involved a paradox. To reduce the external uncertainty in open free world market and ensure some success, the government would have to create uncertainties for its constituency in the short term by such adjustments that would alter the balance of reconstruction policies and renounce certain guarantees of extended social security. So the time gained in the policy space could also be used for restructuring manufacturing industries to increase production, cheapen output by giving special attention to the re-equipment of manufacturing and the stimulation of exports by changes in the allocation of labour, raw materials and money capital. Such shifts and displacements, whether achieved by deflationary 'freeing' of resources or by administrative means, would break the continuity that had characterised reconstruction thinking and practice since 1942. The problem was immense. The environment of expectations since that date, encouraged by the government itself, had been conditioned to accept the ideology of 'welfare' capitalism. The government soon found that it was easier to expand than cut programmes because the communicating of a change in intent was easier if it extended rather than revoked

expectations.<sup>1</sup> The attempt at extended political communication, or 'acculturation',<sup>2</sup> by mobilising support through selective economic messages in order to prepare the public for reversals of policy, became part of the management of reconstruction. We revealed the limits of attempts to restructure public opinion so soon after existing choices and options had been legitimised. The problem of timing therefore in the so-called 'mobilisation of bias' is crucial. The government's own surveys revealed high degrees of misinterpretation and a reluctance to 'face facts'. Given this climate, decisions to reconstruct reconstruction within the policy space became difficult and decisions to maintain and extend the existing trend easier. The adjustments seemed necessary and rational but they were made less likely because the immediate competitive necessity for them had been reduced. An inevitable and predicted crisis at re-entry point was allowed to come and as it arrived the government used the crisis to its advantage rather than allow it to impose anything on it.

Recognising again the dependence of the United States on a friendly Europe rather than one antithetical to their system, the British set out on another round of bargaining taking up the offer of further aid and negotiating a further retention - indeed extension - of policy space by dramatising and playing

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1. Vickers, *The Art of Judgement*. pp.214-15, notes this problem of political communication.
  2. This phrase appears in Watson, M.M., 'The character and contradictions of western style Planning' in R.T. Griffiths (ed.) Government, Business and Labour in European Capitalism (London, Europotentials Press 1978) p.49.

the very scenario the Americans feared: that unless they did this for us we would be forced into something that they would not like.<sup>1</sup> The government's own fear of a clash with public expectations was magnified and used in negotiations to the point where the United States Marshall Aid Administrators defended the United Kingdom Housing Programme and improved consumption levels before their own Congress. All it needed was for Britain to make signs of good faith such as the tribute made in the sale of gold by the Bank of England and a promise to attend Conferences dedicated to a long term (all the time getting longer) for the practices of the short term to be continued further into the future. The adverse consequences on social programmes of Marshall Aid concessions were, as we pointed out, far less onerous than was commonly supposed. Within that extended and secure negotiated space Government could exercise 'choice'. They could use further space in order to plan on the basis that it would eventually be removed or they could rest content to pursue the internal policies which the removal of immediate constraint made possible. As we saw it was this second option that survived.

In addition to the retention of discriminatory trade and exchange controls after the fateful attempt to restore convertibility in 1947, by 1949 the Americans, and through them the IMF, had conceded to Britain the right to use the most fundamental

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1. This kind of bargaining tactic is a variant in the exercise of power, see de Crespigny, A., 'Power and its Forms'. Political Studies, Vol.16, No.2. 1968. pp.192-209.

discretionary power available to a state ostensibly tied to an international currency discipline, viz. devaluation. As a short term response the devaluation potentially solves a payments crisis, not by penalising the inefficient by loss of reserves and contraction of the money supply as under a gold standard, but by an administrative manipulation or directive that renders the less successful more successful by simple declaration. Of course certain conditions must be present for the instant advantage to be sustained but for a government anxious to improve the competitive position of its exporters without an attack on the extended social security, such an option must be attractive. Devaluation then is one of the discretionary techniques available for policy maintenance in social democracy.

