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Board of Governors
of the
Federal Reserve System

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To Board of Governors
From Mr. Goldenweiser

Subject: Confidential British
Report on Civilian
Supply

The accompanying memorandum is a condensation of part of the contents of the "Report on Non-Military Sector of British Economy" prepared last October by the Ministry of Production at the request of the Combined Production and Resources Board in Washington.

The document is marked SECRET and this summary should be treated accordingly. A single copy was sent to me several weeks ago. The Report contains some 75 pages and consists of an introductory note summarizing the Report, 45 pages of text and several appendices (tables, schedules, quotas, lists of prohibited manufactures, etc.). The middle section deals in detail with the subjects summarized in the introductory note. Of special interest is a long table of imports (by value) into the United Kingdom from the United States in 1942, Jan. 1-July 31, together with estimated requirements of the same items for fourteen months from November 1, 1942, to December 31, 1943. The Report is not concerned with financial measures or with food production and distribution.

The attached memorandum consists of the bulk of the Introductory Note with the addition of a brief section from the body of the Report. A few tables of special interest are appended. The Report is available in my office for the time being.

CONFIDENTIAL

(BRITISH SECRET) NOT FOR CIRCULATION OUTSIDE THE BOARD OF GOVERNORS

INTRODUCTORY NOTE
to
REPORT ON NON-MILITARY SECTOR OF BRITISH ECONOMY
(Ministry of Production, October 1942)

Fifty-five out of every hundred occupied men and women in Great Britain are in the fighting services, civil defense, national or local government or are working in factories or public utilities to provide goods or services for the Government. The civil life of the country has been kept going, with the aid of lease-lend and other external help, by the other forty-five. But to do this it has been necessary to make the following modifications of our normal life:

- (a) Considerable reduction in the consumption of certain types of food (meat, butter, eggs, sugar, fruit) and increase in consumption of bread, cheese and potatoes.
- (b) A substantial reduction in consumption of other articles of common use. These articles have been provided for the civil population partly out of stock and partly out of current output at a rate which is rather less than half or normal.
- (c) The virtual closing down of the production of capital goods for civil purposes and the reduction to a very low figure of repairs to buildings and maintenance and renewals of plant, vehicles, rolling stock and the like.

The extent of the changes under (b) and (c) and the steps by which they have been brought about are described in the detailed sections of the Report. The figures in the preceding paragraph, however, fail to indicate fully the proportion of the nation's energies which is applied to furthering the war activity; for the distinction between military and non-military effort is fast disappearing in a total war.

In its endeavor to promote the greatest possible war effort, the Government's policy has been:

To prohibit the manufacture and import of unessential goods;

To restrict as far as is feasible the production, import and consumption of essential goods--including the feeding, clothing and housing of the population and the maintenance of plant and equipment;

To reduce exports to the minimum;

To mobilize labor so that the maximum of current effort may be devoted to the expansion of the armed forces and the production of munitions;

To throw into the pool our capital resources both at home and abroad.

The restriction of standards has necessarily proceeded by successive steps rather than at one stroke. Hardships had to be remedied before tightening the belt another hole.

The most striking illustration of the change that has taken place in economic life is the statistics of our imports of raw material. Before the war the annual volume of raw materials imported into the United Kingdom was about 29 million tons. For 1942 the figure will be about 12 million tons, of which less than 2 million tons will provide goods for civil consumption.

The total effects to date of the contraction in civil standards, described by this report, cannot be measured precisely, but the war sacrifices of the civilian may be indicated by the following facts: First, of personal income, only about half is now spent on consumption; the other half returns to the Treasury in taxes or as savings. Second, the total expenditure on goods other than foodstuffs is now just about the same as before the war in terms of money; prices are about twice as high, and a real expenditure half as great as before the war is met partly from stocks, partly from current

output. The exhaustion of stocks must imply a further reduction. The reduction has not been uniform; fuel and light, tobacco and drink have been consumed at or above the pre-war rate, but by contrast the consumption of clothing and household goods has been cut by one-half; private consumption of petrol is less than one-sixth of pre-war.

Restriction of civil consumption of things other than food has been brought about by a number of different methods:

- (a) Increased Taxation.--This has substantially reduced the purchasing power not only of the upper and middle classes, but also the better-paid manual workers. Indirect taxes have been used to limit consumption of beer and tobacco.
- (b) Wage Policy.--While there has been no attempt to impose a definite wage stop, it has been sought, by preventing increases of the index of the working-class cost of living, to secure in co-operation with the Trade Unions that wage increases should be reduced to a minimum.
- (c) Savings Drive.--It has been sought to divert purchasing power from goods into savings by a savings campaign and by other appeals.
- (d) Controls of Raw Materials.--All important raw materials are now controlled, and their use is restricted to purposes approved either by the Raw Material Control or by the Department administering the allocations (in the case of Civil consumption almost always the Board of Trade).
- (e) Limitations of Supplies.--In some cases, where stocks of goods or materials were large, and it was desired to conserve them or to secure their more equitable distribution, limitations were also imposed on supplies to retailers from manufacturers and wholesalers.
- (f) Concentration of Industry.--In order to free man-power, factory space and equipment, certain industries were concentrated and left with only sufficient capacity to meet essential needs.
- (g) Rationing.--The purchase of clothing has been made subject to rationing.
- (h) Utility Products.--To economize resources used for civilian production, certain "Utility" products of simple and standardized

design have been introduced. These mostly cover clothing, textiles and household goods.

