

IV. THE U.K.'S PROSPECTIVE BALANCE OF OVERSEAS TRADE

12. An attempt has recently been made to forecast the prospective balance of trade in 1945 more fully than has been attempted hitherto. Any such estimates in time of war are necessarily most precarious. The following summary, which is the best we can do at the moment, is submitted subject to all reservations. Particular attention is called to the comments which follow overleaf, which mainly relate to the more difficult and uncertain items.

<u>U.K. Balance of Payments (Non-munitions)</u>		\$ Millions	
<u>Requirements</u>		of	
/ <u>Imports (f.o.b.)</u>		<u>Total</u>	which
			from ^e
			<u>U.S.A.</u>
1.	Food, civilian	2,355	859
2.	" , U.K. Forces	418	233
3.	Materials	1,590	262
4.	" & Food for Reciprocal Aid	112	
5.	Oil	871	555
6.	Tobacco	180	148
7.	Other Imports	220	148
		-----	-----
		5,746	2,205
8.	*Shipping	1,440	1,140
9.	Interest, profits and dividends	220	60
10.	*War Expenditure	2,080	
11.	Other Payments	560	280
		-----	-----
Total Requirements		<u>10,046</u>	<u>3,685</u>
 <u>Receipts</u>			
12.	Exports (f.o.b.)	1,740	120
13.	*Shipping	500	40
14.	Interest, profits and dividends	580	40
15.	*Military receipts from Empire Governments other than Canada	260	
16.	*Income from pay of U.S. & Canadian Forces in U.K.	120	60
17.	*Other Receipts (unidentifiable)	400	260
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Total Receipts		<u>3,600</u>	<u>520</u>
 <u>Deficit before Lend-Lease and Mutual Aid</u>		<u>6,446</u>	<u>3,165</u>
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/ Including certain imports into other countries where cost is borne by U.K.

* Highly conjectural.

^e Or payable in U.S. dollars

/Comments overleaf

COMMENTS ON PRECEDING TABLE

(i) The above table excludes munitions received from the United States and Canada, on the requirements side, and also excludes munitions manufactured in U.K. and delivered on Mutual Aid on the receipts side. It does not relate, however, quite strictly to non-munitions, since Item 10, War Expenditure, includes some payments for munitions from other parts of the world, e.g., India, and Item 15, Military receipts from Empire Governments other than Canada, includes what is in effect some reimbursement for munitions manufactured in U.K. supplies to Empire Forces.

(ii) No deduction has been made in respect of non-munitions supplied on U.S. Lend-Lease or Canadian Mutual Aid. The Lend Lease aid for non-munitions proposed in other parts of this paper amounts, in round figures, to \$2.75 billions. The amount of Mutual Aid from Canada is not yet determined, but it is at present contemplated to propose some figure in the neighbourhood of \$600 millions Canadian to cover non-munitions. Thus if these proposals were to be accepted, the remaining cash deficit would be of the order of \$3 billions, which would have to be met by the further disposal of assets or by incurring further debt.

(iii) The above shows that, after allowing for \$2.75 billions of Lend-Lease aid, there still remains more than \$900 millions of U.S. dollar expenditure which the U.K. would have to meet in cash out of its dollar earnings and other resources. Certain proposals relating to this have been made in Chapter 3.

(iv) There are, moreover, further liabilities not covered by the above table. In particular, it includes nothing for liabilities incurred through the use of military currencies in Europe, e.g., credits thus created in favour of Allies on account of military currencies to meet the pay of British troops.

(v) The most formidable abnormal item is, of course, Item 10 for War Expenditure. As already pointed out, this excludes munitions on Lend-Lease or Mutual Aid and also expenditure in military currency. It is made up as follows:-

India	\$1,360	millions
Egypt	240	"
Australia	160	"
Palestine	100	"
South Africa	80	"
Persia	60	"
Iraq	40	"
Others	40	"

Throughout the past three years this has been the main cause of the growing indebtedness of the U.K. It is not generally appreciated that, quite apart from the large quantities of stores which are shipped to British Forces overseas, more particularly in the Middle East and in India, very large cash expenditures are incurred in those areas. The United Kingdom has in fact borne the main cost of the war in so far as it involves local expenditures over a very large area stretching from North Africa to Burma. It will be seen that even in 1945 such expenditure in the Middle East countries is estimated at \$400 millions. Not long ago it was running at double this rate. It should, however, be emphasised that these estimates are particularly precarious. They are based on the latest figures provided by the War Office as to the personnel which present strategic decisions will require us to keep in the areas in question. But they are capable of considerable modification upwards or downwards in accordance with changing strategic decisions consequent on the course of the war.

(vi) The receipts entered in respect of exports need further explanation. In recent months British exports have been running at the rate of about \$80 millions a month. For the year as a whole it is expected that they will not quite reach \$1 billion. The proposals relating to manpower set forth in another section of this paper should, if they are carried fully into effect, release sufficient manpower in the course of the year to increase exports by about \$1 billion, approximately doubling them. The estimate in the above table assumes that in spite of inevitable time-lags this is carried fully into effect, and is arrived at as follows. It is estimated that British exports will reach a figure of \$2,000 millions. To this is added \$40 millions for diamonds not of

13.

British origin shipped to U.S.A. From this is deducted \$200 millions for time-lags in payment, and \$100 millions for relief exports through UNRRA, etc. which will not be paid for, leaving estimated cash receipts of \$1,740 millions. We believe, however, that this figure is highly optimistic. A great deal depends on whether British exporters can be immediately released to take orders. Otherwise there is a serious danger that manpower which is released will find its way into making goods to satisfy the hungry home market. It will, therefore, be a great achievement of organisation if the figure here estimated is actually reached.

(vii) Item 17, Other Receipts (unidentifiable), is difficult to explain. It includes certain sources of invisible income, such as insurance and commissions, but in the main it reflects the inability of the British statisticians to identify all the sources from which our income has reached us in recent years. An analysis of past expenditure shows that a balancing figure of about this amount is required to reconcile the results. It may come from the disposal of capital assets which have not been separately reported as such; or it may be merely a balancing figure which results from various items of expenditure having been over-estimated, and various items of receipts under-estimated. It is dangerous to rely on so uncertain a source, which may be the product of erroneous statistics in the past, but so far its analysis has baffled all enquirers.

V. THE U.K.'S GOLD AND DOLLAR RESERVE POSITION AT THE END OF STAGE II

13. The U.K.'s balance of trade with the U.S. in 1945, as estimated in IV above, on the assumption of Lend-Lease assistance for non-munitions on a scale not exceeding \$2.75 billions, shows a net deficit with the U.S. on U.K. account of about \$400 millions, which is considerably larger than in any year since Lend-Lease came into operation (the corresponding deficit in 1942 was \$287 millions, and in 1943 \$240 millions, the figures for 1944 being not yet available). Receipts from the pay of U.S. Forces in the U.K. in 1945 are estimated, for

14.

obvious reasons, at the greatly reduced figure of \$60 millions. 1945 is the first year in which the requirement of cash payment for a number of articles previously on Lend-Lease and the delivery of raw materials on Reciprocal Aid coincide with diminished receipts in respect of the U.S. Forces.

14. The British gold and dollar position depends, however, not merely on the U.K. balance with the U.S., but also on the gold and dollar receipts and outgoings of the rest of the Sterling Area. In previous years these sources have come to the rescue on an important scale; for example, in 1943 we received nearly \$515 millions from these sources. In 1945, on the other hand, it is expected that the rest of the Sterling Area will contribute no more than \$100 millions. This also is due to a combination of two circumstances. The increase in Reciprocal Aid in food and raw materials, which only comes into full effect in 1945, has the effect of substantially reducing the dollar earning power of these countries and will turn the commercial balance of the rest of the Sterling Area with the U.S. into a deficit of \$100 millions. At the same time, the heavy earnings from U.S. Forces, which previously made this scale of Reciprocal Aid possible without excessively adverse results, are falling away and are estimated in 1945 at no more than \$200 millions.