Devaluation mutates internal resource allocations that would otherwise be determined by the distribution of productivity. State control of the Central Bank is the fundamental condition necessary for such a power. Indeed it is on the existence of the State that the very legitimacy of paper money is premised through the State's ability to extract resources from capital without an immediate equivalent value being given in exchange. This legal, and to a large extent legitimate, monopoly is taxation. The credit power of the Central bank meanwhile enables the state to determine the balance between inflation and deflation. The former, when coupled with devaluation, enables resources to be transferred, not only across state, but also across class lines as debtors benefit at the expense of creditors. It also ensures that failures in the competitive process incur no penalty and consequently survive. Such discretionary powers



allow policies and priorities to be maintained. We saw that the cuts in social programmes prepared during the crisis did not bite deep and were often rescinded. The officials delegated to wield the axe had their proposals constantly amended by politicians, and in any case lacked executive powers. The interests on whom the government were dependent in the building industry and the local authorities convinced them that if they wanted to reassert their social priorities at some later stage they needed to co-operate in the interim. This position arose because the government was still willing to sustain an environment that made them so dependant on interests and refused to renounce guarantees to them. The same situation existed in the decision to maintain defence spending. With the spokesman for manufacturing industry largely convinced by government communication that the short term was what mattered, the cuts were applied much more deeply on long term investment on industrial re-equipment. When the policy of 'make do or mend' was developed immediate gains for the trade deficit were obtained from the export of machinery despite the recognised damage to long term competitiveness. Such expediency was an intrinsic part of the Keynesian paradigm with its presumption that posterity could look after itself.

The Keynesian paradigm was based on an analysis of aggregates which conflated manufacturing investment to a component of gross domestic investment with no distinction made between private and public sectors. Investment was then perceived as one part amongst equals in aggregate demand which might be excessive or deficient in relation to existing purchasing power with given

resources and rates of saving. The seeming opposites of business accumulation and taxation were coupled as 'savings' as though they were unrelated. Exports were often seen only as revenue for imports. The essential task of management was to bridge the gap between total resources and total demands, planning being essentially a negative exercise of deciding which claimant went short given these existing priorities. By lumping together all investment in aggregate to be cut when resources were scarce, the Keynesian bias ignored the need for growth produced by the very industrial manufacturing investment they were reducing in the interests of macro balance and the short term payments deficit.

This growth was a pre-requisite for a country anxious to achieve surplus in conditions where disproportionate technical development led to displacement effects on formally equal commodity procedure. Investment and its effects on productivity were amply demonstrated at the time as a vital necessity to finance full employment, growth in population and an export boom. The government of social democracy chose to rely on short term tactics - exporting capital equipment, high capital taxation to finance social expenditures and a 'prosperity' campaign to encourage increasing labour intensity on the given capital composition of industry, the structure of which could be preserved by making do and mending. Partial analysis of other selected countries' experiences at this time revealed the priority given to this form of investment and the lack of any appreciable

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investment in housing. In addition to this, monetary policy and a greater remission of capital taxation were pursued. We have indicated for Britain the crucial role of the level of working class participation in the war effort in the nature of social change and certainly its absence elsewhere might be one area to explore. But this comparative work is essentially beyond this thesis and explanations of difference must await further research. We have done enough here to characterise British social democracy as a practice of managing decline while observing, indeed advancing, the social advantage and security for those who would otherwise suffer under more rapid decline threatening the continued existence of a non-revolutionary electoral polity. The management involves sustaining short term advantages so that they become the future through the skills of negotiation and the techniques of policy maintenance such as borrowing and devaluation. These techniques are precisely those suitable for a capitalist state fettered, rather than assisted, by an electoral environment. This results in a policy for present rather than future generations: of immediate rather than distant outcomes. The world of fine tuning and 'stop go' prevents stagnation from developing into crisis. However such crisis management does not constitute 'systems maintenance' because social democrats ignore the competitive, disorderly aspects which, it is argued, are required by dynamic national capital. They feel the private sector is essentially 'manageable' because out there are private managers with whom the state can deal, and their motivations as key decision makers in the economy have changed so that