- (i) Certificates of Need.--Certain goods in particularly short supply are reserved by special arrangement for those users whose professions make them indispensable, e.g., rubber gloves for doctors and veterinary surgeons.

The manufacture of certain items, e.g., carpets and wallpaper, has been entirely suppressed. Output of other major items of general consumption has been cut to about the following percentages of the pre-war figure:

	Per cent of Pre-War Volume
Clothing	45
Household textiles	15
Pottery	30
Furniture (made of wood)	12
Newspapers (newsprint consumed)	20
Bicycles	32
Motor cars	spare parts only
Radio equipment	spare parts only

Stocks of consumption goods held by retailers are believed to be now not much above half those that existed before the war. While there is no substantial stockpile that can be drawn upon, rationing will prevent any undue run on existing supplies.

It may be claimed that planning has been successful in maintaining a minimum supply of the needs of civil life and in preventing serious hardship. But behind the minimum supply are growing shortages of everyday goods such as matches, safety pins, watches and clocks. Imports of certain lines of goods from the United States are both helpful and significant-- for example, certain drugs and medical supplies, watches and alarm clocks, and electric flashlight bulbs.

Equitable distribution of our limited supplies is complicated by the war-time movements of population. Accordingly, special measures to control and organize physical distribution are carried out under the supervision of area distribution officers.

Since the war, the use of plant for all purposes has increased, though non-military use has fallen; but provision for maintenance and renewals has been reduced, in all cases severely, and in some to an extent which will soon have to be revised upwards. Here are some leading examples:

The output of coal mines is running at about 15 million tons a year below consumption. Strenuous efforts are under way to increase production and economize consumption. New machinery must also be provided.

Industrial consumption of electricity and gas expanded, and more materials will have to be devoted to maintenance and new plant.

The total traffic by road and rail has substantially increased, but, in spite of the black-out and a sharp reduction in maintenance and renewals, goods and passengers have been carried without interruption or serious delay. This success is attributable to better organization within each type of service and better co-ordination between the services.

The Post Office spent on telephone and telegraph communications about the same sum for maintenance and engineering stores in the year ending March 1942 as in that ending March 1939, but the expenditure on military account, which was nil in 1938, claimed 50 per cent of the total in 1942.

Preparations for Civil Defense and the results of air-raid damage have put a heavy burden on the Water and Fire Fighting Services. Increased materials for these Services are essential.

Civil construction has been restricted by a variety of measures including the allocation of materials and a system of permits for all work costing more than £100. New civilian building (including work for air raid precautions) now takes less than one-tenth the number employed in 1939.

The conservation of raw materials has formed an essential part

of economic policy. It has four aspects:

- (a) Economy of consumption has been improved by limiting allocations of raw materials, by rationing end-products or their supply to retailers, by prohibition of manufacture, by enforcing economies on the fighting services.
- (b) Economy of use has been achieved by revising specifications, reducing dimensions, accepting lower safety margins, simplifying packing, substituting at every point less scarce for more scarce materials.
- (c) Economy of manufacture has been insisted upon in order to increase output and avoid diversion of materials. This has been carried furthest in steel, where the British Standards Institution, with official support, has published a schedule of approved standards to supersede all earlier specifications.
- (d) Economy of waste materials has been achieved by organizing collection of scrap, both from manufacturers and consumers.

All these methods of conservation have been pushed further and further during the past three years. Information as to the detailed methods pursued in individual cases has been made available to the United States authorities. The most spectacular economies have been achieved in the case of timber, steel and (more recently) rubber.

Finally, exports have fallen. Since the country's productive resources are fully engaged, export reduces the volume of production which can be devoted to the war effort at home. But some exports are necessary to the successful prosecution of the war. They serve three distinct purposes: They supply Empire and Allied countries with the goods necessary to maintain their own war effort. They help to pay for our essential imports of food and materials (and often provide stronger inducements than sterling payments). They provide a valuable weapon of economic warfare both in attacking the influence of Axis countries and in making pre-emptive purchases easier.

The volume of exports is limited by a variety of factors--labor, inward shipping, outward shipping, scarcity of materials. Where scarce materials are not required, the policy has been to provide the minimum needs of Empire and Allied countries and to direct any balance to the destinations where it will bring the largest return in essential imports. But as our production rises the volume of exports is tending to fall below what is required for all the purposes enumerated above.