The estimated balance sheet of the gold and dollar reserve position as a whole in 1945 is as follows:-

\$ Millions			
U.K. earnings from		U.K. deficit with U.S. on	
U.S. Forces	60	balance of trade account	400
do.		do	
for rest of Sterling		for rest of Sterling	
Area	200	Area	100
Net receipts of gold	160	Dollar payments to third	
	---	countries	225
	420	Increase in gold	
Reduction of reserves	355	liabilities	50
	---		---
	\$ 775		\$ 775
	===		===

The estimate of earnings from U.S. Forces in the Sterling Area is conjectural. Receipts in the U.K. are put at \$60

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millions. This is on the assumption that Stage II begins at January 1, 1945. If the German war drags on this figure will be somewhat, but not much, larger. The Australian Government inform us that they expect no significant income from this source. In fact, the American army acquired an excessive amount of Australian balances in the first half of 1944, and are expected even so early as the second half of 1944 to withdraw something like \$40 millions from the balances already set up, rather than increase them. Receipts in India on this account depend on how far outgoings are met by sales of gold on behalf of the U.S. Treasury. At one time such sales of gold largely absorbed this source of dollars. More recently such sales have been on a much smaller scale. It is a matter of policy at what level of price it is decided to press sales of gold on a larger scale. Provisionally, without knowing accurately the strength of U.S. Forces in India over successive dates in 1945, we estimate rather doubtfully \$200 millions from this source, which may easily turn out too high. As regards gold, we have had to abandon the policy of assisting the Government of India and other Middle East Governments in their anti-inflation campaign by providing a certain amount of gold for sale in these areas, and the estimate of our net receipts of gold is on the assumption that sales of gold in India and the Middle East, which are now coming to an end, will not be resumed in 1945. Dollar expenditure on account of third countries includes payments for sugar and oil from dollar sources in the Caribbean and Venezuela and certain refunds to Canada of U.S. dollar expenditure incurred on our behalf.

15. If these estimates, which are necessarily based in part on conjecture and can easily be falsified by the progress of events, are correct, the U.K. will enter the year 1946 with liquid reserves amounting to \$1,130 millions, and overseas liabilities (which are, however, in terms of sterling and cannot be freely converted into gold or dollars) of between \$14 and \$15 billions.

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16. The serious reversal of the trend of the reserve position as shown above is due, it will be seen, to a combination of circumstances which were always likely to produce that result in the long run. During the period when the Sterling Area had considerable earnings from the U.S. Forces, a number of marginal items were taken off Lend-Lease and the scale of Reciprocal Aid, particularly for raw materials, was greatly increased. The above result was bound to follow if the latter measures were to continue into a period when our income on the former account was falling away. It is for this reason that the proposals in Chapter 3 are put forward.

17. Our need to hold liquid reserves is based on a number of different considerations:-

(a) We must hold a minimum reserve against grave contingencies such as war, which cannot be put below one billion dollars.

(b) We must hold working balances adequate to cover our short term requirements in international commerce in conditions of normal trade, after our external balance of trade is substantially in equilibrium.

(c) We must hold reserves against the needs of the Sterling Area, particularly in the case of those countries of which we keep the currency reserves so that their external resources wholly consist of sterling balances in London.

(d) We must hold reserves against our needs in the transitional period of Stage III, in which our balance of payments will still be heavily adverse, since we must expect to have to cover in gold some part at least of our deficit with the rest of the world.

As regards (a) and (b) above, no more need be said. As regards (c), it must be emphasised that the reserves of the United Kingdom constitute broadly speaking the reserves of the Sterling Area as a whole. No other countries of the Sterling Area (with the exception of South Africa, which as the world's greatest gold producer is in a special position) have any appreciable holdings of gold or of foreign currencies other than sterling. Their foreign currency receipts have gone into the

17.

United Kingdom pool, and they have looked to us to meet their essential foreign currency needs. All these countries are short of goods, and will have problems of reconstruction and restoration of civilian economy to face. They will seek to convert some part of their accumulated sterling balances into foreign currencies for these purposes. Whether and how far their demands can be met will depend on the adequacy of the reserves we then hold. So far as the early transitional period is concerned, our main anxieties relate to (d). It is impossible at present to give any close estimate of the prospective drain. Some indication of its possible magnitude, however, can be obtained by looking back to the estimated balance of overseas trade in 1945 set forth in paragraph 12 above. This shows, on the assumption that Lend-Lease and Mutual Aid come to an end with the end of Stage II, that we shall enter Stage III with a deficit running at the rate of about \$6 billions a year. To what extent can we hope that this will be reduced during the first year of Stage III?

18. To begin with our import requirements.* There will be a large reduction in the case of oil, and we shall no longer have to buy raw materials and food for Reciprocal Aid, making an economy of (say) \$400 millions altogether. On the other hand the size of the adult population requiring food and raw materials for employment will be increased by the demobilisation of the Forces; so that whilst the character of our imports will be to a certain extent changed, the aggregate may be more rather than less. The imports we should like to have are not likely to be much less than \$6 billions. By extreme economy, however, the use of stocks and strict import control, it is possible that the figure might be kept down during the first year nearer to \$5 billions.

19. The other main items on the debit side of the account, namely, the use of non-British shipping and war expenditure overseas, which are at present costing about \$3-1/2 billions between them, should be very greatly diminished in due course. Nevertheless, these items of expenditure will not cease

* See note / to table in paragraph 12.

18.

immediately. For there will be a period of uncertain duration during which our Forces are being brought home from overseas, and perhaps a longer period during which we remain responsible for policing certain extensive areas of the world. In addition there will doubtless be many deferred liabilities in respect of earlier dates which will be brought to account against us for payment in the first year of Stage III. Whilst, therefore, we must take steps to reduce these outgoings as fast as possible, they are bound to remain high in the first year of Stage III, and are likely to continue on a significant scale at least into the second year.

20. On the credit side of the account, military receipts from Empire Governments and from the pay of U.S. and Canadian Forces in the U.K. will rapidly disappear, approximately offsetting the gain under 18 above.

21. There remain, however, two items, namely, shipping and exports, where we must hope for a large and progressive increase in income. Nevertheless as regards shipping we cannot expect the improvement which should be ultimately possible, until we have rebuilt our mercantile marine. In 1938 the net income from U.K. shipping earnings was some \$400 millions. By end-1944 it is expected that U.K. tonnage will amount to some 12 million gross tons of ocean-going shipping, compared with 16 million gross tons in 1938. Even if by, say 1950, we rebuild our mercantile marine to its former level, and freights are assumed to rise by 60 per cent. compared to 1938, U.K. shipping earnings in terms of money in 1950 would be no more than 55 per cent. above 1938. On this basis a net income of \$640 millions as compared with \$400 millions in 1938, might be a reasonable estimate. Since, however, we are already taking credit for \$500 millions, no significant improvement can be expected on this heading so early as 1946. The effective saving in 1946 is that already mentioned, namely, in our outgoings in respect of shipping which we do not ourselves own. The prospects of exports are dealt with separately in the last section of this Annex.

22. Taking one thing with another, it would seem very optimistic to expect that the net deficit could be brought below \$3 billions in the first year of Stage III. Nor are we likely to reach equilibrium in the second, or even in the third, year of Stage III. We shall have managed very well if the accumulated deficit in Stage III before we reach equilibrium is less than a figure between \$4 and \$5 billions.

23. It will be observed that this figure is reached on the assumption -

(a) that no part of the abnormal sterling balances is repaid during this period, which probably means in practice that the rest of the Sterling Area could not spend in gold and dollars more than their current earnings in gold and dollars;

(b) that no significant part of our exports is on credit terms; and

(c) that the reorganisation and pacification of the world will not make on us any financial claims whatever.

24. It is unlikely that no additional obligations will fall on us under any of these heads. Thus the sums which we shall be required to raise after the war to meet current expenditure are likely to exceed \$4 or \$5 billions. Even if, as we hope, arrangements are made during Stage II which will enable us to maintain our reserves near their present level, not more than half a billion of these reserves will be available during the early years of Stage III towards meeting the above deficit.

25. Particular attention has already been called in the Introduction and in Chapter 3 to the embarrassments which may arise affecting the U.S. as well as the U.K. Government, if the latter is unable to finance the political and other obligations arising out of the war and the peace which otherwise it would be natural for her to share and to assume. It is not desired or intended on this occasion to discuss the question how the financial problems of Stage III will be best handled when the time comes. The present discussions are limited to Stage II. Nevertheless, it is relevant to Stage II arrangements to emphasise here that it will be particularly difficult in Stage III to replenish the U.K.'s stock of liquid cash in the

form of gold and dollars. Such credits as become available on suitable terms are likely to be tied to particular exports, and cannot always be married against pressing demands of another kind and in another quarter of the world. It is, therefore, of the highest importance to maintain the British liquid reserves above the danger level during Stage II, when the conditions will be such that by proper arrangements this is possible.

VI. BRITISH EXPORTS IN STAGE III

26. At the present time British visible exports are not sufficient to finance one-tenth of our total overseas requirements. Even after full allowance has been made for Lend-Lease, and Mutual Aid from Canada, British exports are not currently sufficient to finance one-seventh of our remaining overseas requirements. The heavy deficit forecast for 1945 is after making the very optimistic assumption that our exports in the course of 1945 will be running at about double their figure in 1944. It is obvious, therefore, what a vast scale of industrial reorganisation will be required to raise exports sufficiently to restore equilibrium.

