

BARNETT HOUSE PAPERS

No. 23

**SOME EXPERIENCES OF
ECONOMIC CONTROL
IN WAR-TIME**

BY

SIR WILLIAM BEVERIDGE

SIDNEY BALL LECTURE

February 29, 1940

LONDON

OXFORD UNIVERSITY PRESS

HUMPHREY MILFORD

1940

OXFORD UNIVERSITY PRESS
AMEN HOUSE, E.C. 4
London Edinburgh Glasgow New York
Toronto Melbourne Capetown Bombay
Calcutta Madras
HUMPHREY MILFORD
PUBLISHER TO THE UNIVERSITY

PRINTED IN GREAT BRITAIN

SOME EXPERIENCES OF ECONOMIC CONTROL IN WAR-TIME

FOR Britain the war of 1914–18 on its economic side fell into two stages—of business mainly as usual till the end of 1916, of war substantially totalitarian thereafter. It is difficult to-day to realize how long that war remained an essentially military proceeding, carried on by traditional voluntary methods. There was no compulsion for military service till May 1916. Except for the Ministry of Munitions, established in May 1915, there were no new war Ministries till December 1916. Even after that date, the last war did not pervade the life of all citizens as much as the present war does already in its opening months. There was no rationing of food till February 1918. There was never at any time any rationing of petrol or fuel. There was no evacuation or general black-out.

The last fact illustrates one important difference between the last war and the present war. We need to-day to be prepared for attack from the air in every part of Britain. Two other differences are that we have up to the present fewer allies—on both sides of the Atlantic, and that we have, if we choose to use it, experience of the last war to guide us in this war. In virtue of this experience we are incomparably better prepared at the outset than we were last time, for some aspects of war. On the military side, including the supply of armaments of all kinds and recruiting of the armed forces, we have learned by experience. We have learned also the importance of blockade—the economic offensive. Whether or not we are using as fully as we might the lessons of the last war in respect of the development of our economic strength, is another question. It is a question which, for reasons which will appear in the course of the lecture, is of fundamental importance; during this war we are likely to be dependent on our own economic strength, and that of our present allies, more completely than we were in the last war.

The management and development of our economic strength in war is the central theme of this lecture. But I cannot attempt to cover the whole field of war-time economics. Neither your patience nor my knowledge would be equal to such a task. I shall begin by recalling some of my own experiences in regard to two special fields of activity—labour and food. I shall speak last of one or two general problems.

Labour in War-time

For the greater part of the last war there was no Ministry of Labour; that came only in December 1916. Till then labour questions, other than factory conditions, fell within the sphere of the Board of Trade, which had a Labour Department (concerned mainly with statistics and intelligence), a Chief Industrial Commissioner (concerned with conciliation in disputes), a Trade Boards Branch, and a Labour Exchanges and Unemployment Insurance Branch. The last two were recent creations arising from legislation of 1909 and 1911. Compulsory unemployment insurance was limited to special trades, with about $3\frac{1}{2}$ million insured workers. The Labour Exchanges, though national in scope, were skeleton organizations and very much on their trial. When the shortage of guns and shells, publicly admitted in February 1915, led in May 1915 to the setting up of the Ministry of Munitions, there was established, as an integral part of the Ministry, a department for Munitions Labour. I was one of the principal officers in that department from its beginning until the last quarter of 1916. We were concerned, on the one hand, with organizing the supply of labour and, on the other hand, with regulating the conditions of work.

Organizing the supply of labour meant not simply the work of the Labour Exchanges in registering jobs and men and putting them together. There was a plan of War Muniton Volunteers—men who agreed on special terms to go wherever they were wanted. There was the business of issuing badges to men on important work, to

save them from being badgered and white-feathered to enlist (conscripted, in May 1915, was still a year off); later came the more ticklish task still of 'de-badging'. There was a special department for securing 'release from the colours' of men of special skill who had enlisted in the first months of war and whose work was now vital for making munitions.

Regulating the conditions of work meant the administration of the Munitions of War Act, which was got through Parliament between 23rd June and 2nd July, 1915, with the full procedure of three readings and committee and report stages, with innumerable proposed amendments and the drafting of answers to them by Mr. Humbert Wolfe and myself, to be digested hastily by the Minister and delivered by him in the House of Commons, with a flurry of deputations and conferences and Parliamentary and extra-Parliamentary bargains. I was thankful then to have had experience, four years before, in the official side of getting a big and novel piece of legislation through Parliament—on that occasion Part II of the National Insurance Act, establishing unemployment insurance. The Munitions of War Act provided for compulsory arbitration in all munition trades and in other trades by proclamation, making strikes and lock-outs illegal; it required relaxation of customs and practices restrictive of production, and imposed penalties for misconduct in work; it provided for regulation of wages and, to match this, for limitation of profits in 'controlled establishments'; it established a system of 'leaving certificates', making it illegal for an employer to engage a workman unless the latter had a certificate from the last employer agreeing to his leaving. The Munitions of War Act was not a popular Act and the part about leaving certificates—the 'slavery clause' as it came to be called—was the least popular part of it.

In this war organization of the supply of labour is obviously being tackled more thoroughly than in the last war. The Labour Exchanges are more firmly established. There is a serious attempt to distribute man-power, or at

least to prevent it from being swept off indiscriminately into the infantry. One lesson has been learnt from the last war: that it is no use having men to beat the Germans with unless the men have guns to fire and ships to bring them food. In the last war, as late as 27th January, 1915, when shell shortage had long been acute, Lord Kitchener, at the Committee of Imperial Defence, was still objecting to 'any system which entailed the rejection of any willing recruit'.¹

Some of us, perhaps, when we consider the black-out and the evacuation of Government Departments, and the effect that these have on industrial output and efficiency of administration, sometimes have a doubt as to whether this country is able to learn more than one lesson per war, about the need to see war as a whole and to balance military considerations against other considerations of equal importance for success. Last time all other considerations were sacrificed, at first, to the single aim of getting the largest possible number of recruits for the Army. In this war that problem is being tackled scientifically. In this war, having escaped the War Office, we are in some danger of being enslaved by the Air Ministry, determined to defeat hostile aircraft, whatever the cost in all the other ways which do not enter into the reckoning of that particular department.