In the early days of the war it was both possible and necessary to encourage exports even if made of critical materials. By September 1941 scarcity of materials and man-power had virtually eliminated such exports and the policy outlined in the White Paper had in the main been the actual practice of the previous months. In all cases of exports involving critical materials the British authorities now try to satisfy themselves that the goods are needed for a purpose as essential to the war effort as would justify release in this country, and that they cannot conveniently be supplied from another source without detriment to the war effort of the United Nations. The qualification is important. Speed of delivery must be considered as well as the possibility that refusal to supply neutral countries may drive them into the economic embraces of the Axis or affect our own supplies of materials.

The success of this policy is best measured by the results. The following figures show the tonnage of critical materials embodied in non-munition exports as a percentage of the total United Kingdom consumption of the materials for the whole of 1942:

	<u>Percentage</u>
Steel	1.9
Copper	1.9
Aluminum	0.1
Rubber	4.0

The future of exports is bound up with the combined discussions now taking place under the auspices of the Combined Raw Materials Board and the Sykes Committee. Since all our capacity to produce, all our raw materials and all our man-power are devoted to the prosecution of the war, the combined planning of exports for the supply of the essential requirements of the non-Axis world is a most necessary task.

It has been the consistent aim of British economic policy over the last three years to establish a working balance between demand and supply, and thus eliminate both the dangers of inflation and the inequities of a system of distribution in which scarce goods went to the highest bidder or the most persistent seeker. This balance has been achieved by a combination of rationing, price stabilization and income stabilization, which, though far from perfect, has, on the whole, worked very successfully.

But the balance has been struck at a level of supplies just sufficient to keep the ordinary family going. The reductions that are tolerable over a short period, while stocks of clothing and household goods can be worn out, become increasingly onerous with time. What is true of the more durable forms of consumption is even more true of the plant and equipment of public utilities and of civilian industry. The present state of maintenance is in danger of falling below the safety mark. There is certainly little room for further economies; and the point has been reached where it is more important to make adequate provision for maintenance of existing plant than to embark on new construction.

Over the whole field of raw material consumption, continuous attempts are being made to secure economies, both by cutting down demands, and by eliminating waste. The drive is threefold—inspired by the need to save raw material, to save shipping and to save labor. The report shows that a large measure of success has been achieved.

INDICES OF REAL CONSUMPTION IN CIVILIAN MARKETS

	<u>1938</u>	<u>1940</u>	<u>1941</u>
Food	100	91	87
Drink and Tobacco	100	101	112
Shelter (Rent and Rates)	100	104	102
Fuel and Light	100	106	107
Household Goods and Domestic Service..	100	82	59
Clothing and Footwear	100	85	63
Travel	100	67	66
Other Goods and Services	100	85	79

INCOME TAX AT PRE-WAR AND PRESENT RATES

Income* before Tax £	1938-39 Tax £	1941-42 Tax £	Of which, Post-war Credit £
500	8	76	28
800	68	211	42
1,000	112	301	48
1,500	222	526	65
2,000	359	776	"
3,000	699	1,382	"
5,000	1,536	2,757	"
10,000	4,173	6,782	"
25,000	13,698	20,970	"
50,000	30,923	45,345	"
100,000	67,172	94,095	"

*Rates quoted apply to a married couple with two children and an income wholly earned.

ESTIMATED CHANGES IN VOLUME OF RETAIL STOCKS OF CIVILIAN
GOODS OF CERTAIN DEPARTMENT STORES
(End of June each year)

	<u>1938</u>	<u>1940</u>	<u>1941</u>	<u>1942</u>
Piece goods	100	128	112	78
Household goods	100	144	123	68
Dress materials	100	117	105	83
Women's wear	100	121	110	93
Men's and boys' wear ...	100	111	96	74
Boots and shoes	100	93	72	58
Furnishing dept.	100	99	78	48
Hardware	100	103	72	47
Fancy goods	100	120	103	78
Sports and travel	100	120	81	58

CIVIL USE OF MATERIAL AND MANUFACTURED IMPORTS
(Million tons)

	Pre-War	1942 (Annual Rate of January-June)		
		Total	For Civil Use	Percentage for Civil Use
Iron and steel.....	8.0	4.86	0.340	7
Non-ferrous metals.....	1.7	1.46	0.102	7
Textiles.....	1.2	1.32	0.264	20
Timber.....	10.0	0.88	0.026	3
Paper and paper-making materials.....	3.3	0.64	0.290	45
Hides, leather, etc.....	0.1	0.28	0.140	50
Fertilizers and chemicals	1.5	0.94	0.517	55
Miscellaneous.....	3.2	0.78	0.156	20
Manufactures (including all tobacco).....	3.0	0.70	0.210	30
Total.....	32.0	11.84	2.045	17