profit becomes subsidiary to social and political welfare.<sup>1</sup>

It is however too bland and commonplace to suggest that politicians exhibit short term expediency because the real competition that crashes down on them with the force of gravity is electoral. Such an emphasis on the electoral environment with its economic analogy of votes being akin to consumer preferences and these preferences, where expressed, determining policy, underestimates the extent to which party supply determines electoral demand; how a voting market may be skewed by the dominant political parties' use of advertising and a cartel-like manipulation of electoral system to remove potential competitors.<sup>2</sup> More importantly electoralist theory concentrates on the post second world war environment and falsely abstracts this as an essence, ignoring the important insights gained from a periodization of party behaviour of which the Keynesian era is but one moment. Post war British social democracy seemed to reinforce short term considerations rather than these being solely produced by the logic of the electoral system. It desired to react to events by creating and re-creating extended social security by the easiest course possible. No one could argue that pre-Keynesian governments exhibited the same trend of low time horizons in economic policy. Their strategies often opened them up to substantial electoral risk, when the chosen course (such as the 1924 return to the high parity gold standard which abandoned political discretion over currency management) turned out

1. Crosland, C.A.R., The Future of Socialism (London, Jonathan Cape Abridged edition 1964), pp.14-19.
2. Brittan, S., 'The Economic Contradictions of Democracy' British Journal of Political Science, Volume 5, Part 2, April 1975, pp.129-159. The principal theoretical work on the subject is Downs, A., An Economic Theory of Democracy (New York, Harper and Bros. 1957), see also the critique by Barry, B., Socio-logists, Economists and Democracy, (University of Chicago Press 1978).

to be less than beneficial. As short term Keynesian management became popular and easier, and, as a consequence, favoured people who could be helped earlier rather than those of later generations, a parallel development of 'pressure group politics' sustained that type of mental environment and furthered a new type of institutionalisation in addition to voters, parties and leaders, inhibiting the willingness and the capacity to engage in long term planning in and outside the state apparatus. The initial choice of housing as an economic regulator was based on its relatively immediate employment or 'process' effects and its attractive utilities or 'product' effects that could be weighed in votes and placated social groups. Resident economists and officials who argued the necessity for a different duration of STOP or a different com-position of GO were always at a substantial political disadvantage when dealing with this programme.

British Social Democracy in its crucial formative and most successful stage reflects in many ways the kind of policy making form sometimes known as incrementalism and it is no accident that its foremost advocates are Keynesian orientated.<sup>1</sup> State management, in this view, is essentially one of marginal alteration; in this or that given policy; the past being accepted as the guiding light and the need for a value consensus being the single biggest constraint on explicit policy goals or objectives. The safest bets or directions are those governed by the most acceptable means: those that can build social agreement or preserve it. The

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1. Braybrooke, D., and Lindblom, C., A Strategy of Decision: Policy Evaluation as a Social Process (New York, The Free Press 193), Wildavsky, Heclo, and Dahl share a similar Keynesian bias.

preferences of the social democrat are likewise for mobilising consent by bargaining, and manipulating the given environment in the medium term. The omission of impossible objectives in incrementalist theory is based on the desire to restrict policy preferences to the politically relevant avoiding 'confrontation' not only between capital and labour but also within the state apparatus where interests, which have solidified into structures or 'departmental views', should not and cannot be pushed around.<sup>1</sup> For social democrats the worst kind of sin is the sacrifice of short term management for 'principles' and 'ideology'. A bad government is one that resists negotiation for the pursuit of a single objective such as the restoration of sound money or nationalisation. Collective wisdom comes not from the comprehensive plan drawn up by a hierarchy of decision makers, but from the social fragmentation of analysis, the multiplicity of decision centres that prevent synoptic mistakes. Decentralisation and departmentalism are thus not only inevitable, as no one man can comprehend the whole, but beneficial as they encourage each policy programme to be compartmentalised and insulated, responding thereby only to the insight of those interests closest at hand. By preventing the conflation of separate issues, programmes and interests to the covering decisions of overall planners, incrementalism allows for piecemeal social engineering. Where co-ordination is required, a sort of social rationality emerges as