27. The whole lay-out of the British war economy was dominated during the formative period by one supreme consideration: for a time we and the Commonwealth were alone in the war, and alone capable of bringing military weapons to bear upon the enemy. By the sale of the gold and foreign assets that had been accumulated over a century, we could call for aid upon the industrial effort of nations which still remained neutral. It was wise and it was necessary that the British military effort should be inflated far beyond any level that could be maintained by our own unaided industrial efforts, even (which then was far from the case) when they reached full fruition.

28. In the first weeks of the war, the extent of our gold and foreign assets and the current rate at which they were being dispersed were surveyed. It was immediately decided that measures were necessary to conserve them, not only by drastic limitation of less essential imports, but also by an export drive.

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29. Before the war there had been about 1,750,000 persons engaged in the production of British exports - about 1,300,000 were in actual mining and manufacture, and about 450,000 of those in transport, distribution and other occupations were performing services ancillary to export. At mid-1940 these figures had been appreciably reduced, but the total engaged in direct export was still in excess of 1,000,000. The supersession of Cash and Carry by Lend-Lease in the spring of 1941 was the chief cause of an immense change between mid-1940 and mid-1942. By the latter date, only some 440,000 were still engaged in mining or manufacture for export, and by mid-1944 there were only about 300,000 so engaged. Thus the effect of Lend-Lease, together with other similar aid from Empire countries, the disposal of British assets and the accumulation of sterling liabilities in London, has been to make possible the transfer to the war effort of some 1,400,000 former workers in the export industries. These measures enabled the United Kingdom very greatly to increase the impact upon Germany at a critical phase of the war. But the transfer from export to munitions was only possible because we were enabled, through Lend-Lease and Mutual Aid, to receive a great quantity of imports without corresponding exports; and our economy is now organised on that basis. The process took time to establish, and will take time to reverse. The result is that we are not, and cannot for some considerable time to come, be in a position to pay for our minimum and inescapable import needs.

30. In other words, it is precisely the operation of Lend-Lease and Mutual Aid which, by making it possible for us to carry on the war without substantial exports, allowed us to pursue the policy of abandoning any effort to maintain them. Thus our prospective difficulties are an actual consequence of the means by which we have been enabled to devote so large a proportion of our total manpower to war mobilisation.

31. Since the following trade statistics have not been made available previously, it may be worth while to give them in some detail. The value of British exports fell from \$1,884 millions in 1938 to \$928 millions in 1943. When allowance is made for

the rise in prices the quantity of exports was reduced to only 29 per cent. of the 1938 level:-

Exports of Produce and Manufactures of the United Kingdom

	Value of exports as recorded \$ millions	Quantity of exports (recorded exports re- valued at 1935 prices) 1938 = 100
1938	1,884	100
1939	1,760	94
1940	1,644	73
1941	1,460	56
1942	1,080	36
1943	928	29
1944 (estimated on basis of nine months)	960	28

NOTE: The figures for 1942 and subsequent years exclude military aircraft munitions as such and military motor vehicles (but not tyres which are included). On the other hand they include exports on Reciprocal Aid (\$15 millions approximately in 1944) and some exports to N.A.A.F.I., Y.M.C.A. and other organisations for sale to British troops abroad (\$12 millions approximately in 1944).

The figures also include exports of war requirements to Russia and other Allies to an amount estimated at \$92 million for 1944. These exports however must be regarded as in some sense abnormal, since in some cases they are supplied on special financial terms, and in many instances they are not of a character which will build up future trade by establishing markets.

The result of these qualifications is to increase the distance which we shall have to cover to reach the target for future exports which we have set ourselves. But, since the precise effect of the qualifications is, in the main, highly speculative, they have not been taken into account in the rest of this paper.

Attempts have been made, as far as possible, to export goods which do not make great demands on manpower or on shipping. Thus, exports of spirits have, in comparison with other items, been kept at a high level. Exports of textiles, which are produced mainly by female labour, have declined heavily, but less than those of engineering products. The export of motor cars and commercial vehicles has virtually ceased since 1941 and the amounts of iron and steel manufactures, machinery and coal sent to overseas markets have been drastically cut to the minimum quantities essential to the war effort.

Exports of Certain Principal Products

		<u>1938</u>	<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>	<u>1943</u>	
Spirits	Million proof gallons	9.1	10.5	12.4	9.5	7.1	5.5	
Manufactured tobacco	Million lb.	33.6	34.7	27.7	26.5	16.6	17.9	
Coal	Million tons	35.9	36.9	19.6	5.1	3.6	3.4	
Coke and manufactured fuel	Million tons	2.3	3.1	1.4	0.6	0.4	0.4	
Iron and steel	Thousand tons	1915	1582	1077	487	258	134	
Machinery	Thousand tons	459	366	250	186	157	136	
Motor cars	Number	44123	43230	20654	3831	56	29	see *
Commercial vehicles and chassis	Number	14273	11373	9102	2387	300	1103) below
Pedal cycles	Thousand	576	615	497	345	107	112	
Motor tyres	Thousand	1225	1103	900	661	123	211	
Cotton yarn	Thousand cwt.	1098	1015	596	258	167	171	
Cotton piece-goods	Million sq. yards	1386	1393	976	783	485	374	
Woollen and worsted piece-goods	Million sq. yards	96	98	86	91	77	46	
Rayon piece-goods	Million sq. yards	63	75	85	91	116	76	
Linen and hemp piece-goods	Million sq. yards	52	67	45	28	23	11	
Pottery	Thousand tons	186	176	156	141	98	80	
Dosium compounds	Thousand tons	357	450	479	441	471	414	
Paints and pigments	Thousand tons	76	74	71	71	41	34	
Paper and board	Thousand tons	176	156	148	72	37	28	
Books, etc.	Thousand cwt.	613	566	347	218	129	121	

*The figures for 1942 and 1943 exclude, whereas those for previous years include, exports of military vehicles. For commercial vehicles and chassis, total exports in the first six months of 1942 were 2,410 while non-military exports were 117; for motor cars, all exports during the first half of 1942 were non-military.

32. It has been already explained that we are aiming, probably too optimistically, at doubling the volume of British exports in 1945 as compared with 1944, reaching a total value, apart from a time-lag in payment, of about \$2 billions. This assumes a price level in 1945 of 180 to 185 per cent. of the price level in 1938. Later calculations confirm an estimate, first made some time ago, that in order to reach equilibrium, apart from repayment of war debt, the volume of British exports must rise 50 per cent. above 1938. If we assume a price level of 180 per cent. of pre-war, this means in terms of money an export trade of about \$5 billions. Thus in order to reach equilibrium, the level of exports in 1945, the target for which is already double the 1944 figure, will have to be more than doubled again. This great task will involve not merely reconversion on

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a great scale, but also the problem of developing markets as soon as the shortage of goods prevailing immediately after the war has been overcome. It is for this reason that the British Government feel that complete freedom of export must be resumed immediately, and that any avoidable handicaps in beginning the task of reorganisation should be removed at the earliest possible date.

ANNEX BCIVILIAN LIVING STANDARDSI. THE GENERAL LEVEL

1. The British civilian has had five years of black-out and four years of intermittent blitz. The privacy of his home has been periodically invaded by soldiers or evacuees or war-workers requiring billets. In five years of drastic labour mobilisation, nearly every man and every woman under 50 without young children has been subject to direction to work, often far from home. The hours of work average 53 for men and 50 overall; when work is done, every citizen who is not excused for reasons of family circumstances, work, etc., has had to do 48 hours a month duty in the Home Guard or Civil Defence. Supplies of all kinds have been progressively limited by shipping and man-power shortage; the queue is part of normal life. Taxation is probably the severest in the world, and is coupled with continuous pressure to save. The scarce supplies, both of goods and services, must be shared with hundreds of thousands of United States, Dominion and Allied troops; in the preparation of Britain first as the base and then as the bridgehead, the civilian has inevitably suffered hardships spread over almost every aspect of his daily life.

2. This is the price of total war, which the British are well satisfied to pay. But the cumulative effect over a period of years must necessarily be a severe strain. The blitzes of 1940-41, the flying bomb of 1944, the food difficulties in the Spring of 1941, the man-power mobilisation step by step from 1940 to 1943, the steady disappearance of manufactured goods from the shops -- these are a cumulative pressure upon civilian standards which cannot indefinitely be maintained. It is impossible to measure the pressure precisely; only a part of it can be measured at all in material elements which make up the civilian standard of life. This Annex is mainly concerned with the period to the end of 1943, but in 1944 the position is not significantly different from that of 1943, some minor increases being more than balanced by contractions elsewhere and by the general pressures arising from the increased Service population.