Just what is happening about labour regulation in this war, it is hard to say. What we learned in the last war was the difficulty of anything like industrial conscription in Britain. From some points of view there is much to be said for industrial conscription. For totalitarian war there is no distinction between the man who is fighting and the man behind the lines making munitions. Deficiency of munitions may lose battles and the war—must lose them if the deficiency is serious, must in any case involve need-

¹ *War Memoirs of David Lloyd George*, i. 289. Mr. Lloyd George adds that in view of Lord Kitchener's attitude 'the only conclusion reached by the Committee was a recommendation that when a valuable man in industry was recruited, the firm should fill his place with some man or woman ineligible for the Army'.

less sacrifice of soldiers. A stoppage of munition-making in war, whether through strike or lock-out, is monstrous. So is deliberate slacking on work or insistence on restrictive conditions, or a demand by the individual to please himself as to where and how he shall work, or to go from shop to shop seeking better wages. Why should not the whole manhood and womanhood of the country be conscribed, and every individual set to his appropriate task, to be done to the utmost of his power, for whatever pay the State thinks fit to award him? There is much in theory to be said for universal conscription, covering all activities of every kind required for success in war. In varying degrees it is put into practice by most belligerent countries other than Britain. Mr. Lloyd George in the early days of the Ministry of Munitions made a speech at Manchester which was widely interpreted as pointing in that direction. The Munitions of War Act was a move in the direction to which he pointed. In this speech, Mr. Lloyd George pointed out

'that the refusal of unenlisted labour to submit to discipline contrasted strangely with the position of the voluntary army at the front. . . . The enlisted workman cannot choose his locality of action. He cannot say, "I am quite prepared to fight at Neuve Chapelle, but I won't fight at Festubert, and I am not going near the place they call 'Wipers'". He cannot say, "I have been in the trenches eight hours and a half, and my trades union won't allow me to work more than eight hours". . . . Two things were essential to the efficiency of the new organization for munitions of war—to increase the mobility of labour and to secure greater subordination in labour to the direction and control of the State. The State must be able to say where and under what conditions it required a man's services'.¹

There is much to be said in theory for industrial conscription in totalitarian war. But there are strong argu-

¹ *War Memoirs*, i. 259-60. The speech was delivered on 2nd June, 1915.

ments the other way in a state that is not socialist already before the war begins, above all in a state like Britain, which is both capitalistic and democratic. There are three main difficulties in applying industrial conscription in these conditions. First, whatever one may do in the way of taking over or controlling businesses or taxing war profits, it is difficult to persuade the workman that his employer is being conscribed as well as himself: is being made to work for the country for remuneration fixed by authority and without the chance of getting rich. Second, the only people available as officers of the industrial army of war are the employers themselves and their agents—managers and foremen. These are just the people whom the trade unions have been fighting on behalf of the workpeople in the peace before the war and expect to be fighting again. Third, though in totalitarian war a large proportion of the industrial activity of the country is directed to making munitions or comes otherwise under direct control of the State, a great deal remains outside that control; much private business goes on, with opportunities for the capitalist to bargain for profits; it is almost as difficult to apply conscription to the whole of the industrial field as to apply it to part only and leave the rest free.

In spite of these difficulties, some countries which are capitalist in peace-time find it possible and desirable in war-time to go a long way in applying military conditions to workmen engaged in making munitions. France is a leading example. In Britain, with its more strongly developed trade-union organization, it is probable that the arguments against any form of industrial conscription in war outweigh the arguments in its favour.

In the last war the policy of regulation foreshadowed by Mr. Lloyd George at Manchester and embodied, in form, in the Munitions of War Act, was not carried out consistently. Strikes were proclaimed as illegal under the Act and, when they took place in spite of it, led sometimes to the strikers getting, not punishment, but an increase of wages. 'Dilution' of labour and abandonment of restrictive

conditions which in form could be enforced by sanctions under the Act, were sought as concessions or bought by counter-concessions in negotiation with the trade unions themselves. Agreements made with the trade unions themselves were fought, sometimes with success, almost always without punishment, by local branches and 'shop stewards'. This does not mean that the disciplinary powers of the Munitions of War Act or the Defence of the Realm Act were not used at all. There were prosecutions for minor offences. There was a dramatic deportation of four shop stewards from Glasgow. The leaving certificate clause operated continually without need of legal proceedings; its special unpopularity may be explained by the fact that it was the one disciplinary measure which was most effective. But for their main results in the field of labour successive Ministers relied on persuasion rather than compulsion. There was steady retreat from the suggestion of the Manchester speech of June 1915.

When Mr. Lloyd George became Prime Minister, at the end of 1916, he returned to the question of applying conscription to industrial service, as it had been applied to military service. Mr. Arthur Henderson, one of the original members of the War Cabinet, explored the attitude of his colleagues in the Labour Party. But he reported so strong an antagonism of organized labour to the proposal that it was shelved. The Government contented themselves with announcing that, if voluntary effort failed to supply the necessary labour, 'they would ask Parliament to release them from any pledges hitherto given on the subject of industrial compulsion and to furnish them with adequate powers for rendering their proposals effective'.

This was a retreat and undoubtedly a wise one. Probably the retreat even from the less advanced position of the Munitions of War Act, typified by the withdrawal in October 1917 of the leaving certificate clause, was also wise. Britons go farther led than driven. And if the ordinary British citizen does not feel injustice between the

discipline of the military conscript and the uncharted liberties of the munition worker in war, there is no need for Prime Ministers or bureaucrats or University lecturers to feel it for him.

For the present war at least there seems to have been accepted as one negative lesson from the last war the undesirability of assimilating industrial service in any way to military service. There is no Munitions of War Act. There is a Control of Employment Act which could be used to prevent labour stealing and to limit the workman's freedom in changing his employer. But the certificate allowing him to leave has to be given or refused not by the employer himself but by an independent authority—the Labour Exchange. And, though the Act was passed in the early days of the war, no action has yet been taken on it, except in the building trade.

The negative lesson which seems to have been drawn from experience of the last war—against attempts at industrial conscription—is probably right. But that experience contained a positive lesson also, which so far as can be seen, has been forgotten. This is the need for a definite policy, thought out in advance, in regard to prices and wages. Wages are being left apparently to free unguided negotiation between employers and trade unions. At a meeting of the National Joint Advisory Committee in January 1940 the workmen's representatives emphasized their attachment to this policy and their objection to any form of compulsory arbitration on wages and conditions during the war. That is an intelligible position, in accord with the growth between the two wars of the machinery and practice of collective bargaining. But it may lead to difficulties in war.

First, in war a large part of the industry of the country is conducted on account of the State. Some activities may be taken over altogether—say the flour mills; in other cases—such as coal-mining—the power of the Government to fix prices in fact determine wages; over a much wider area, the remuneration of employers comes to be

determined on a cost plus percentage basis. In one way or another the employers cease to have a substantial interest in the wage bargain: the real party to the bargain is the State, not the employer.

Second, leaving wage rates in war to uncontrolled peace-time machinery of collective bargaining opens the way to exploitation of their bargaining position by special groups of workmen. The objection to this is not merely or mainly the direct cost to the consumers or the State of these workmen's wages, but the sense of injustice that their prosperity may produce in others, and the suggestion which it gives to all that war can legitimately be an occasion of personal advantage.

Leaving wage rates in war to the peace-time machinery of collective bargaining is likely to lead straight to the vicious spiral of rising wages and prices. In the last war that was recognized even in the first stage, of business mainly as usual. A Committee on Production was appointed on 4th February, 1915, to report on the means of making labour in engineering and shipbuilding trades fully available for Government work. This Committee was official and small, not representative; it made two or three reports on general questions affecting the supply of labour, but dealing with such questions passed over very soon to Mr. Lloyd George, first at the Treasury and later as Minister of Munitions. Within three weeks of its appointment the Committee was given the task of arbitrating on trade disputes so as to settle them without stoppage of work; and this became very soon its sole function. It became an arbitration tribunal on wages; such important wage disputes as it could not settle were settled by direct intervention of the Government.