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1. Heclo, H., and Wildavsky, A., The Private Government of Public Money, (London, McMillan 1974).

each piece of the policy process, and indeed each policy, links with the other by bargaining or what Lindblom calls 'partisan mutual adjustment'<sup>1</sup>. When the government in 1948 was required by the terms of Marshall Aid to prepare a statement of long term aims its language reflected almost to a word this kind of thinking where

progress towards our objective is essentially a continuous process of attack on a succession of individual problems and adjustments to ever changing conditions.<sup>2</sup>

As can be seen this form of words does not rule out the maintenance of priorities. Chapters 6, 7 and 8 indicate that this is what happened.

While we cannot reduce Social Democracy to the 'management' of capitalism, neither can we reduce it to a goal-less incrementalism, since we identified costs in the eventual policy mix: costs that derived from the discretionary powers available to the state - the protection and insulation of social programmes and the consequent 'freezing' of the structure of production. Use of administrative controls to supplement the achievements of negotiation represent the attempt to impose some social security and order in a totality the social democrat refuses to define save as a hybrid - the 'mixed' economy. With a whole, whose parts continue to break up and seek autonomy, the social democrat sees his role principally as a continuous attempt to recreate order amidst disorder. Since the totality they manage is a

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1. Lindblom, C., The Intelligence of Democracy : decisionmaking through Partisan Mutual Adjustment (New York, The Free Press 1965).
  2. Economic Co-operation : Material submitted to the OEECD relating to economic affairs in the period 1949-1953. Cmnd. 7572. (London, H.M.S.O., December 1948).

contradictory unity, social democracy is assured as a reoccurring phenomena, as politically there is always a line of least resistance. Their success is in large part due to the emergence from 'Labourism' and the cultivation of the habits of political management. While the terms of such management may be determined by the resources available, the process of accumulation, the nature and constraints of the world market and whether there is a boom or a slump, the political stability or instability of such management cannot be pronounced a priori or deduced from a state theory dependent on a reflex relationship with the economy. Whatever the terms of management may be, even if they involve a crisis environment, there is no reason to suspect that one can necessarily predict the inability of social democracy to survive its own contradictions. Indeed, on the basis of the skills it seems to bring into play, as illustrated in this thesis, it might be possible to 'make do and mend' or 'manage' whatever the terms. Unless this possibility is allowed for politics as an autonomous practice or 'art' of government is superfluous. Whatever contradictions are produced by social democracy they can have no political effects unless they are translated into irreconcilable conflict within and without the state. An over-emphasis on 'the state' prevents an analysis of government and through government the activity, negotiation and manipulation of politicians, who interested in preventing the translation of contradiction into conflict, define their art as one of reconciliation. In contrast this thesis has, instead, placed a sharp focus upon the process of government



within a fragmented state. That fragmentation is reinforced by the activities of politicians who, constituting government, can thus sustain the marginal advantage of discretion over constraint that produces the enduring appeal of social democracy.

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APPENDIX I  
NUMBER OF HOUSES COMPLETED IN ENGLAND AND WALES BETWEEN 1st JANUARY, 1919, AND 31st MARCH, 1940.