3. Estimates of the change in civil consumption are precarious. The technical difficulties of a meaningful comparison are considerable. The whole validity is in question when allowance should be, but in fact cannot be, made for the increased needs of a population in which

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more people are at work; for the fact that a substantial quantity of consumer goods and services is consumed either by institutions - N.A.A.F.I., canteens, hospitals, etc. - or by British and other soldiers of the United Nations in the United Kingdom; for the very considerable wartime changes of quality, which make a railway ticket, a pint of beer, or the rental of a house an essentially different commodity from its peace-time equivalent; for limitations on the freedom of choice through rationing and shortages; for the fact that in a number of fields - furniture, clothing, house-hold goods in particular - the permitted consumption is in part that of people who need to replace goods destroyed by enemy action. For what it is worth - and it is not worth much - a straight comparison, corrected for none of these things, shows a real expenditure in 1943 (and 1944 differs little) about 80% of that of 1938.

II. HOUSING

4. The change in housing conditions has been dominated by war damage, by requisition for Services and by billeting, by the drastic reduction of facilities for normal repair and by cessation of house-building (300,000 houses were built yearly before the war). Some indication of the degree of loss due to war damage is given by the fact that of some 13 million dwellings in the United Kingdom, some 170,000 had been totally destroyed before June, 1944, and 80,000 so seriously damaged as to be uninhabitable. In total, there had been 3.4 million cases reported of damage of some kind, some affecting the same house on more than one occasion. Many houses have not yet received complete repairs; much even of the repair which is "complete" for the time being will later have to be re-done or supplemented. The flying-bomb attacks on London have created new damage which at first outran the rate even of first-aid repair, and special measures had to be taken to bring building labour into the London area in order to tackle the rapidly growing arrears, even at the expense of essential government work elsewhere. During these attacks a further 23,000 homes were totally destroyed, and it is estimated, on the basis of the known results of the first stages of the attack, that in all 1,100,000 have been damaged, of which 100,000 are uninhabitable without extensive repairs.

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5. In certain areas, entire villages have been requisitioned by the military authorities; heavy demands have been made on rural house-room by the Services and evacuees, and in the industrial areas of the Midlands and the North by the need to billet war-workers.

6. Normal house-building has been at a standstill since 1940; the labour engaged upon running repairs, painting, etc., for all premises has been reduced from 300,000 in 1938 to 140,000 in 1943 (excluding War Damage repair), and it is estimated that in the three years 1941-43 only eighteen months' normal house repair was done.

7. War conditions increase domestic requirements of fuel and light. In a drab life of black-out, dull food, damaged and draughty houses, with the family feeding at different times because of their various shifts and civil defence responsibilities, more fuel is needed for heating, lighting and cooking, and the lack of it has a disproportionate psychological effect. Furthermore, the administrative difficulties of controlling fuel consumption are very great; the diversity of household patterns makes actual rationing impracticable; there have, however, been severe restrictions on coal deliveries for household use.

III, TRAVEL

8. An appropriate measure is the relation of public travel facilities to wartime needs. In certain respects more travel is needed than in peacetime. There have been the periodic evacuation waves, and consequent visits by parents to their children in the country; workers are directed to work further from their homes; others have to move their homes, either because of enemy action or because of a new workplace; Servicemen's wives must visit their husbands; millions of British and Allied soldiers must take leave; there is, in addition, the great volume of military passenger movement. On the other hand, holiday facilities are greatly restricted. It is the custom of the British people, none of whom live more than 80 miles from the sea, to spend their holidays at the seaside-- and the whole of the South and East coastal areas have been restricted since 1940 from time to time; those holidays which war-workers have been able to secure have been for the most part spent at home, a very real sacrifice not only for the war-workers themselves but even more for their wives.

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9. On balance, there has been an increase since 1938 in the total number of passenger journeys on the British railways by about 10 per cent; including troop trains. But the total number of passenger train-miles has fallen by nearly 30 per cent. This in itself is an indication of the way in which the railways have been compelled to herd the passengers into the trains; it is said, indeed, that if the passengers were animals, the railway companies would be prosecuted by the humane societies. In the summer of 1944, as part of the measures to clear the railways for the invasion, there were new and drastic cuts in long-distance passenger services, equivalent to a further reduction in train-mileage of some 10 per cent. Furthermore the almost total disappearance of fast trains, restaurant and sleeping cars has imposed considerable hardships.
10. The shortage of petrol and tyres and drivers has led to drastic cuts in public service road transport, especially over long distances. Fuel consumption of vehicles in these services has been cut by about 40 per cent.
11. Private motoring has, of course, been cut much more severely. Since June 1942, petrol has been available to private motorists only on proof of need; a ration is permitted only to doctors, officials travelling on business and the like. The weekly consumption of petrol by private cars and motor cycles had thus been reduced from 47,600 tons in 1938 to 6,000 tons in 1943, or about one-eighth of the pre-war level; if purely personal consumption be considered, excluding professional and business use, the cut is from 513 million gallons in 1938 to 7.6 in 1943, or to a comparative level of $1\frac{1}{2}$ per cent. The number of cars licensed has fallen from 2,034,000 in August 1939 to 735,000 in May 1944, and the number of motor cycles from 418,000 to 117,000.
12. The supply of new bicycles has been reduced by 55 per cent, but the usage of the existing stock has greatly increased, and the supply of tyres of inferior quality to cyclists has nearly doubled. This is an inevitable result of the curtailment of public transport and the drastic cut in private motoring.

IV. CONSUMER GOODS

13. Total Supplies. Supplies of manufactured goods have become progressively scarce. Some, such as clothing and soap, are rationed; others, such as furniture, are obtainable only by permit; others tend at intervals to disappear from the shops altogether; in some cases (e.g. kitchenware) the supply must then be stepped up; others again, such as newspapers, are in reasonably plentiful supply, but either the buyer gets a much smaller article for the pre-war price or the product is taxed very heavily. Rationing and price control limit expenditure on necessities, and the great volume of public purchasing power eats up the supply of uncontrolled goods as it appears, the State taking a rake-off both in purchase tax on such products up to 100 per cent. and by 100 per cent. Excess Profits Tax.

14. Change in quality and indeed of the nature of goods supplied to the public makes measurement difficult, but the following table shows the estimated personal expenditure on manufactured goods:

Changes in the Volume of Expenditure on Consumer Goods

(\$ millions at 1938 prices)

	<u>1938</u>	<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>	<u>1943</u>
Clothing	1788	1788	1500	1108	1092	1036
Household goods	1096	1040	812	592	416	352
Other goods	<u>876</u>	<u>876</u>	<u>772</u>	<u>632</u>	<u>516</u>	<u>500</u>
Total	3760	3704	3084	2332	2024	1888

These expenditures were made by a civilian population some 7½ per cent. smaller than in 1938. But they include all purchases made by members of the British and Allied armed forces, i.e., everything which Servicemen in Britain do not receive in kind; they also include all supplies to N.A.A.F.I., canteens, hospitals, ships' stores, etc. Purchases made to replace blitzed possessions are, of course, included

15. Broadly, purchases of manufactured goods had fallen by one-half in 1943; the 1944 supply may not be very different. But the actual level is not the whole story; supplies have now been very scarce for three years, and as wardrobes and domestic stocks become exhausted, the effects of shortage grow cumulatively. In 1941 it was not difficult to manage with a clothing supply of 60 per cent. of pre-war; in 1944 the whole order of hardship is different. In the five

years of war, assuming 1944 the same as 1943, the population has received only three years' normal supply of clothing, something over two years' supply of household goods and some 3½ years' supply of other goods. This shows a backlog of re-equipment, towards restoring some parts of which a beginning must soon be made.

16. Clothing. Clothing rationing was introduced in mid-1941, and the aggregate volume of consumption was, in 1943, about 42 per cent. below pre-war. Boots and shoes, however, fell by only 28 per cent. The following table shows the average numbers of certain garments purchased on the current ration by adults not receiving the industrial supplement. This is expressed as a rate of purchase; as stocks are now pretty constant, this reflects accurately current production possibilities:-

	<u>Men</u> (18 and over)	<u>Women</u> (18 and over)
Overcoats and rainwear.....	1 in 4½ years...	1 in 2-¾ years
Outerwear (i.e., suits; or jackets with odd trousers; costumes; dresses; or odd skirts or slacks with jacket or blouse).....	1 in 2½ years...	1 in 9 months
Shirts.....	1 in 9 months	
Under garments(all kinds, including corsets).....	1 in 9 months...	1 in 4 months
Socks and stockings.....	1 in 5 months...	1 in 2½ months
Nightwear.....	1 in 4½ years...	1 in 4 years
Footwear(all types, including slippers).....	1 in 13 months..	1 in 8 months

The ration in 1944 is 48 points, or 58 for industrial workers, with special allowances for certain types of worker. It is estimated that supplies will have to increase to permit a ration of at least 100 points a year before it is possible to stop rationing.