In its arbitration, the Committee on Production soon felt the need of guidance as to Government policy: were they to allow wages to rise endlessly, pushing up prices and raising a fresh demand for wages, or were they to aim at stabilization? In the early summer of 1915 this question was put up on behalf of the Committee by the Board of

Trade to the Cabinet, which in those days had no secretary; its decisions had to be ascertained by the Departments concerned through the Ministers concerned. Three channels of information were available, in this particular instance: Mr. Runciman as President of the Board of Trade, the Department officially concerned with labour questions, Mr. Arthur Henderson, as the chief representative of labour in the first Coalition Government, and the Prime Minister or his Private Secretary. The prudent officials of the Board of Trade sought information by each of these three channels, and obtained three answers to their question whether the Committee of Production should try to stabilize wage rates: Yes, No, and No decision. In a three-dimensional world, that exhausted the possibilities. The Committee on Production felt authorized to take the decision which appeared to them best on merits.

That true story illustrates the working of Cabinets in the days before Sir Maurice Hankey. Its application to-day is to suggest the need for a Government policy on the level of prices and wages in war-time. When three or four years ago I had some occasion to be thinking about the possibilities of war and the plans that would be made for it, I assumed as a matter of course that these plans would include the general question of price and wage policy. There are, of course, alternative policies for war. One might start the war on the basis that there was to be no change in price to consumers of the essentials of life, that by subsidies and restrictions both the cost of living and wages should be held steady; a correlative of this would be restriction of income of every person above income-tax level to the mean income on which he had been paying tax before the war. Or one might recognize that through inflation prices were bound to rise, and wages and other incomes with them, and set up machinery for doing justice between different classes of persons, by suitable additions for cost of living. Either policy, thought out in advance, is defensible. The indefensible thing is to have no policy at all.

In the last war, the setting up of the Committee on Production fell far short of meeting the need for a policy. Wages were dealt with apart from the Committee; prices even of food were not effectively controlled till the latter part of 1917. Labour unrest was a recurrent episode—sometimes, as in the great strikes from March to May in that year, unrest was more than an episode—of the home front. The early summer of 1917 brought a formal investigation of labour unrest by nine regional Commissioners. Their reports hastened the coming of effective food control and reduction of the price of bread by a subsidy¹ and the abolition of the leaving certificate under the Munitions of War Act; they led also to the establishing of 'Whitley Councils' in industry. But unrest, though diminished, continued to recur sporadically. The problem of labour relations was never solved completely in the last war.

In the present war, the time of testing has not come. When it does come, the test will probably be more severe than in the last war. Then there was little effective restriction of consumption for the great majority of the population. A Committee on Working Class Cost of Living, appointed in the last year of the war, reached the conclusion 'that in June 1918 the working classes as a whole were in a position to purchase food of substantially the same nutritive value as in June 1914; indeed our figures indicate that the families of unskilled workmen were slightly better fed at the later date in spite of the rise in the price of food'. This statement is concerned with food alone, but the records of that time leave no doubt of the paradox of improved material comfort during the war. The nation was able to divert to unproductive or destructive tasks a large proportion of its total energy, yet have substantially the same standard of living as in peace.

¹ The cost of the bread subsidy was £162,500,000 over a period of about three years, that is to say, about £1,000,000 a week. Other foods were not subsidized. Trading in them yielded a small profit to the Ministry of Food.

For this paradox there are several explanations. The main factor no doubt was the taking up of the slack in the industrial system: the disappearance of unemployment and the drawing into industry and agriculture of classes previously unoccupied. A factor of a different kind was the separation allowance, adjusting the incomes of all men in the fighting forces to their family needs. A third factor was neglect of investment—that is to say, maintenance and extension of existing capital equipment. A fourth factor was the extent to which the country then lived upon its capital in another sense, by realizing investments abroad. Yet a fifth was the extent to which this country and its allies lived by running into debt, by reliance on American lending. Of these factors four may be expected to operate again in this war. The fifth will be absent: at least we dare not count upon its presence. This prospective difference between the last war and the present war affects profoundly one economic problem in this war. Since we cannot count on American lending to maintain our purchasing power abroad, maintenance of exports is a vital part of our war effort. This point will be dealt with later. Here the issue is different.

What difference will the absence of American lending make to our possible standard of living in war? The total cost of the last war to Britain may be put in round terms as £8,500,000,000. Towards this we borrowed £1,350,000,000 from the United States of America, that is to say, nearly one-sixth. On the other hand, we lent a little more than that, namely £1,450,000,000 to our European allies.¹ For Britain considered by herself and in terms of sterling, borrowing was balanced by lending; the British standard of living was not maintained directly by borrowing. But the matter cannot be looked at in this narrow way. Britain's lending abroad helped to maintain the strength of her allies, in particular of France and Russia, and by maintaining Russia helped to engage a part

¹ These are the figures given by Mr. E. F. M. Durbin in *How to Pay for the War*, pp. 95 and 112 (Routledge & Sons, 1939).

of the total strength of the enemy. In the present war the British Commonwealth and France have to bear up against the full weight of the enemy by their own strength alone. If they want to be certain of winning the war with the resources that they have, they must be prepared to see the standard of living go down, not up. They must forget the relative prosperity of 1914–18; to-day they have a stiffer task. It is not possible to say beforehand just what sacrifices will be needed in any war. Quite obviously the allied peoples, sooner than surrender, will be ready to make great sacrifices, but they will ask that the sacrifices are distributed fairly.

What are the practical measures to which this general conclusion leads?

First, we have to make certain that the bare necessities of everyone are covered. This means rationing the supplies of necessities: keeping their prices under control by subsidies if these are required; adjusting income to needs by allowances for children, in money or in kind. The case for family allowances is strong in peace. They have been made general in France, applying to all classes—employed, employers, and independent—making an addition of income which for a family with four children may amount to 50 per cent. of the wage. The main motive in France is encouragement of births, as it is in other European countries—Belgium, Italy, Germany—which have schemes of family allowances almost equally extensive.¹ To what extent family allowances will be effective for this purpose it is impossible to say. In this lecture the case for them is put on other grounds. Young children are the greatest single cause of poverty and provision for them would be the most effective single measure to reduce poverty. That argument for family allowances is strong in peace. In a war that will tax our economic resources to the utmost, the argument is overwhelming.

¹ These statements are based on a full description of *Population Movements and Policies* by D. V. Glass, to be published shortly by the Clarendon Press.

Second, if wage-earners are to submit to restrictions on their standard of living above bare necessities, other classes must do so also; if wage-earners are not to exploit war conditions to their advantage, no one else must be allowed to do so either. It may be doubted if all the implications of social justice have yet been recognized by our governors. On the face of them, the excess profits duty and munitions levy still leave scope for some war profits that will not all vanish in taxation; so do the terms of the agreement for taking over the railways in war. It is possible to argue, on merits, for allowing businesses to keep some of their war profits—otherwise, it will be said, they have no motive for economic administration. I am not sure that this argument is sound; I believe that business men in war, if asked to do so, would run their businesses with the maximum of efficiency and minimum of waste for the State, without regard to their private purses; the economic justification of profits—that they are a guide to the social desirability or reverse of the business—does not hold in the planned economy of war. Whatever judgement be passed on this issue, the present economic conduct of the war leads to a dilemma. On the one hand, the Prime Minister has urged that wage-earners must not seek to tie wages to the cost of living, that is to say, they must be willing to accept a fall of real wages. On the other hand, the Government has put and is putting businesses and shareholders in a position of making additional money profits, without certainty that these will be destroyed by taxation or rising costs of living. The vital place of social justice in our economic armoury for war has not been recognized.