|   | LOCAL AUTHORITY |          |          |          |                  |          |                  |           | PRIVATE ENTERPRISE<br>(INCLUDING HOUSING ASSOCIATIONS AND PUBLIC UTILITY SOCIETIES) |                 |          |          |          |                  |                    |                    | GRAND TOTAL OF LOCAL AUTHORITIES AND PRIVATE ENTERPRISE |           |
|---|-----------------|----------|----------|----------|------------------|----------|------------------|-----------|---|-----------------|----------|----------|----------|------------------|--------------------|--------------------|---|-----------|
|   | SUBSIDIZED      |          |          |          |                  |          |                  |           | SUBSIDIZED  |                 |          |          |          |                  |                    |                    |   |           |
|   | 1919 ACT        | 1923 ACT | 1924 ACT | 1930 ACT | 1935 & 1936 ACTS | 1938 ACT | UNSUBSIDIZED (a) | TOTAL     | 1919 ACT  | 1919 (A.P.) ACT | 1923 ACT | 1924 ACT | 1930 ACT | 1935 & 1936 ACTS | 1938 ACT           | UNSUBSIDIZED (a)   |   | TOTAL     |
| 1st January, 1919 to 31st March, 1920.      | 576             |          |          |          |                  |          |                  | 576       | 139   |                 |          |          |          |                  |                    |                    |   |           |
| Half-year ended 30th September, 1920.       | 2,926           |          |          |          |                  |          |                  | 2,926     | 441   | 2,015           |          |          |          |                  | 30,000 (Estimated) | 73,108 (Estimated) | 210,237 (Estimated)                                     |           |
| Year ended 30th September, 1921.            | 47,651          |          |          |          |                  |          |                  | 47,651    | 1,769   | 18,526          |          |          |          |                  |                    |                    |   |           |
| 1922  | 85,976          |          |          |          |                  |          |                  | 85,976    | 1,754   | 18,435          |          |          |          |                  |                    |                    |   |           |
| 1923  | 24,385          | 856      |          |          |                  |          |                  | 25,241    | 433   | 180             |          |          |          |                  |                    |                    |   |           |
| 1924  | 5,515           | 9,029    |          |          |                  |          |                  | 14,544    | 10  |                 | 135      |          |          |                  | 52,749             | 53,497             | 78,738  |           |
| 1925  | 1,497           | 18,314   | 12,279   |          |                  |          |                  | 32,090    |   |                 | 21,905   |          |          |                  | 73,032             | 94,947             | 109,491   |           |
| 1926  | 975             | 14,769   | 45,658   |          |                  |          |                  | 61,402    |   |                 | 69,662   | 831      |          |                  | 66,735             | 126,936            | 159,026   |           |
| 1927  | 527             | 17,083   | 95,664   |          |                  |          |                  | 113,274   |   |                 | 97,990   | 1,652    |          |                  | 65,689             | 136,182            | 197,584   |           |
| 1928  | 30              | 6,200    | 52,990   |          |                  |          |                  | 59,220    |   |                 | 60,313   | 159,955  |          |                  | 60,313             | 159,955            | 273,229   |           |
| 1929  | 18              | 9,058    | 51,291   |          |                  |          |                  | 60,367    |   |                 | 41,769   | 802      |          |                  | 64,624             | 107,195            | 166,415   |           |
| 1930  | 14              |          | 49,039   |          |                  |          | 2,965            | 52,017    |   |                 | 71,182   | 811      |          |                  | 71,083             | 143,076            | 203,443   |           |
| 1931  |                 |          | 59,777   | 392      |                  |          | 3,119            | 63,288    |   |                 | 2,272    | 1,860    | 6        |                  | 107,410            | 109,682            | 161,699   |           |
| 1932  |                 |          | 61,266   | 5,168    |                  |          | 2,056            | 68,490    |   |                 |          | 2,656    |          |                  | 129,790            | 131,656            | 194,944   |           |
| 1933  |                 |          | 41,741   | 6,236    |                  |          | 1,236            | 49,213    |   |                 |          | 2,390    | 66       |                  | 130,830            | 133,486            | 201,976   |           |
| 1934  |                 |          | 34,814   | 14,865   |                  |          | 3,663            | 53,342    |   |                 |          | 2,400    | 181      |                  | 166,644            | 169,100            | 218,313   |           |
| 1935  |                 |          | 32,685   |          |                  |          | 10,660           | 43,345    |   |                 |          |          | 230      |                  | 257,746            | 260,327            | 313,669   |           |
| 1936  |                 |          |          | 48,932   | 742              |          | 15,200           | 64,874    |   |                 |          |          | 306      |                  | 275,069            | 275,299            | 318,644   |           |
| 1937  |                 |          |          | 52,890   | 3,566            |          | 14,883           | 71,339    |   |                 |          |          | 1,462    | 102              | 274,348            | 274,654            | 339,528   |           |
| 1938  |                 |          |          | 64,285   | 10,645           |          | 13,400           | 88,330    |   |                 |          |          | 3,502    | 123              | 264,231            | 265,795            | 337,134   |           |
| Period 1st October 1938 to 31st March 1940. |                 |          |          | 69,477   | 17,308           | 2,515    | 16,134           | 105,434   |   |                 |          |          | 4,000    | 260              | 843                | 257,219            | 262,322   | 367,756   |
| TOTALS                                      | 170,090         | 73,309   | 504,518  | 294,930  | 32,261           | 2,515    | 83,316           | 1,162,939 | 4,545   | 39,186          | 362,738  | 15,780   | 9,753    | 485              | 843                | 2,596,435          | 3,029,765   | 4,192,704 |