17. Household goods. Consumption of household goods - furniture, hardware, hollow-ware, crockery, soap, electric lamps, etc.-- had by 1943 fallen below one-third of the 1938 level. These supplies had to meet the demand of hospitals and other institutions, as well as that of personal users; personal supplies had to cover the losses of existing stocks through enemy action. Many types of goods,

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especially those of the best quality, are no longer available, and the range of designs from which the consumer can choose is much narrower; both these factors tend to make the consumer's position even worse than it appears from the reduction in total supplies.

18. Supplies of furnishings (including furniture, upholstery, carpets, curtains, etc.), were by 1943 only some 20% of the pre-war level. Curtains, towels, kitchen cloths have all to be met within the units of the personal clothing ration. The production of furniture for private households is confined to wooden "utility" models, none of which are upholstered. This is issued only to people setting up house, including those who have been bombed, or to parents needing a bed for a growing child. Even then, an allowance to a bombed out couple, for example, would be exhausted by the purchase of only one double bed, one kitchen table, four upright chairs, one dressing chest, one armchair, one set of book-shelves. Even this scanty allowance is reduced where applicants have some furniture; and generally demands cannot be satisfied without considerable delay. Supplies of wool carpets and rugs have been cut to 4% of the pre-war level, felt base to 16%, linoleum and substitutes to 17%, woollen blankets to about 33%. The production of sheets would provide only one pair per person in 30 years.

19. Supplies of domestic hardware in 1943 were about one third or pre-war. The manufacture for civilian uses of most electrical household appliances, aluminium hollow-ware and lawnmowers is, of course, prohibited. Only simple forms of electric-light fittings are permitted, and refrigerators may be licensed only on urgent medical grounds. A limited output of cookers (7% of the pre-war level), fires, kettles and irons was permitted in 1943, almost entirely for institutions. Production of domestic hollow-ware was reduced too far in 1941-42, and it was necessary in 1943 to restore supplies to about one-half the pre-war level; the 1943 supplies, on the assumption that two-thirds of the output went to private consumers, were equivalent to one kettle for each household in $3\frac{1}{2}$ years, one saucepan in $1\frac{3}{4}$ years, and one bucket in 4 years.

20. Supplies of table-knives in 1943 were 18% of pre-war, and of spoons and forks 10%; at this rate, each private citizen could buy one knife, spoon and fork about every 20 years. Other household

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goods in short supply include china and glassware, household brushes and brooms (40% of pre-war), and matches (55% of pre-war).

21. In the picture of household goods, the lack of material for repair-work, and the acute shortage of spares and materials is significant. When a household appliance breaks down, an interval of weeks may elapse before it can be repaired. It is extremely difficult to get supplies of timber and other materials for work about the house.

22. Other goods. The heterogeneous collection of "other goods", which in 1938 represented nearly one-quarter of expenditure on manufactured goods, has followed diverse patterns. Production for civilian use is prohibited over a wide range, including gramophones, pianos, cameras, golf and tennis balls, many types of leather goods, nearly all fancy goods, jewellery (excepting wedding rings), and many types of toys. Some licenses, however, have had to be issued to cover small-scale production by people who were considered unsuitable for transfer to more essential work.

23. Among goods of which production is still permitted there have been cuts of varying degrees. For example, supplies of lead pencils are 70% of pre-war, razor blades 62%, gramophone records (mainly for institutions) 55%, toothbrushes 54%, shaving brushes 24%, penknives 23%, fountain pens 21%, umbrellas 10%. The 1943 supply of radio valves for replacements for a radio population of 9.6 million sets, was 3½ million.

24. Clocks and watches were nearly all imported from Europe before the war, and supplies for civilians have been almost negligible for some years. The shortage of alarm clocks was so serious that supplies had to be imported under Lend-Lease, being released at first only against permits issued to people on essential work who regularly had to rise before 5 a.m.

25. Expenditure on books, magazines and newspapers has increased; the annual number of newspapers bought per adult civilian has risen from 180 to 200, but the number of magazines has fallen from 28 to 20. The number of books sold is probably not much less than 85% of pre-war, but the maintenance of sales has been possible only by the virtual exhaustion of pre-war stocks. The size of these publications

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has been drastically cut; the daily newspaper has 4 pages, sometimes rising to 6, and the consumption of newsprint is less than one-quarter of the pre-war level; likewise the book trade has been maintained on a 43 per cent. paper allocation.

V. DRINK AND TOBACCO

26. The same tendency is very marked in the purchases of drink and tobacco. These are the anodynes against the stress and boredom of war, and the volume of consumption has increased by some 7 per cent, despite increases in taxation which have raised the price of a packet of 20 cigarettes from the pre-war 1s. (20 cents) to 2s.4d. (47 cents), and the price of a pint of beer, depreciated in quality, from 8d. (13 cents) to 1s.2d. (23 cents). Expressed on the appropriate per head basis, the consumption of alcoholic liquor (adult civilians plus all armed forces in the United Kingdom) expanded by 7 per cent. and that of tobacco (adult civilians plus British armed forces in the United Kingdom) by 17 per cent. So powerful is the pressure of purchasing power into unrationed channels, even of depreciated quality, that in 1943 expenditure on drink and tobacco exceeded \$4,000 million--only slightly less than that on food--and it yields the Exchequer a revenue of \$2,828 million, a sum not far short of the total pre-war revenue of the State.

VI. FOOD**

27. The food supply in the last five years has been enough--but only just enough--to sustain health and strength on a monotonous diet. The Fifteenth Report to Congress on Lend-Lease Operations describes the present position:

"Even with the help of Lend-Lease goods, however, this result--to have enough to eat to sustain an intensive war effort--has been attained only by very strict rationing. The British people eat far less well than the people of the United States.

Compared to the average American civilian, the average Britisher in 1943 was able to obtain only 76 per cent as much milk and milk products, 76 per cent as much meat, 68 per cent as much

** Most of the material in this section is taken from the Combined Food Board's study of Food Consumption Levels in the United States, Canada and the United Kingdom.

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poultry and fish, 56 per cent as many eggs (and in Britain's case these were almost entirely dried eggs), 23 per cent as much citrus fruit and tomatoes, and 50 per cent as much other fruit and fruit products. The only important foods the British civilian gets more of than the American civilian are potatoes, such vegetables as carrots and cabbage, and bread."

28. At the period of greatest shortage in the first half of 1941 calorie supplies fell to 90% of the pre-war level, animal protein to 77 per cent and fat to 81 per cent, and there were indications that the diet was inadequate. Since then, so far as bulk and nutrients are concerned, supplies have been maintained at an adequate level, thanks to Lend-Lease shipments from the United States and Mutual Aid shipments from Canada. The average calorie intake in 1943 was only 5% lower than before the war, and total protein supplies were a little greater, although of course, the proportion of animal protein had declined. Supplies of vitamins and minerals have been well maintained, largely through the increase in the extraction ratio of flour, the addition of calcium to the flour, the fortification of margarine with vitamins and the increased supplies of vegetables and milk,

29. But the nutritional adequacy of the British diet has been maintained only at the expense of a marked change in its composition. This is illustrated by the following table, which shows the changes forced upon us by the war in the consumption of the main foods. While it refers to 1943, preliminary estimates for 1944 do not appreciably differ.

British Civilian Food Consumption

	<u>Change in consumption</u> <u>per head between 1934/8</u> <u>and 1943</u> %	<u>Consumption</u> <u>per head</u> <u>in 1943</u> lbs.
Fruit	- 46	75
Sugars and Syrups	- 31	65
Meat, poultry, game, fish and eggs	- 22	149
Oils and fats, including butter	- 16	38
Beverages (tea, coffee, cocoa)	- 9	12
Milk and milk products, excluding butter	+ 28	49(a)
Grains, potatoes, pulses	+ 28	509
Vegetables	+ 33	197

(a) in milk solids

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Supplies of meat, fish, eggs, butter, fats, sugar and fruit have been greatly reduced, and the British consumer has been forced to make up the deficiency by eating more potatoes, vegetables and bread. Before the war only 51% of the weight of food consumed by the British public consisted of grains, potatoes, pulses and vegetables; this proportion has risen to 65%. There has also been an increase in milk consumption, but this has gone to priority classes, such as children and expectant mothers; and supplies to the normal adult consumer have been severely restricted.