Within this week striking proposals have been put forward by Mr. J. M. Keynes for dealing with the finance of war. Mr. Keynes's pamphlet setting out these proposals in their revised form has reached me only a day ago.¹ I cannot attempt in this lecture to give a considered judgement on the whole of them. With his general approach

¹ *How to Pay for the War*, by J. M. Keynes (Macmillan, 1940). The lecture was given on 29th February, 1940.

to the problem I am, of course, in full agreement. 'Whilst earnings will be increased' in war 'consumption must be diminished.' That is Mr. Keynes's first thesis. 'That is the conclusion to hammer home.' As has been pointed out above, it is doubtful whether consumption decreased in the last war appreciably, if at all. But probably it must decrease in this war; that will be a price paid gladly for victory. Mr. Keynes's full plan for dealing with this situation includes 'universal family allowances in cash, the accumulation of working-class wealth under working-class control, a cheap ration of necessaries, and a capital levy (or tax) after the war'. The family allowances have been named already: they are essential to prevent hardship. The cheap ration of essentials, though it has been put first by some other economists and is adopted from them by Mr. Keynes, appears to be the least essential part of the whole programme. The other features—giving part of the earnings of labour as deferred pay and the capital levy—are the special features to which Mr. Keynes attaches most importance. Judgement on them is a question first of psychology and second of practical detail. If, in fact, the plan of deferred pay helps to secure the necessary assent of all classes to bearing the necessary hardships of war, while rendering the maximum of service, then it should be adopted. But it may not prove easy to make it intelligible or attractive to the mass of the people. It is in any case no substitute for social justice in the fair sharing of the immediate burdens of war.

Some Lessons of Food Control

The Ministry of Food in the last war was not established until December 1916 and effective control of food in the interests of the whole civilian population did not, in practice, begin until six months after that. Before the establishment of the Ministry, however, three important steps had been taken. The first was the appointment on 7th August, 1914, of the Royal Commission on Sugar Supplies, to undertake the importation of all the sugar

required by the country. The Sugar Commission, unlike most Royal Commissions, was executive and even after the establishment of the Ministry of Food remained legally independent of it. The second action, also taken in August 1914, was the undertaking by the Board of Trade, on behalf of the War Office, of the purchase of imported meat, including, soon after, the requisitioning of all the refrigerated space available for its transport. The third was the appointment in October 1916 of a Royal Commission on Wheat Supplies which in fact dealt with all cereals and, like the Sugar Commission, was an executive body legally independent of the Ministry of Food which followed it. In the interval between the appointment of the Wheat Commission (10 Oct. 1916) and the establishment of the Ministry of Food (December 1916), the Board of Trade made a beginning of dealing with food control generally. I had myself, as an official of the Board of Trade, something to do in the opening days of the war both with the establishment of the Sugar Commission and with certain other activities of the Board in getting agreed lists of provision prices published as a guide to traders and the public. In October 1916 I was recalled from the Ministry of Munitions to the Board of Trade to undertake, among other activities, what it was doing in regard to food. This led to my transference to the Ministry of Food on its establishment in December 1916.

The Ministry of Food, on its establishment, did not find the field clear. The ground was already occupied in part by the three distinct bodies controlling sugar, cereals, and imported meat, a large part of all food supplies. Each of these three bodies, even after the establishment of the Ministry, maintained its independence of the Ministry of Food. In practice, the responsibility of the Food Controller to Parliament and his monopoly of the power of making statutory orders in regard to food gave him sufficient strength to overcome the difficulties inherent in this disorganization, though undoubtedly matters would have been easier without it. The fact that, in spite of this

needless division of authorities, food control did become an organized whole, suggests one of the general lessons of the war that, among people as compromising as the British, even the most illogical arrangements can be made to work by practical give and take. Fortunately in the present war this particular source of possible friction seems unlikely to arise. It is not so clear that up to the present there has yet been equal success in adjusting the difficult boundary between the Ministry of Food and the Agricultural Departments.

The working of British Food Control has been described by myself in a substantial volume published by the Carnegie Endowment for International Peace, and the quotations with page references that follow are from this source. Here it will be sufficient to select from that volume three main lessons.

The first lesson of British food control in the last war is that the success of control in food, as in any other economic field, depends upon its completeness. Most obviously this is true of price control:

'Control of prices, if there was any shortage, that is, if there was any need for fixing prices at all, had to be control at all stages from the producer to the consumer' (p. 340).

'Regulation of prices at one stage only, whether at the beginning or in the middle or at the end of the process from producer or importer to consumer proved almost always, though in different ways, disastrous. To fix the first-hand price alone might damage the producer or importer without benefiting the public, who would be forced by the middlemen, wholesale and retail, to pay the economic price; this was one defect of Lord Devonport's provisions scheme. To fix the retail price to the public or the wholesale price to the retailer, but not the first-hand price, meant that the middleman got squeezed between the producer or importer demanding the economic price and the retailer or the public

offering the official price; this was the main difficulty with meat in November and December 1917. It occurred also with potatoes under Lord Devonport in 1917, and with bacon, dried fruits, and cheese during decontrol in 1919. For everything that mattered prices or margins of profit had to be fixed at all stages' (p. 167).

The concluding sentence of this passage brings in another element of completeness. Control had to be not merely continuous in the sense of covering all stages from producer to consumer, but also extensive as covering food in all forms.

'The wide extension of control came as the result of experience and conveys an economic lesson. To control the price of food in one form while leaving free some other form in which the same material may be used is futile. If milk prices are fixed, those of butter and cheese must be fixed also; otherwise if there is any shortage of milk at all, i.e. any economic justification for fixing prices, the shortage will be turned into a famine, as much milk as possible being diverted for sale in the uncontrolled forms. Again, fixing of prices for some goods only was accompanied or followed by a peculiarly rapid rise in the prices of other foods; the power of the purse, neutralized in one direction by fixing of prices and perhaps by rationing as well, was concentrated on the uncontrolled foods and drove up prices so as to reserve them for the rich' (pp. 166-7).

Even more important than these two rules in regard to the extension and intensity of price control is the general principle that control of prices is unsatisfactory, unless it is based upon control of supplies. This, in the words used by Lord Buckmaster in the House of Lords debate of 8th May, 1917, criticizing the then Food Controller, 'is an elementary economic truth'. It has also the advantage of being confirmed by experience whenever it is tested. It was admirably illustrated by an early experience of the first Food Controller with that 'puckish vegetable', the potato.