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(a) Until the year 1929-30 separate figures were not obtained of unsubsidized houses built by local authorities and private enterprise respectively. The figures given in the above table for unsubsidized houses built by private enterprise accordingly include up to 1929 some houses built by local authorities without subsidy. The number of such houses was small.

SOURCE: Private Enterprise Housing Report of the sub-committee of the Central Housing Advisory Committee Ministry of Health, (London, H.M.S.O. July 1944) Appendix IV.

(i) The following table shows the number of new permanent dwellings built in Great Britain during each of the years from 1945 to 1952, both inclusive:-

| YEAR            | New Permanent Dwellings <sup>1</sup> |                          |                         |                     |                           |           |
|-----------------|--------------------------------------|--------------------------|-------------------------|---------------------|---------------------------|-----------|
|                 | By Local Authorities                 | By New Town Corporations | By Housing Associations | By Private Builders | By Government Departments | TOTAL     |
| 1945*           |                                      |                          |                         |                     |                           |           |
| England & Wales | 508                                  | -                        | -                       | 937                 | -                         | 1,445     |
| Scotland        | 1,428                                | -                        | -                       | 141                 | -                         | 1,569     |
| Great Britain   | 1,936                                | -                        | -                       | 1,078               | -                         | 3,014     |
| 1946            |                                      |                          |                         |                     |                           |           |
| England & Wales | 21,202                               | -                        | 96                      | 29,720              | 72                        | 51,090    |
| Scotland        | 3,811                                | -                        | -                       | 499                 | -                         | 4,310     |
| Great Britain   | 25,013                               | -                        | 96                      | 30,219              | 72                        | 55,400    |
| 1947            |                                      |                          |                         |                     |                           |           |
| England & Wales | 86,567                               | -                        | 860                     | 39,626              | 488                       | 127,541   |
| Scotland        | 10,773                               | -                        | 20                      | 1,354               | 2                         | 12,149    |
| Great Britain   | 97,340                               | -                        | 880                     | 40,980              | 490                       | 139,690   |
| 1948            |                                      |                          |                         |                     |                           |           |
| England & Wales | 170,780                              | 41                       | 1,817                   | 31,210              | 2,557                     | 206,405   |
| Scotland        | 19,547                               | -                        | 14                      | 1,541               | 109                       | 21,211    |
| Great Britain   | 190,327                              | 41                       | 1,831                   | 32,751              | 2,666                     | 227,616   |
| 1949            |                                      |                          |                         |                     |                           |           |
| England & Wales | 141,698                              | 68                       | 1,336                   | 24,688              | 3,990                     | 171,780   |
| Scotland        | 24,120                               | 60                       | 72                      | 1,102               | 493                       | 25,847    |
| Great Britain   | 165,818                              | 128                      | 1,408                   | 25,790              | 4,483                     | 197,627   |
| 1950            |                                      |                          |                         |                     |                           |           |
| England & Wales | 138,882                              | 474                      | 1,540                   | 26,576              | 4,888                     | 172,360   |
| Scotland        | 24,156                               | 158                      | 91                      | 782                 | 624                       | 25,811    |
| Great Britain   | 163,038                              | 632                      | 1,631                   | 27,358              | 5,512                     | 198,171   |
| 1951            |                                      |                          |                         |                     |                           |           |
| England & Wales | 139,069                              | 2,518                    | 1,658                   | 21,406              | 7,252                     | 171,903   |
| Scotland        | 20,877                               | 120                      | 139                     | 1,145               | 647                       | 22,928    |
| Great Britain   | 159,946                              | 2,638                    | 1,797                   | 22,551              | 5,512                     | 194,831   |
| 1952            |                                      |                          |                         |                     |                           |           |
| England & Wales | 159,782                              | 5,855                    | 1,868                   | 32,078              | 9,392                     | 208,975   |
| Scotland        | 27,138                               | 485                      | 285                     | 2,242               | 797                       | 30,947    |
| Great Britain   | 186,920                              | 6,340                    | 2,153                   | 34,320              | 10,189                    | 239,922   |
| TOTALS          |                                      |                          |                         |                     |                           |           |
| England & Wales | 858,488                              | 8,956                    | 9,175                   | 206,241             | 28,639                    | 1,111,499 |
| Scotland        | 131,850                              | 823                      | 621                     | 8,806               | 2,672                     | 144,772   |
| Great Britain   | 990,338                              | 9,779                    | 9,796                   | 215,047             | 31,311                    | 1,256,271 |

