CHAPTER 3

THE GREAT BRITISH INFLATION

After a war in which she fought as long as any combatant, and longer than most, Britain might have expected to be poor, weak and negligible. Her people might have expected to live on lower standards than before the war; to lose exports and therefore imports; to be unable to afford adequate defences, an ambitious and costly Welfare State, and vast new investments in housing, fuel and power, and the modernization of industries. Instead, within a decade and a half, Britain—with aid from the United States and Canada—restored sterling to its place as the currency in which over one-third of the world's trade is financed, doubled the *volume* of her exports, and raised the consumption of three quarters of her people by some 30 per cent compared with what it was in 1938.

Yet during those fifteen years most people in Britain—whatever their ages, jobs, incomes or politics—sensed that something was wrong at the economic heart of the country. Most of them, in Prime Minister Macmillan's words, had 'never had it so good'. Certainly that was true of the three quarters of them who lived by wages and lower salaries. They were now consuming roughly one-third more food, leisure, pleasures, travel, gadgets and other items in their rising standard of life than they did on average in 1938. They might well have thought: 'If this is what inflation, full employment and repeated sterling crises do for us, long may they flourish!'

But most of them did not feel that way about it. They naturally pressed for all they could get as workpeople to protect themselves from a lowering uncertainty—while criticizing anyone else (their employers, for instance) who did the same. They knew that around them, in or out of their own workplaces, great economic wastes and inefficiencies were occurring every day. They saw poor—even bad—performances of both men and machines. They took part in restrictive practices of many kinds, produced shoddy work, and permitted careless treatment of costly capital apparatus. They saw wrong managerial decisions being carried out. They soon began to feel anxious, annoyed, confused. Some of this dissatisfaction found expression in the 1959 General Election, which came after the first full year's stability in the cost of living since the end of the war nearly fifteen years earlier.

This underlying malaise was not caused by any of the traditional economic anxieties of life. For example, very few had grounds to fear unemployment. Although the working population had risen since 1938 by more than one-fifth the country nevertheless had full employment (by any definition) throughout the fifteen years following the war. There were three periods of slight increase in the numbers of workers out of a job: the economic crises of 1947, of 1951-52, and the autumn and winter of 1958-59. Even then the total of unemployed never rose to the long-run *average* 'revolving' unemployment figure of 3 per cent which Lord Beveridge and his advisers had taken as normal in their recommendations when war ended.[1] While there were of course greater regional variations, average unemployment stayed around 1·5 per cent of the working population after the first post-war sterling crisis. For most of the time there were more vacant jobs notified to Employment Exchanges—to take no account of those not notified—than unemployed men or women to fill them.

Static incomes cannot have been a major cause of anxiety for most of the working population. From 1938 to 1958 the total of wages in the country had multiplied by four and a half times. There was a relatively greater increase in the number of salary earners than wage earners, and the total of salaries paid also rose to four times its 1938 level. But incomes from rents, dividends (distributed profits) and interest only doubled in money terms since 1938. They did not keep pace with prices.

Levels of consumption of real things—goods and services—were much higher than before the war for three quarters of the British people. Since 1938 the amount of money in the hands of the public had risen over threefold. Between the end of the war and 1958 it nearly doubled and even after 1951 it rose by about one-third.

[1] See Chapter 6, p. 95.

Prices—the 'cost of living' measured by every known method —rose from an index of 100 in 1939 to at least 270 in the middle of 1959. (Some measurements show the figure nearer 300.) This meant that any income, to maintain its pre-war purchasing power, should have been multiplied by between 2·7 and 3·0. Most wages and salaries did more than that. Rent, dividends and interest, on the other hand, did not. Nor could the higher *earned* incomes keep pace with the inflation, because much heavier taxes on income cut down the higher earnings ('progressive taxation'). So the mass of the nation—excepting those earning higher incomes or living on income from property—was living on a much higher standard of real consumption than that of 1938 or earlier. Indeed it was the highest standard ever achieved for the British people.