'The crop of 1916 was below the average, and the difficulty of harvesting was increased by bad weather and by shortage of labour; in October a rapid rise in prices began. The Army and Navy Canteen Board like others found themselves unable to get potatoes on what they thought reasonable terms, and in December appealed for help to the newly established Food Controller. Lord Devonport stepped in with an order, fixing the maximum prices to growers at £8 per ton rising to £10, and the maximum retail price at 1½d. per lb. There was an outcry among growers and a disappearance of potatoes from some markets, leading to Lord Mayoral deputations and protests. The War Cabinet, turning aside from the prosecution of the war, after anxious deliberation on 17th February raised the price of potatoes by £1 per ton and telegraphed their achievement to the Lord Mayors. But as Mr. Dillon pointed out, "Liverpool and Manchester, in spite of the War Cabinet, are still seeking in vain for potatoes". No human agency could have prevented potatoes from being in short supply in the spring of 1917, and it was perhaps equally impossible for a newly appointed Food Controller either to do anything effective or to take the prudent course of doing nothing. But potatoes thus early afforded an object lesson in the futility of fixing prices without controlling supplies, a lesson which perhaps might have been learned without experience and which had just been formally announced as the result of experience, by the German Food Controller' (p. 42).

This was only the first lesson taught by the potato. Throughout the war it continued to be a producer of problems for food controllers without rival in the vegetable or animal world.

Yet another lesson is that control of prices must as a rule be accompanied by rationing if the supply is limited.

'The raising of the price of an article exorbitantly because the demand is very much exceeding the supply,

however reprehensible it may be morally, is, in the absence of any suitable control of distribution, the only means of bringing supply and demand into relation. If the price of any article is kept forcibly under the market price (whether by threat of a prosecution for profiteering or otherwise), the demand will remain above the supply, and the whole supply, unless it is rationed, will be absorbed at once. In practice the seller, whether by wholesale or by retail, who is faced by more buyers than he can satisfy and is forbidden to raise the price directly, will favour one buyer or other for some special consideration; he will get his higher price indirectly or directly. It is fatal to remove the ordinary machinery—price adjustment—by which supply and demand are regulated, without putting some definite control in its place' (pp. 288-9).

Economic control must generally be all or nothing; half-measures are disastrous. This is the first lesson of all the controls of the last war. Has it been learnt for this war? Probably for food it has been learnt and possibly also for the other main departments of State. But it has not been learnt completely. The last quotation given above illustrates the perpetual hopefulness with which governments are prepared to disregard experience. That particular quotation comes from a memorandum prepared by the Minister of Food in August 1919 in criticism of a plan for declaring profiteering as such to be a crime. In spite of this criticism the Government of that day proceeded to introduce a Profiteering Act. Under this Act, during the twenty months of its activity, 1,800 Profiteering Committees investigated 4,700 complaints of profiteering, dismissed 75 per cent. of them as irrelevant and left less than one relevant complaint per Committee for two months. There took place altogether under this Act 302 prosecutions. 'Having regard to the myriads of retail transactions taking place daily throughout the country, the number of profiteering offences seems almost negligible. Which was

after all a fitting result of legislation primarily designed to reassure the public mind.'¹

The Profiteering Act of 1919 was window dressing which the Ministry of Food, as a department concerned with realities, opposed to the best of its power. In the present war one of the earliest measures has been the introduction of a 'Price of Goods' Act which, with minor differences, sets out to do exactly what the Profiteering Act of 1919 set out to do, that is to say, to make profiteering as such a crime, irrespective of control of supplies. The only significant difference between the Profiteering Act of 1919 and the Price of Goods Act 1939 is in the date. In 1919 the war had been won and could not be lost or lengthened by any diversion of time, thought, or money to trivialities.

The second main lesson of British Food Control in the last war is that the control of each article is best put into the hands of persons not themselves engaged in dealing with that article, but of persons drawn from other walks of life. At first sight it seems a paradox to say that in choosing controllers of each trade in war-time one ought not to take those who are experts in that particular trade. Defence of the paradox rests on experience and on argument.

As a matter of experience, the Ministry of Food passed from failure to success when it passed from control by an expert in food to the control by an owner of coal-mines. There is no doubt, moreover, as to how the Ministry of Food was organized under this owner of coal-mines, Lord Rhondda.

'Without exception, the persons in charge of the main Divisions of the Ministry had no previous knowledge of the foods with which they were dealing. The Chairman of the Wheat Commission was the Earl of Crawford and Balcarres; the successive Vice-Chairmen in Lord Rhondda's time were a shipowner and a solicitor, both with large general experience of business, but with

¹ F. H. Coller, *A State Trading Adventure*, p. 230.

no special knowledge either of agriculture or the milling trade. Meat, milk and fats, and fish, fruit and vegetables were under civil servants drawn from Health Insurance and Education respectively, while bacon, tea, dried fruits, and other provisions were controlled by a very distinguished chief of criminal investigation in India; sugar was divided between one of the greatest experts on English agriculture as Chairman of the Commission, aided by a former head of the Inland Revenue Department as Vice-Chairman, and a civil servant from Health Insurance as head of sugar distribution. The Local Authorities Division, after the resignation of Sir Alfred Butt, was under a civil servant from the Board of Trade (which had less to do with local government than most departments), assisted by a distinguished Indian civilian; and Food Economy was under Sir Arthur Yapp of the Y.M.C.A. Of all the principal officers only Mr. W. H. Peat in charge of the Finance Division could be described as in any way an expert in the work of which he took charge; even to him a great part of the finance, both governmental and trading, that he was called on to control was unfamiliar.

This does not mean that experts were not employed and *expertise* duly regarded in the Ministry. Lord Rhondda was of that rare invaluable type—the practical man with a respect for theorists. To one class of special knowledge—that of the physiologist—he gave, for the first time, its proper influence in the administration of food control. The scientific advisers of the Ministry of Food under Lord Rhondda were advisers whose advice was never disregarded.

Of experts, in the more ordinary sense of men accustomed to deal in the way of business with particular foods, the Ministry had an abundance, both as members of advisory committees and as paid or unpaid members of its staff. Mr. R. Pigott for tea, Mr. W. G. Lovell and Sir Thomas Clement for butter and cheese, Mr. A. Morell for bacon, hams, and lard, Mr. F. T. Boys and

Mr. Philip Proctor for meat, Mr. S. F. Mendl, Sir George Saltmarsh, and Mr. Walter Roffey for cereals, and Sir Robert Lyle for sugar, to mention only a few of the many who gave their whole time to the Ministry, were as expert as anyone could desire. But the business experts were always supervised by laymen; the co-ordination of two or three different branches of work was done, not by an expert in any one of them, but by someone equally ignorant of all' (pp. 66-8).