31. The overall adequacy of the country's food supplies in terms of nutrients has been proved by experience. What cannot be stated in statistics of vitamins and calories are the loss of variety and palatability, the disappearance of familiar dishes, the house-wife's struggle to provide a main dish each day, the substitution of mass-feeding in canteens for domestic meals.

32. Meat and bacon, butter margarine and cooking fats, cheese, tea, sugar and preserves are rationed; distribution of eggs and milk is controlled to ensure preferential supplies to priority classes of consumers; tinned goods and many other foods (e.g. dried fruit, breakfast cereals, rice, biscuits etc.) are rationed on a points system; chocolate and sugar confectionery are on a separate personal points system; fish, though not rationed, is scarce. Bread and potatoes and most vegetables are the only major food-stuffs in unrestricted supply. The rations are meagre when considered by themselves: a week's ration of meat (1s. 2d. worth of beef, veal, mutton, lamb or pork) could well disappear in a single pre-war steak--but is supplemented by ration-free offals, when procurable: a week's ration of bacon (4 oz.) would not leave much over from a good pre-war breakfast; in winter the supply of eggs shrinks to one a month; and so on. To a limited extent rations are supplemented by "eating out" in canteens and restaurants. It has been the policy of the Ministry of Food to give priority supplies to industrial canteens. School children, mothers and young children have also had preferential treatment. The people who suffer most are those who are confined to their houses by age or infirmity; the sick and convalescent whose appetites need to be stimulated.

33. Rationing has secured a more even distribution of essential foods over all income groups. But to ensure that all can obtain their share of the rationed foods prices have been strictly controlled. This has only been possible by means of subsidies which impose a heavy burden on the Exchequer. Rationing, however, has its own peculiar drawbacks and vexations for the customer, and for the trader it imposes additional work upon depleted staffs; we cannot hope to be rid of these vexations for some time to come.

VII. SERVICES

34. There has, of course, been a vast contraction of manpower in the service occupations. This, indeed, is a major deprivation of which every middle-class Englishman is conscious at every turn. Employment in the distributive trades has fallen by about one-third; employment in miscellaneous services, such as hotels and restaurants and entertainment and laundries has fallen by about one-quarter, the number of people engaged in private domestic service has been reduced from about 1,400,000 to less than 400,000; only an insignificant fraction of those between 18 and 60 years of age is allowed, on grounds of hardship, to remain in such employment. At the same time there has been the inevitable flow of surplus purchasing power into this field--expenditure on entertainments at constant prices has increased by some 16 per cent and the Exchequer receipts from the entertainment tax have risen from \$32 million a year to \$160 million a year. Here even more than in the supplies of actual goods, the public has felt the impact of demands of the armed forces upon the very limited accommodation available.

35. The result is, of course, that the standards of amenities and general services available have deteriorated enormously. The cut in the distributive trades has not been more severe than that in the quantity of goods to be supplied to consumers, but it has meant a disproportionate diminution of service--the closure of tens of thousands of small shops, considerable effective restriction upon choice of retailer and the disappearance of all customary amenities such as domestic delivery. There are the same number of families to be supplied, although with less goods,

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and about two-thirds as many people to supply them, at the same time as the machinery of rationing imposes more work upon them. In the hotels and restaurants, places of entertainment and the like, the demand for services is out of all relation with the supply. Laundries cannot take more customers and have a slow service, doubly difficult when wardrobes and linen cupboards are running low. The medical men who are still practising at home are pressed harder than before, and in some districts are definitely insufficient - there are now only some 31,700 in civilian practice as compared with before the war. The postal authorities cannot maintain their pre-war service, as they must cope with increased traffic with depleted staff. Repair work of all sorts (cars, bicycles, clocks, watches, etc.) has become difficult.

36. These are generally losses of convenience rather than of necessities, but they all serve to increase the burden upon the ordinary civilian, who has more work to do, more duties to perform, less food to eat, less supplies of all kinds, and the possibility of being bombed out as well. They press more heavily still upon the women of the community, trying to run their homes and their jobs at once, and forced at the same time to endure hours of waiting and queueing and worry of all kinds which the service occupations are designed to save. The shortage of goods is tremendously more important than the loss of service amenities; but the lack accentuates the drabness and difficulty which is the central feature of the ordinary citizen's life at the beginning of the sixth year of the war.

TOP SECRETCOPY NO. 75

1.

ANNEX CTHE BRITISH MANPOWER PROBLEM
IN STAGE III. THE DISTRIBUTION OF MANPOWER

1. At mid-1944 there were in employment in Great Britain about 22,015,000 men and women of normal working age, as compared with about 18,480,000 in 1939. Their distribution between various industries and services at these dates is compared in the Table below and the present estimates of needs in Stage II are also shown:-

DISTRIBUTION OF MANPOWER IN GREAT BRITAIN

	(000's)		<u>Proposals for first</u> <u>Year of Stage II</u>	
	<u>Mid-</u> <u>1939</u>	<u>Mid-</u> <u>1944</u>	<u>Average</u> <u>For Year</u>	<u>End of</u> <u>Year</u>
<u>Services</u>	477	4,968	4,120	2,850
<u>Civil Defence</u>	80	281	125	100
<u>Other Government Services</u> (including industrial)	1,385	1,805	1,805	1,810
<u>Munitions:</u>				
Iron and Steel, Engineering, Chemicals and Shipbuilding, Other Stores	1,150 200	4,275 814	3,040 660	2,323 489
<u>Total of above</u>	<u>3,292</u>	<u>12,143</u>	<u>9,750</u>	<u>7,572</u>
<u>Direct Exports</u>	<u>1,300</u>	<u>300</u>	<u>610</u>	<u>1,150</u>
<u>Building and Civil</u> <u>Engineering</u>	<u>1,310</u>	<u>623</u>	<u>900</u>	<u>1,100</u>
<u>Home Market and General Services:</u>				
Iron and Steel, Engineering, Chemicals and Shipbuilding	1,606	687	1,110	1,683
Other Manufactures	2,248	1,024	1,180	1,682
Distributive Trades	2,887	1,928	2,020	2,080
Non-Manufactures	1,882	1,413	1,450	1,497
Transport, Public Utilities, Agriculture, Mining, Food, Drink, and Tobacco	3,955	3,898	3,980	4,059
<u>Total of Home</u> <u>Market and</u> <u>General Services</u>	<u>12,578</u>	<u>8,950</u>	<u>9,740</u>	<u>11,001</u>
<u>GRAND TOTAL</u>	<u>18,480</u>	<u>22,015</u>	<u>21,000</u>	<u>20,823</u>
<u>ESTIMATE OF AVAILABLE TOTAL</u> (including unemployed)				<u>20,544</u>

Notes: (a) The above table covers only men 14 - 64 and women 14 - 59. Unemployed are excluded except in the estimated total available at the end of the first year. Private domestic servants are excluded throughout.

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(b) The figures for Stage II are based on the estimates of requirements under each head put forward by the responsible Departments. These have been adjusted in the cases of the Services and Munitions to take account of the Quebec decisions.

(c) The figures of 1,150,000 and 200,000 for munitions in 1939 represent a substantially greater volume of munitions production than in an ordinary peace-time year.

(d) "Other Manufactures" include textiles, clothing, leather, wood-working, paper, printing, bricks, pottery, glass, etc. "Non-Manufactures" include Commerce, banking, insurance, finance, professional services, hotels, restaurants, laundries, entertainment, etc.

2. The figures in the above Table call for certain comment. First, in measuring the extent to which it may be possible to find the manpower to achieve our objectives, allowance must be made for the difficulties of transferring workers. At mid-1939, there were 1,345,000 unemployed; at mid-1944 the figure was no higher than 102,000. There is no possibility that we can negotiate all the difficulties of the Stage II transitions without some substantial increase in unemployment, at least for a time. If the figure were no more than 500,000 (about 2½%), the gap between the present target figures of numbers required to be employed under each head at the end of the first year, and the probable total of manpower in employment would be of the order of 300,000, a large part of which would probably fall upon the planned increase in the Home Market and General Services.