Internal against External Demands

The cause of anxiety was less obvious, more insidious, than any discontents of this nature. Between the end of the war and the end of 1959 the pound lost over two-fifths—nearly half—of its domestic worth. In only two years out of the period between 1945 and 1960 did the internal value of the currency remain anywhere near stable: between September 1955 and September 1956, and again during 1958-59. It was this unparalleled, quick and continuous fall in the purchasing power of the pound that brought home to most people, particularly housewives, that all was not well, despite the improvements in standards of living.

The purchasing power of a currency is governed primarily by the interaction of the flow of money in the public's hands and the flow of available goods and services on which this money can be spent. But in the twenty years between 1939 and 1959—while the working population grew by only one-fifth, but the amount of money in circulation more than four times—the real quantity of goods and services *available for all purposes within the country* also increased only by about one-fifth. True, total national output rose by two-fifths or 40 per cent between 1939 and 1959. But after the war Britain had to pay—that is, to export—to the outside world one of those two-fifths of her extra output, without being able to buy any more imports with it, in order to meet the new post-war debts and other financial burdens incurred during and after the war. These post-war burdens were the real economic sacrifices imposed on Britain because of the war. They laid a heavy responsibility on those charged with the management of the economy.

In the post-war world Britain faced a number of urgent, often conflicting obligations. First, she had to meet debts incurred during the war to friends and allies mainly in the Commonwealth and sterling area (the older Dominions or new ones like India) and to other countries (*e.g.* Egypt).

Secondly, she had to honour and be ready to repay debts incurred after the war. These included the Canadian and US loans of 1945-46; later loans from the US; 'sterling balances' earned by exports of cocoa, tin, rubber, etc, from her remaining Colonies; deficits incurred in trading with other European countries; and borrowings from the Export-Import Bank in the US and the International Monetary Fund to reinforce the dollar reserves whenever these came under regular and extra strain.

Thirdly, beside these contractual obligations she had to meet *relatively* higher post-war prices of all her vital imports of raw materials. This was because the terms of trade had turned against Britain since 1939. It meant that relatively more manufactured goods had to be exported to buy the same volume of raw materials. And more raw materials were needed anyway to sustain a larger population, higher employment, increased debts, and a regularly boosted rise in the consumption of three-quarters of the nation. After 1957 the terms of trade began to move a little more favourably for Great Britain and to this extent the problem was eased; but the inflationary demands for more resources than were available kept on increasing.

Fourthly, Britain had to meet practically the full cost of all her imports by paying as she went along, instead of getting one-fifth of them *gratis*—as before the war—in payment of interest and dividends on the investments abroad of her former citizens in the nineteenth century. The most 'paying' of those investments had been sold to fight the war. What were left did not yield enough to pay for one-twenty-fifth of the country's necessary imports at post-war prices.

Fifthly, she had to meet the increased needs of the less-developed countries in the Commonwealth and sterling area for capital and for capital apparatus and equipment made in Britain. In helping to develop the resources of food and materials in those countries Britain and the sterling area were rendered less dependent on dollar or other 'hard currency' countries for their supplies.

Sixth and lastly in addition to all this, Britain had to meet the doubled post-war burden of expenditure abroad for her own defences and those of her associates in the Commonwealth and her allies in the common defence of the free half of the world (*e.g.* NATO).

To put all this another way: Britain had full employment, a working population one-fifth bigger than in 1938, a vast and rising outflow of money wages and salaries and paper-profits of companies, and heavy new investments in the productive equipment of her industries. She also managed to double the volume (not just the value) of her exports. But those exports could only buy a slightly bigger volume of imports than were taken before the war for a smaller nation, less fully employed, and on lower standards of life.