To this published account I may perhaps add here a reference to a letter which I received recently from one of my former colleagues in the Ministry of Food, a man distinguished alike in business and in sport. In November 1916 when I was beginning to organize food control under the Board of Trade, he came to see me to offer his services and in response to my questions explained that his knowledge of food extended to practically every kind of food except cereals. Whereupon I said to him: 'You are obviously the right person to undertake the control of flour mills.' He has written to me since to say that on that occasion he thought me the most eccentric person he had ever met, but that his experience convinced him that I had been right. Knowledge that he had no axe of any kind to grind gave him the indispensable confidence of those with whom he dealt. Whether right or wrong, the principle of control by impartial laymen was the principle upon which the Ministry of Food was organized. The principle did not mean that no one but a civil servant was in charge of business; the Ministry was catholic in its selection of men of proved ability and experience, from the civil service at home, or from administration abroad, from other businesses, from the law, and from other professions. In the end the Ministry of Food was an undoubted success.

As a matter of argument, there are several reasons for putting the war-time control of each particular trade ultimately in the hands of an independent person. One is that control of an industry in war is a different function from

the carrying on of a part of the industry in peace; the conditions of war are different because of the limitations of supply, because the State is doing by compulsion what in peace is done by bargaining in the market; specialized experience is sometimes fatal to imagination and inventiveness in solving unfamiliar problems. Another is that the State in war is dealing with the whole of each industry, whereas the experience of every individual concerned in the trade is sectional. One of the repeated experiences of the last war was to find that the methods of the trade in different parts of the country were different and that each expert knew only one part of his trade. Yet another reason lies in the effect on public opinion of putting traders in official charge of their own interests. One of the most important pronouncements made by Lord Rhondda was his declaration, in the first days of holding office, that in any issue between the trader and the consumer he was frankly on the side of the consumer. Aided by the persuasive sincerity of Mr. Clynes, he convinced the British public that he meant what he said. He gave effect to the principle by the establishment of a Consumers' Council within the Ministry. The putting of the war-time controls of industry into the hands of persons engaged in the industry means the syndicalist as distinct from the co-operative principle. For the reasons stated above, it means the adoption of a less efficient principle. More important than that, it means the adoption of a principle making it needlessly difficult to obtain the ready co-operation of consumers, public support for measures of control, and public acceptance of hardships as necessary but just.

This leads to a third main lesson of British food control. The British people, much as they like liberty, are prepared to accept restrictions upon it, provided that the restrictions are just and that the need and the justice of the restrictions are explained to them. This was well illustrated by the history of rationing. For months during 1917, even after food control had been established, the War Cabinet of that day hesitated to introduce rationing. They thought that

the public would not stand coupons. The first Food Controller rejected out of hand as impracticable the tying of consumers to retailers, which became the corner-stone of Lord Rhondda's rationing system. When the test came, Lord Rhondda found that the public were prepared to endure any and every restriction upon the quantity which they should buy and the quality and the price, as long as they felt that to be a necessary condition of fair play for all. But the necessity must be explained. Lord Rhondda devoted special and personal attention to the problem of public relations. He was always personally accessible to journalists. Though no orator, he was always ready to make homely personal speeches to conferences of all kinds. Under him, the Ministry went out of its way to organize occasions for public criticism of its actions which it could turn into its opportunities for explanation and defence. Typical of this were the 'labour conferences' to which representatives of labour and co-operative organizations in London sent delegates to the number of one or more hundreds. Finally, the Ministry maintained its own weekly newspaper, edited by a skilled journalist and placed on sale at every bookstall. *The National Food Journal*, for three years from September 1917 onwards, 'kept the public informed of all orders issued by the Ministry, of the reasons for them and of their effect, of important speeches, Parliamentary debates on questions dealing with food control, and of everything that they could do to help the Ministry to solve its and their problems'.

Completeness of control, independence and justice in the administration of control, accessibility and publicity—these are some of the lessons taught by experience of British Food Control in the last war. The list could be extended but not in the limits of a lecture. It is time to turn to a general problem.

The Alternating Bottle-necks of Totalitarian War

Totalitarian war is a straining of every brain and nerve and sinew in one nation against the brains, nerves, and

sinews in another nation of human beings like themselves. Success in such war depends upon total strength and upon using that strength to the best advantage; this last in turn depends upon co-ordination of effort. It is waste of power to have more men in the firing line than one can supply with guns to fire, more guns than shells, more or fewer shells than fuses, more or fewer ships than crews to man them, more munitions or food bought abroad than one can find ships to carry, more ships waiting in any port for cargoes than there are cargoes ready bought for them to bring. These are simple illustrations of the need for co-ordination, without which success cannot be won or can be won only by overwhelming superiority of strength and with needless waste of life. Perfect continuous co-ordination in all fields is unattainable. Always it will be found that of two complementary needs one at one moment and another at another moment is being met more fully and the other less fully: that the bottle-neck of production of any finished article of war, such as a shell, is now raw material, now a particular tool or type of labour, now the shell-case, now the fuse, now the explosive, now the propellant. The history of the Ministry of Munitions from May 1915 onwards is essentially a story of alternating bottle-necks; the central instrument of co-ordination was the statistical and programme department of Sir Walter Layton. The economic history of the war in its later stages is largely a history of two alternating bottle-necks—shipping and foreign exchange.

At the end of 1916 the problems of shipping and of foreign exchange were both serious, but not equally serious. One reason given by Mr. Lloyd George for increasing the Allied output of munitions in their own factories and workshops was 'the growing difficulty experienced in financing Allied orders abroad'.¹ But 'the most serious and urgent element' in the situation was 'that of our dwindling shipping resources'. The opening of unrestricted submarine warfare on 1st February, 1917, turned

¹ *War Memoirs*, iii. 1087.

this 'most serious element' into a matter of life and death. 'The sea was the jugular vein of Allied vitality'; the Germans believed confidently that they could cut this vein. The reply given on 31st January, 1917, by Herr von Bernstorff to a peace inquiry by President Wilson expressed the belief of his Government 'that the submarine blockade will terminate the war very quickly'. For the next eight or nine months the submarine menace filled the centre of the stage: shipping was the bottle-neck of bottle-necks. The convoy beat the submarine at last; merchant shipbuilding was doubled from 1916 to 1917 and the Shipping Controller breathed again. Policy in other fields swung to and fro with the figures of weekly sinkings. The beginning of the submarine campaign led to the voluntary rationing and food economy campaign of the first Food Controller; in April 1917, the peak month for the submarine, the Ministry of Food was told to prepare plans for rationing sugar at once and examine the problem of rationing meat and bread as well; by June when these plans were ready for Cabinet decision, the rate of sinking had fallen, the sense of urgency had passed, and the Cabinet chose a leisurely registration scheme in place of rationing for sugar. Rationing of other foods was postponed indefinitely.

Throughout the second half of 1917 the rate of sinkings fell. The problem of shipping left the centre of the economic stage and was succeeded at once by the problem of foreign exchange. Under its new chief,¹ the Ministry of Food set out to control food in earnest. In August 1917 it decided itself to undertake the importation of bacon and other hog products, and to set up a buying agency for these and other foods in New York; this became the Allied Provisions Export Company, familiarly 'Apec'. The Ministry made an order on 29th August stopping the private importation of bacon, hams, and lard, and went confidently to the Treasury to ask for dollars for buying on its own account. The Ministry was met by a courteous but complete negative; the Treasury had no dollars to spare for

¹ Lord Rhondda, appointed Food Controller in June 1917.

bacon. The Ministry of Food for this purpose was myself and the Treasury was Mr. J. M. Keynes. The story of how during the last four months of 1917 the purchasing activities of the Ministry of Food in North America—the principal source of all our supplies—were almost at a standstill, for everything but wheat, is told in my volume on *British Food Control*. Finance was a bottle-neck which threatened strangulation in 1917, even though America was already in the war. Relief came only when the American Food Controller, Mr. Hoover, having gathered vast stocks of food for disposal to us, persuaded or forced the American Treasury to lend to us without stint the dollars without which we could not buy. American lending on an immense scale was the one thing that made possible for the rest of the war the purchases overseas, without which the Allies could hardly have carried on the war after the end of 1917.