3. Second, the targets for the end of the first year of Stage II and the estimates for the average of that year, broadly represent what we would wish to achieve. On the other hand, the British Government exercises only limited powers over the employment of a large proportion of its citizens. It will no longer be possible to direct older women, or women with household responsibilities; those who have been working away from home for three years or more must be allowed to return if they wish. It is not proposed to exercise powers of direction over the men who are demobilised from the Forces, save where they are released on urgent industrial grounds rather than age and length of service. Many of the men

released will have rights of re-instatement in industries which are, for immediate purposes, less essential.

4. Thus in Stage II the British Government will have only limited powers to make the manpower pattern conform to its own intentions. It may be unable to prevent a rise in distribution of non-manufactures to a higher level than it would wish. The present estimates for those categories represent the minimum figures to which it may prove possible to hold them; they may be proved by events to be under-estimates.

5. Third, the above figures do not show the full volume of employment on Government or Export work, or, in consequence, the full measure of the war-time changes in those serving the Home Market. The whole of mining, transport, public utilities, commerce and other general services, are shown under the head of Home Market and General Services, even when they are in fact ancillary to Government or Export Work.

6. We have estimated the division of the employed manpower between Government Work, Export and the Home Market, after assigning to each of the latter its approximate share in these general services; the result is as follows:-

DIVISION OF MANPOWER BETWEEN GOVERNMENT, HOME AND EXPORT
(GREAT BRITAIN)

	<u>Estimates 1st Year Stage II</u>							
	<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>	<u>1943</u>	<u>1944</u>	<u>Average of Year</u>	<u>End Year Target</u>
	%	%	%	%	%	%	%	%
Government Work	22.2	47.8	57.4	63.7	67.1	67.5	55.9	42.4
Export	9.5	6.2	3.9	2.2	1.9	1.9	3.9	7.6
Home Market	68.3	46.0	38.7	34.1	31.0	30.6	40.2	50.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

7. The same calculation would show, at mid-1944, about 15,000,000 employed on Government work, including the Armed Forces. The sources from which these workers have been found since mid-1939, are approximately as follows:-

SOURCES OF MANPOWER ON GOVERNMENT WORK

	<u>Millions</u>
Increase in Total Labour Force	2.50
Reduction of Insured Unemployed	1.25
Reduction of Employment on Exports	1.35
Reduction of Employment on Work for Home Market	5.80
Already employed on Government Work at mid-1939 (a)	4.10
	<u>15.00</u>

Note:- (a) There was already a substantial volume of munitions production and construction of facilities on government account at mid-1939. The normal peacetime figure for government work is nearer to three millions.

II. EXPECTED MANPOWER SUPPLIES IN STAGE II

8. The available manpower will decline in Stage II for two reasons. First, there is already a decline in the total number of men available as the result of casualties, and of women workers in industry, through industrial wastage. In the second half of 1944, for those reasons, the total available manpower is likely to decline by about 294,000. Secondly, in the first year of Stage II this ordinary process of decline will be increased still further through the withdrawal of married women and others who cannot be directed to work and who have only entered industry as a war measure. At mid-1944 there were nearly 50% more women at work than at mid-1939; the number of married women aged 41 - 59 in industry has increased from 400,000 to over 1,000,000; of all single women aged 18 - 40 as many as 90% are in industry or the Services, and of married women aged 18 - 40 without young children as many as 80%. In all there are now 2,600,000 married women in industry as compared with little over 1,000,000 in 1939. These very high figures cannot be maintained once the immediate danger is past. The net losses from all causes in 1945 are estimated at 1,280,000, even with the maintenance of the present school leaving age. After taking account of all these factors, the total available manpower, employed and unemployed, at the end of the first year of Stage II, is not expected to exceed 20,544,000.

III. EXPECTED MANPOWER REQUIREMENTS IN STAGE II

9. The Military Needs of Stage II: (i) Forces. The strengths of the three Services to be sustained from recruitment in Great Britain at mid-1944, and as now estimated for the end of the first year of Stage II on the basis of the Quebec decisions, are as follows:-

	<u>Strengths of the Services</u> (Men and Women)	
	<u>Mid-1944</u>	<u>End of First Year of Stage II</u>
Navy	853,500	670,000
Army	2,918,000	1,514,000
R.A.F.	1,177,400	666,000
Nursing Services	19,300	(a)
	<u>4,968,200</u>	<u>2,850,000</u>

(a) included in totals above.

10. These figures represent the provisional estimates of the British Chiefs of Staff of the minimum forces necessary to discharge the tasks laid upon them.

11. The Military Needs of Stage II: (ii) Munitions. The sources of British Empire munitions supplies at various stages during the war are estimated to have been as follows:-

SOURCES OF BRITISH EMPIRE MUNITIONS SUPPLIES

	<u>1939</u> (Sept. Dec.)	<u>1940</u>	<u>1941</u>	<u>1942</u> %	<u>1943</u>	<u>1944</u> (Jan. June)	<u>Total</u> (Sept.39 June 44)
U.K. Production	95	77	78	72	59	60	68
Canadian Production	-	4	6	10	11	11	9
Eastern Group Production	1	1	2	2	2	2	2
U.S. Production (Cash or L/L)	4	18	14	16	28	27	21

Note: While the proportion of British Empire munitions supplies produced in U.K. fell from 95% in 1939 to 60% in the first half of 1944, the manpower employed in U.K. on such production in the same period was nearly quadrupled.

12. The numbers in the Forces will fall progressively, and on the average of the first year of Stage II over 80% of the present Forces of the British Empire are likely to need to be maintained. It is estimated that this will require a total volume of munitions production for the British Empire, after allowing for use of stocks, of about 62% of the 1944 level.

III. EXPECTED MANPOWER REQUIREMENTS IN STAGE II

9. The Military Needs of Stage II: (i) Forces. The strengths of the three Services to be sustained from recruitment in Great Britain at mid-1944, and as now estimated for the end of the first year of Stage II on the basis of the Quebec decisions, are as follows:-

	<u>Strengths of the Services</u> (Men and Women)	
	<u>Mid-1944</u>	<u>End of First Year of Stage II</u>
Navy	853,500	670,000
Army	2,918,000	1,514,000
R.A.F.	1,177,400	666,000
Nursing Services	19,300	(a)
	<hr/>	<hr/>
	4,968,200	2,850,000

(a) included in totals above.

10. These figures represent the provisional estimates of the British Chiefs of Staff of the minimum forces necessary to discharge the tasks laid upon them.

11. The Military Needs of Stage II: (ii) Munitions. The sources of British Empire munitions supplies at various stages during the war are estimated to have been as follows:-

SOURCES OF BRITISH EMPIRE MUNITIONS SUPPLIES

	<u>1939</u> (Sept. Dec.)	<u>1940</u>	<u>1941</u>	<u>1942</u> %	<u>1943</u>	<u>1944</u> (Jan. June)	<u>Total</u> (Sept. 39 June 44)
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6.

If the British Empire had to provide the whole of this without external assistance, there could be little relaxation in their scale of munitions production.

13. At mid-1944 the manpower in the munitions industries (iron and steel, engineering, chemicals and shipbuilding) employed on work for the three Supply Departments was as follows:-

MANPOWER IN MUNITIONS INDUSTRIES
AT MID-1944

Admiralty	950,000
Ministry of Supply	1,493,000
Ministry of Aircraft Production	<u>1,832,000</u>
	4,275,000

14. The British production programmes are estimated to require the following numbers of workers in the first year of Stage II:-

ESTIMATED MANPOWER IN MUNITIONS INDUSTRIES
IN FIRST YEAR OF STAGE II

	<u>Estimated Average</u> <u>of Year</u>	<u>End-Year</u> <u>Target</u>
Admiralty	850,000	800,000
Ministry of Supply	960,000	693,000
Ministry of Aircraft Production	<u>1,230,000</u>	<u>830,000</u>
	3,040,000	2,323,000

15. The British manpower on munitions is thus expected to fall by the end of the first year to about 55% of its present level. The average employment on munitions in 1945 will, however, greatly exceed the end-year figure, and may be estimated at 3,040,000. The output of this labour force, allowing for all considerations including a reduction from the present working week of 53 to 54 hours to the normal level of 47 to 48 hours, may be put at about 66% of the present level.

16. The Needs for Export. We have set ourselves the long-term target of raising our exports from their present level of about 30% of pre-war to 150% of that level. The immediate programme aims at raising the numbers engaged directly in export from the present 300,000 to about 1,150,000 by the end of the first year of Stage II.

17. Over-all that represents a return to a little under 90% of the 1939 manpower. This does not, however, mean that in the first year of Stage II we should be able to export 90% of our 1939 exports. It has been estimated that the planned labour force on export will raise the production of exports from their present level of around 30% of the pre-war volume to about 60% during the first year of Stage II. There is reason to think that this estimate allows too little for the difficulties of transferring labour, of re-converting or re-opening capacity, of obtaining orders and preparing designs.