1. The figures above for new permanent dwellings include, under the totals for local authorities and private enterprise, the rebuilding of war destroyed houses.

\* Figures for England and Wales are from 1st April, 1945.

(ii) The following table shows the numbers of permanent dwellings provided by means other than new building, and of temporary prefabricated houses provided in those years:-

| YEAR            | OTHER PERMANENT DWELLINGS                   |                     |                           |   |                     | TEMPORARY HOUSES      |                            |
|-----------------|---|---------------------|---------------------------|---|---------------------|-----------------------|----------------------------|
|                 | Additional dwellings provided by conversion |                     |                           | Uninhabitable war damaged houses repaired |                     | For Local Authorities | For Government Departments |
|                 | By Local Authorities                        | By Private Builders | By Government Departments | By Local Authorities                      | By Private Builders |                       |                            |
| 1945*           |   |                     |                           |   |                     |                       |                            |
| England & Wales | 8,606                                       | -                   | -                         | 60,817                                    | -                   | 8,939                 | -                          |
| Scotland        | -   | 60                  | -                         | -   | -                   | 437                   | -                          |
| Great Britain   | 8,606                                       | 60                  | -                         | 60,817                                    | -                   | 9,376                 | -                          |
| 1946            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 16,503                                      | 19,490              | 1                         | 35,565                                    | 10,855              | 70,811                | 120                        |
| Scotland        | -   | 1,044               | -                         | -   | -                   | 12,119                | -                          |
| Great Britain   | 16,503                                      | 20,534              | 1                         | 35,565                                    | 10,855              | 82,930                | 120                        |
| 1947            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 10,453                                      | 24,340              | 234                       | 9,843                                     | 9,931               | 34,118                | 233                        |
| Scotland        | 47  | 1,654               | 56                        | -   | -                   | 11,974                | 20                         |
| Great Britain   | 10,500                                      | 25,994              | 290                       | 9,843                                     | 9,931               | 46,092                | 253                        |
| 1948            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 5,845                                       | 21,201              | 227                       | 2,143                                     | 7,656               | 10,587                | 159                        |
| Scotland        | 24  | 1,150               | 72                        | -   | -                   | 7,550                 | -                          |
| Great Britain   | 5,869                                       | 22,351              | 299                       | 2,143                                     | 7,656               | 18,137                | 159                        |
| 1949            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 2,964                                       | 10,372              | 219                       | 696                                       | 4,148               | -                     | 3                          |
| Scotland        | 12  | 1,069               | 54                        | -   | -                   | 76                    | -                          |
| Great Britain   | 2,976                                       | 11,441              | 273                       | 696                                       | 4,148               | 76                    | 3                          |
| 1950            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 1,241                                       | 7,418               | 77                        | 126                                       | 2,641               | -                     | -                          |
| Scotland        | 6   | 519                 | 52                        | -   | -                   | -                     | -                          |
| Great Britain   | 1,247                                       | 7,937               | 129                       | 126                                       | 2,641               | -                     | -                          |
| 1951            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 783   | 6,384               | 120                       | 41  | 1,593               | -                     | -                          |
| Scotland        | 3   | 253                 | 12                        | -   | -                   | -                     | -                          |
| Great Britain   | 786   | 6,637               | 132                       | 41  | 1,593               | -                     | -                          |
| 1952            |   |                     |                           |   |                     |                       |                            |
| England & Wales | 426   | 5,519               | 57                        | 2   | 1,050               | -                     | -                          |
| Scotland        | 9   | 204                 | 19                        | -   | -                   | -                     | -                          |
| Great Britain   | 417   | 5,723               | 76                        | 2   | 1,050               | -                     | -                          |
| TOTALS          |   |                     |                           |   |                     |                       |                            |
| England & Wales | 46,821                                      | 94,724              | 935                       | 109,233                                   | 37,874              | 124,455               | 515                        |
| Scotland        | 83  | 5,953               | 265                       | -   | -                   | 32,156                | 20                         |
| Great Britain   | 46,904                                      | 100,677             | 1,200                     | -   | 37,874              | 156,611               | 535                        |