The solving of the financial problem in due course brought the shipping problem once more into the limelight. Submarine sinkings, though reduced, continued to eat into the mercantile fleet; the projected transportation to Europe of an American army meant a new large demand for shipping. A visit to Europe of the American Food Controller, Mr. Hoover, in July 1918, led to the setting up of an International Food Council and to the formulation for the first time of a single programme of food importation for all the European allies. The programme provided for importation in the coming cereal year of nearly 23½ million tons, of which 13½ millions was the British share. To a request for tonnage on this scale, the Allied Shipping Council, speaking with the voice of Sir Arthur Salter, replied with an offer of 18½ million tons, of which the British share was to be 10½ millions, as compared with an actual importation in 1917 of nearly 12½ millions; the Council could not, they said, provide more and at the same time provide shipping for munitions, for the American Army, and for a few scraps of raw materials to keep alive the export trade. The British War Cabinet decided to

import food on the 10½ million-ton basis but to feed the people on the 13½-million-ton basis, running down the cereal stocks which after the last harvest were ample, in the hope that hastening transportation of the American Army would hasten the end of the war. This was not a gamble but the taking of a legitimate risk. There was plenty of time to reverse policy and transfer ships back to carrying food if needed; moreover, in the possibility of rationing bread at need, Britain had an unused reserve of strength.

‘The rationing machine was a last enormous reserve of food-stuffs for 1919; it gave power to do with smaller imports of food in order to bring men or arms. . . . Before reaching the level of food consumption at which Germany had lived and fought for years, Britain could have borne the annual loss of several million tons of food imports, and once rationing was established, could have spread the loss more fairly than Germany ever did.’¹

Shipping and finance in turn were the crucial economic problems of the war. They were alternative bottle-necks, not in time only, but in space as well. Shortage of shipping made the Shipping Controller desire to concentrate tonnage on the short, easily protected, North Atlantic route. But this meant concentrating also on the dollar exchange; till ample American lending began, lack of purchasing power meant as complete a blockade as could have been brought about by all the submarines in the world. The Ministry of Food found broadly that ‘wherever they could get shipping from the Shipping Controller, they could not get money for purchases from the Treasury, while wherever they could get money, they could not get ships’. The ample Australian wheat stocks, bought easily for sterling, became practically unavailable. The Resident Wheat Commissioner in Australia ‘became perforce an entomologist, engaged in a desperate, costly but ultimately successful

¹ *British Food Control*, p. 334.

struggle against the grain weevil which threatened the ever-growing stocks'.¹

Shipping and foreign exchange are the two bottle-necks through which on this occasion also British war effort must force its way to victory. We may have to get through, we must count on having to do so, without the instrument without which we should not have been able to get through in the last war—almost unlimited American lending. The instruments on which we must rely for shipping, are naval defence and mercantile ship-building, for foreign exchange, are exclusion of avoidable imports and maintenance or increase of exports. The two measures needed to deal with shipping shortage have already been undertaken squarely as functions of the State.

The problem of foreign exchange may prove in the last resort more serious. It is not clear that as yet this problem has been faced as fully as the problem of shipping. One reason for this may be a feeling that, as compared with the last war, we start with relatively larger resources. In an Appendix to the pamphlet setting out his scheme for war finance, Mr. Keynes estimates that 'taking Great Britain, France, and Canada together, gold and dollar resources are not far short of double what they were in 1914', so that even allowing for the larger scale of monetary commitments to-day, he 'cannot agree that we start, taking everything into account, with inferior financial staying power than in 1914'. Putting the total of Britain's fairly liquid assets at £1,000,000,000 at least, he assumes for the purpose of his scheme the financing for more than three years of an adverse balance of payments of £350,000,000 a year. These are encouraging figures; yet even if they are accurate, it is clear that we could not safely plan to dissipate the whole of our overseas resources in three years. The best hope of avoiding a war as long as three years is to put it beyond question that at need we can continue with undiminished vigour for six years or more. Only if it is certain that we can continue to make

¹ *British Food Control*, p. 92.

our necessary purchases abroad, however long the war, can it be suggested that time is on our side.

Of the two measures needed to ensure this, reduction of imports itself has two sides. Avoidable imports are on the one hand luxuries, i.e. articles which can be dispensed with altogether, and on the other hand, necessaries which it may be possible to produce more largely at home: the weapons required are prohibition of needless imports and a food production campaign. Stimulation of home production of food is a matter on which in war-time the State can hardly spend too much. This was fully recognized in the last war by the Ministry of Food, with whom, perhaps even more completely than to-day, rested the power of fixing prices for all agricultural produce.

'As a practical man the last thing Lord Rhondda desired was to risk a discouragement of home production by insufficient prices. Whatever he paid the British farmer was, not only for cereals, but for most other articles, less than he had to pay abroad in any accessible market; the more he could buy at home, the more he kept his expenses down, as well as escaping all anxieties about tonnage and exchange. . . . He did not want to fix any price except one at which he felt satisfied that the farmers, however they might grumble, would proceed to increase the supplies.'¹

For increase of exports we must be prepared at need to do much more than remove restrictions and encourage private enterprise. Exports in this war are as vital as fighting men, munitions, or food imports. They *are* munitions and imports, because without them we shall not be able indefinitely to continue importing all that we need. In the competition with other war purposes, for raw materials, for transport facilities, for labour, the export interest should rank as high as munitions or home consumption, or even as shipbuilding itself. It will be no use in this war to have the ships to bring all our necessary

¹ *British Food Control*, p. 170.

imports, if we have no foreign exchange with which to pay for imports. In dealing with two bottle-necks, we must keep pace throughout; if there is any choice between them, it is better to be short of ships than to be short of foreign exchange. If we have adequate foreign purchasing power, we can buy foreign ships or hire them.

Foreign exchange, rather than shipping, is likely to be the final bottle-neck in this war, if the war is lengthy. The State must be prepared, if necessary, to make a loss on exports, if they cannot be maintained at a profit. It would pay Britain, it might mean the difference between victory and defeat, to incur heavy losses on the export trade in terms of sterling, if that meant obtaining for Britain purchasing power abroad which otherwise she would not possess. But private businesses cannot be expected to ruin themselves for this purpose or to take in war all the risks of shifting prices and exchanges in a chaotic world. The lesson of the last war in regard to imports was that at a certain point of risk private enterprise ceased to be able to take the risk. To ensure the necessary imports the State had to take them over. That lesson of the last war applies to exports in this war. The State must be ready to take any risks which are necessary to secure that exports are kept at the highest possible level consistent with our total strength.