18. Moreover the increase cannot be evenly spread over the whole field, since the use of capacity to meet Japanese war needs, or more immediate problems of recruitment and training of the labour forces, present obstacles that cannot in all cases be overcome. The immediate increase is likely to be greatest in those industries whose type of product and level of output has not been substantially changed by the war. It will be less in those where plants have been closed down and labour forces dissipated. The increase of export in the first year will be relatively slight in coal-mining, where the labour force has considerably fallen during the war.

19. The Needs for Building. The extent of the war damage to housing which requires to be made good has been indicated in Annex B. Apart from enemy destruction, the war has brought a complete cessation of all normal house-building since 1940; about 300,000 houses were built annually before the war. In addition, over the past three years, there has been barely half the normal repairs to houses.

20. The present building plans provide for the completion during the first two years after the war of 200,000 permanent houses and 150,000 temporary houses. Well under 100,000 houses of all sorts will be completed during the first year. Such a figure would not replace half the houses destroyed by enemy action.

21. The present manpower plans provide for an increase of the total labour force to be employed in building and

civil engineering, from the 623,000 at which it stands at mid-1944 to 1,100,000 at the end of the first year of Stage II. This figure compares with 1,310,000 in employment in these trades at mid-1939, apart from the substantial reserve of unemployed building labour which then existed. Within this total, there will be a great increase of employment on civil house-building and repairs, and a substantial reduction in military construction. Such a provision is the absolute minimum that could be contemplated.

22. The Needs to make good Arrears of Maintenance. The need to make good the war deficiencies of industrial and public utility maintenance is urgent. Since 1940 maintenance on normal standards has been impossible, and four years of increasing arrears has left both industry and public utilities with much of its plant in a condition in which continued working depends on a substantially greater allocation of manpower to provide for proper overhaul and repair.

23. The problem does not lend itself to over-all statistical measurement. It is very roughly estimated by the Departments concerned that maintenance during the war has been at between one-quarter and one-half of the normal peace-time rate. A few illustrations will better indicate its importance, and the steady accumulation of arrears.

24. The engineering industry has been relatively well placed and the position will be eased by the new capacity created. On the other hand, very little repair and maintenance have been done in iron and steel, in the chemical industries, and in all the textile industries. In all of these the position is now serious and maintenance cannot be much further postponed.

25. From 1939 to the end of 1943, the railways have set aside about £ 450 millions to cover normal depreciation; of this they have actually been able to spend only £ 350 millions, and the difference of about £ 100 millions broadly measures the shortfall in maintenance. As a result they have been able during the war years to renew an average of only about 980 miles

of track annually as against an average of 1400 miles for the four years before the war. There are now 15.1% of all locomotives not available because of need for repair; there are 8.2% of all railway-owned wagons under or awaiting repair - about twice the normal peace-time programme.

26. The condition of buses and other road-haulage vehicles has deteriorated sadly. Despite an allocation of about 2000 vehicles a month for civilian use, the maintenance of minimum essential services is difficult, and, through shortage of repair staff, the present state of most of the vehicles is lamentable.

27. The demands for electricity have increased greatly, and there has been an increase from an average of 2,031 million k.w.h. per month in 1938 to 3,267 million k.w.h. per month in the first half of 1944. This increase of over 60% has been met with no more than a 33% increase of capacity. Moreover, because the new demands are far more continuous than peace-time demands it has been difficult to find the usual opportunity, during the Summer months, for the urgently necessary over-hauls. Partly as a result of this, partly because an increasing proportion of all capacity is now overdue for renewal, there is currently some 17% of all capacity out of commission through breakdown, as compared with a figure of about 5% in the pre-war years.

28. No specific manpower allocation has been made for the increase of maintenance and renewals of plant. But the present Departmental estimates include a provision for an increase of the labour force in iron and steel, engineering, chemicals and shipbuilding serving the home market by about 1 million. This would raise the average number employed during the first year to a level only about two-thirds of that of 1939.

29. The Needs to Raise Civil Standards. The effects of the war on civilian consumption have been outlined in Annex B. The target which we have permitted ourselves in Stage II is that of restoring production in the general field of civilian consumption goods to a level about half-way between that of

1938 and that which prevails in 1944. Having regard to the long time that Britain has been at war, and the state to which most households and wardrobes have now been reduced, we believe that to be a reasonable objective. Over the past five years British men and women have been able to buy only three years' normal supply of clothing and two years' supply of household goods. The Departmental estimates have made provision for increasing the group of "other manufactures" for the civil market (textiles, clothing, leather, wood, paper, pottery, glass, etc.) from the figure of 1,024,000 at which it now stands to 1,682,000.

30. Even so, the supplies of these goods actually available for consumption will not in the first year of Stage II rise from the present level of around 45% of 1938 to the level of about 75% that the manpower can ultimately produce. Plant will only by degrees be released and reconverted. Labour will only progressively become available. When both are available, production must start from the beginning, and work in progress be gradually built up. We shall be fortunate if, during the first year, the volume of consumption goods coming into the hands of retailers carries us one-quarter of the way back to 1938. And the retailers themselves will have to re-stock their denuded shelves. The effective rise in consumers' standards cannot be great or rapid.

31. In the remainder of the field covered by civilian final consumption, part of the rise of standards will be the automatic result of reduced government demands; this particularly affects railway and other transport, public utility services, coal supplies and (through reduced demands of Allied Forces) a large variety of services. Part will come from an increase in the supply of consumption goods, as well as capital goods, produced by the engineering and chemical industries. Part will result from expected increases in the manpower in distribution and "non-manufactures". In those two categories, however, the target increases have been kept to a minimum in order to enable manpower to be used to the greatest possible extent on more vital needs.

11.

32. Taking the whole field of the Home Market, the manpower, after excluding workers performing general services ancillary to government production and export, is now about 55% of 1939 and provision is being made to increase it to a little over 80% by the end of the first year of Stage II. But the civil home market sector will have to bear a substantial part of the deficiency in the total manpower available to meet all needs, and it is, for that reason, unlikely that these targets will be achieved in full.

SUMMARY

In very broad outline, the planned changes between mid-1944 and the end of the first year of Stage II are indicated by the following balance sheet of expected increases and decreases in different categories.

<u>I. ADDITIONAL MANPOWER DEMANDS.</u>	<u>Millions of Workers</u>
(i) <u>Exports</u> : To raise manpower directly on exports from the present level of less than 25% of pre-war to about 90% of pre-war by the end of the first year:	.9
(ii) <u>Building</u> : To start programme of 200,000 permanent houses and 150,000 temporary houses in two years:	.5
(iii) <u>Industrial Maintenance</u> : To undertake most urgent maintenance and renewals of plant neglected during war: (say 75% of increase in engineering etc. for Home Market):	.7
(iv) <u>Consumer Goods</u> : To raise manpower on consumers goods from 50% of pre-war to 75% by end of first year, and output over year by about half that: (remainder of engineering etc. and whole of "other manufactures" for Home Market):	.9
(v) <u>Miscellaneous</u> : To cover minimum additions to public utilities, mining, distributive trades, services, professions, etc. etc:	.4
<u>Total of Additional Demands:</u>	<u>3.4</u>
 <u>II. EXPECTED LOSS OF AVAILABLE MANPOWER</u>	
(vi) <u>Casualties</u> : Our manpower will be reduced between mid-1944 and end-1945, after allowing for returned prisoners by about:	.3
(vii) <u>Normal Wastage</u> : Between mid-1944 and end-1945 the normal net wastage is expected to be about:	.6
(viii) <u>Loss of Women after End of Stage I</u> : It is expected that there will be a net loss of non-directable women giving up work amounting to about:	.7
(ix) <u>Possible Increase of Unemployment</u> : No precise figure can be given for the probable increase of transitional unemployment. For present purposes it may be put at:	.4
	<u>2.0</u>

III. ESTIMATED ADDITIONS OF MANPOWER

Millions of
Workers

Against the above Demands and Losses may be set the following estimated Supplies:

(x) Armed Forces: In the light of the Quebec decisions the reduction in the strength of the Armed Forces and Civil Defence may be estimated at: 2.3

(xi) Munitions: A total of about 66% of the current output of munitions and other military stores over the first year would permit the manpower to be reduced by the end of the year by about: 2.3

Total of Additional Supplies: 4.6

IV. NET CHANGES IN MANPOWER

Additional Supplies 4.6

Less Expected Loss 2.0

Available Supplies 2.6

Additional Demands: 3.4

DEFICIT .8