Source: Houses: The Next Step. Cmd. 8996. (London, H.M.S.O. November 1953)

\* Figures for England and Wales are from 1st April, 1945.

APPENDIX III

UNITED KINGDOM BALANCE OF PAYMENTS

£m.

| DATE | M E R C H A N D I S E |          |                          | SERVICES     |              | INTEREST AND DIVIDENDS |              | Balance of invisible trade. | Government payments | Government receipts | Balance of Government account | Defence Aid. | Balance of Payments |
|------|-----------------------|----------|--------------------------|--------------|--------------|------------------------|--------------|-----------------------------|---------------------|---------------------|-------------------------------|--------------|---------------------|
|      | Import -              | Export + | Balance of visible trade | Import - (a) | Export + (b) | Payments (c)           | Receipts (d) |                             |                     |                     |                               |              |                     |
| 1946 | 1082                  | 917      | -165                     | 183          | 295          | 84                     | 162          | +190                        | 487                 | 164                 | -323                          | o            | -298                |
| 1947 | 1560                  | 1145     | -415                     | 246          | 309          | 128                    | 186          | +121                        | 278                 | 129                 | -149                          | o            | -443 (f)            |
| 1948 | 1794                  | 1602     | -192                     | 244          | 458          | 137                    | 192          | +269                        | 172                 | 96                  | -76                           | o            | + 1                 |
| 1949 | 1978                  | 1841     | -137                     | 266          | 500          | 127                    | 200          | +307                        | 174                 | 35                  | -139                          | o            | + 31                |
| 1950 | 2383                  | 2250     | -133                     | 265          | 675          | 112                    | 271          | +569                        | 165                 | 29                  | -136                          | 0            | +300                |
| 1951 | 3481                  | 2748     | -733                     | 384          | 754          | 194                    | 307          | +483                        | 192                 | 38                  | -154                          | 4            | -400                |

Source: United Kingdom Balance of Payments 1946-54 Cmnd. 9291, Table 1 quoted in Walker, G., Economic Planning by Programme and Control in Great Britain (London, Heinemann 1957), p.109.

Notes: (a) shipping and travel

(b) Shipping Travel and other net 'receipts'

(c) Interest, profits dividends, and migrants funds, legacies and private gifts (net).

(d) Interest profits and dividends.

(e) The deficit was -658 in 1945 (p.388 Dutt).

(f) The main element in the 1947 deficit was not military expenditure but the fall in visible trade (p.310 Gardner). The volume of exports stopped rising while imports rose (as did prices) more than exports.

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