It is not certain, of course, that any loss need be incurred on exports. In the last war, apart from the loss incurred deliberately through the bread subsidy, the Ministry of Food covered all its expenses and made a small profit as a trading concern. Exports in this war may prove to be a profitable business. The British blockade cuts off from some markets their normal source of supply in Germany. The tendency of sterling to depreciate makes exports easier. It is likely enough that the export trade of the country in war could be developed largely on a paying basis; in some fields it may be a highly profitable business. But it can only be made a business at all by State aid, in priorities for shipping, materials, and labour, to say nothing of the expense

to the State of blockading Germany. If and in so far as exports become profitable by indispensable State aid, social justice suggests that the profits should accrue to the State, not to private persons. Totalitarian war can hardly anywhere stop short of socialism. There is here an inequality of ideological sacrifice which cannot be avoided. Those who want socialism in peace can find war in this respect to their liking. Those who trust to individualism in peace must be ready to surrender it in war. Private enterprise at private risk is a good ship and a ship that has brought us far, but it is a ship for fair weather only.

Conclusion

The war has brought a statistical as well as a physical black-out. Within the Government departments their officers, including their imported economists and statisticians, work, we trust, in a blaze of figures. From outside little can be seen except the darkened blinds. Lord Stamp at the centre probably knows exactly where the bottle-necks are for to-day and next month and next year; could tell us exactly how, compared with the last war, we are stronger here and weaker there. Economists outside the Government machine can deal with generalities only. Yet study of the last war may at least suggest the points which *prima facie* will be critical in this war, may guide us to the ground that will be easy and show in advance the perilous salients. And consideration of the last war makes inevitable an attempt, however rashly, to compare our relative strength and weakness in different fields, on that occasion and on this.

On the military side, to-day, we have two advantages to set against our loss of allies of the last war. For war on land and in the air we are prepared, in place of being utterly unprepared, and we have a naval preponderance even greater than in 1914. It is reasonable to treat these advantages as outweighing the absence of the Russian Army, and to think of Italy on one side and Austria-Hungary on the other side of the account as cancelling out.

There remains on the unfavourable side of the account the absence of the American Army. One can say only that in the last war, too, that was absent until the last months of all.

On the economic side, there are four main differences between the conditions of the last war and conditions to-day.

First, the blockade of Germany is not so complete and cannot be made so complete, on this occasion, as it was on the last occasion. Germany has all the resources of Russia at her command, if she can pay for them; she can draw supplies from and to some extent through other neutrals, if she does not destroy their neutrality by her actions. On the economic side, too, it seems certain that Germany is better prepared in advance of war this time than she was last time. She has learned the lesson of our blockade and has built up stocks in anticipation.¹

Second, Britain and France cannot count on being able again to obtain American supplies without paying for them in money or in goods; they cannot, that is to say, count on drawing on any part of the strength of American agriculture and industry as a net addition to their own economic strength.

Third, the economic strength of France is greater on this occasion, in so far as on the last occasion so large a proportion of her mining and industrial districts were occupied by the enemy in the first weeks of war. This time, moreover, she has Alsace and Lorraine.

Fourth, though our blockade cannot on this occasion worsen the economic position of Germany as rapidly as last time, and though she begins in some ways better prepared, in other ways she begins at a lower level. For years

¹ In the pamphlet already cited on *How to Pay for the War* (p. 85) Mr. Keynes states that German resources of gold and dollars which, in 1914, were half our own, are to-day less than one twenty-fifth. What this means is that German purchasing power abroad has already been used to the full in building up physical reserves. Owing to the British blockade German financial resources abroad in the last war became of little use to her; a substantial amount remained unused at the date of the Armistice. She has avoided that waste of her strength on this occasion.

already the German people have been living under strain and privation.

The first two differences are in favour of Germany; they outweigh probably the two differences in favour of the allies. They make it easier for Germany to endure a long war and less easy for the Allies to do so. These advantages of Germany make the full development of the economic strength of the Allies a matter of life and death for them; by economic organization this war is likely to be won or lost. There is no reason for doubting that it can be won, if the necessary measures are taken. For there can be no question that we could stand hardships greater than anything experienced in the last war, without weakening in determination. We shall have fewer hardships to stand if we cease to tolerate waste of man-power; in the cause for which we are fighting we will stand any hardships at need—on condition of social justice.

This brings me to one difference, not so much of economics as of psychology which, if we can exploit it, should be decisive. The will to war of the deeply pacific British and French peoples is likely on this occasion to outlast the will to war on the other side. The war of 1914–18 could, with some show of reason, be represented as a selfish struggle of nationalisms, between which there was little to choose. Our enemy Germany in 1914 was a more civilized country than our ally Russia; she had free speech, and free politics. She did not persecute for race, religion, and opinion as she does to-day. Throughout that war it was possible to argue that Europe had blundered into it through mutual fears; that Germany had some reason to fear encirclement by France and Russia and to choose her time to strike for safety; that her purpose in war might be defensible, though her methods were not. But for Germany's methods—in attacking France through Belgium—Britain might not have come in at all, and would certainly not have come in unitedly. It was Germany's methods and not her purpose that brought the United States at last into the line against her. In this war German methods are

as ruthless as in the last war, but it is her purpose even more than her methods which makes her the enemy of the human race. Her purpose is world-dominance for a form of government which is an abomination. There can be few of us in Britain or France who do not feel personally that a victory for the Germany of to-day would make a world in which it would be little pleasure to live; we must fight to the last gasp against Hitlerism. We know, on the other hand, that in seeking victory we do not seek a world of any injustice to the German people, or any inequality between them and ourselves, or anything that need make the private life of the ordinary German less happy; the Germans, if they knew it, do not need to fight to the last gasp in defence of Hitlerism. They must be brought to know this. Our determination to fight to the end has every reason for being greater than theirs; this is an advantage which will bring us through, if we do not throw the advantage away. To use to the full our determination to bear all possible hardships before giving in, we need justice in the sharing of hardships. To weaken the German will to resistance we need, as and when by agreement with our Allies we can reach it, a statement of peace aims committing us formally and irrevocably to justice for all peoples, on condition of security for ourselves and our Allies.

I have spoken to-day of the last great war in which our country was engaged, drawing from it some lessons for the present time. More than a hundred years before that last war our country was in the heart of another struggle, against the same evil spirit of ruthless ambition in another form. Two sayings of that time, from the poet Wordsworth, are alive to-day. In criticizing the Convention of Cintra, Wordsworth declares the need for a General and a Ministry able to perceive 'that the true welfare of Britain is best promoted by the independence, freedom and honour of other nations'. In the sonnet to Toussaint l'Ouverture, he names the ultimate sources of our predestined victory: we have 'great allies'; our friends 'are exultations, agonies . . . and Man's unconquerable mind'.

PRINTED IN
GREAT BRITAIN
AT THE
UNIVERSITY PRESS
OXFORD
BY
JOHN JOHNSON
PRINTER
TO THE
UNIVERSITY