There were thus three ugly faces presented by Britain's enduring post-war problem. First, one half of the increase in total output over its 1938-39 level had to go out as exports, but could buy no imports at all. Therefore roughly 20 per cent of the extra 40 per cent of Britain's output *was not available inside the country to increase the capital equipment or consumption of anyone,* whether public body or private person. Secondly, the remaining half of the increase in total output over 1938-39 had to cover all the urgent post-war (and continuing) needs of both social and productive capital—houses, schools, hospitals, roads, railways, coal-mines, steel, electricity, ships, ports, atomic energy, and all the replacement and expansion of factories and their productive apparatus belonging to the private enterprise of 'manufacturing' (which makes all Britain's exports). And thirdly, despite all this, official and private figures show that three quarters of the bigger population were consuming more than those three quarters did in 1938-39—from an *average* of 10 per cent more in as early a post-war year as 1950 to an *average* of 30 per cent more by 1960.

It does not take an economist or mathematician to spot the joker in this pack. Post-war Britain faced burdensome post-war debts, the penalties of war. Taxes were pushed to penal heights on all the more productive persons and concerns. Yet for most of the fifteen years following the war the mass of the nation consumed far more and scarcely saved; and by everything from rapid inflation to an ambitious system of State welfare for the masses (raised by penal taxes) mass-consumption was encouraged. The small minority who formerly had saved, no longer saved as much, and (due to taxation and the continuous inflation) even consumed capital. The whole nation had big new burdens to shoulder. It repeatedly ran away from shouldering them—so every two years it plunged itself into an economic crisis. In desperate struggles to shift these burdens from the bulk of the nation on to the few, from the organized voters to the unorganized, Britain had persistent inflation. Governments and people apparently preferred it that way—at least until 1958.

Consumption against Investment

Britain faced the post-war years with a large number of urgent and competing demands on that never-adequate part of her resources which was available for all purposes inside Britain. She had to build houses, schools, hospitals, and other good things for her population to use over a long period of time—these can be called 'Welfare State capital', or 'social capital', or sometimes 'consumers' durable goods'. Enormous sums were spent on these necessary and desirable things. About one-fifth of all savings made by the nation between the end of the war and 1958 went into housing. All the *productive* capital needed after the war by nationalized industries and private enterprises to modernize and expand productive apparatus for the larger working population—to provide buildings, highways, railways and power stations of all kinds as well as the most modern machinery and equipment—made further heavy and urgent demands on the nation's available resources. Indeed, these two groups of demands alone would not have been satisfied even if the whole of Britain's available extra 20 per cent of output compared with before the war had been devoted to such necessary capital purposes. As it was, between 1948 and 1958 three-quarters of the bigger working population and all their dependents consumed—not saved but *consumed*—on average about one-quarter more goods and services per head than before the war. This increased consumption by itself would have run away with most of the extra output available. It would have left ludicrously little to cover the urgent capital needs.

The result was that—even if one includes houses, schools, etc, as 'capital'—Britain did not save and invest as much of her national output in the post-war years as the USA, Germany, and other industrial countries. True she began to pick up in this respect after the Budget of 1954; but she then ran headlong into the fourth post-war crisis of inflation and overstrained resources, mainly due to the superimposition of the '300,000 new houses a year' programme upon the industrial re-equipment programme. Not until 1958 did the position become more favourable. Over the bulk of the post-war decade and a half Britain, although in a less favourable position in the world than in 1938, was able easily to maintain full employment and pay-packets (her people had to work more for foreigners). In addition, the Welfare State gave big mass subsidies not to saving but to consumption. Far more savings than were available were needed for urgent new capital programmes; yet penal taxes took a lot of the savings of businesses and private individuals in order to cover *current* State expenditure (not on capital assets) at a time when inflation, anyway, was working against saving.

It is therefore something of a miracle that so much was achieved. Exports were doubled, imports restrained; consumption for most of the people raised, leisure and enjoyments increased; and the burdens of national and international defence were borne. In addition, sufficient was saved to invest in vast new housing projects on public money, in enormous capital programmes for coal-mining, railways, electricity and other nationalized industries (also on public money), and especially in the later 1950s in a wide and overdue modernization of the productive capital equipment in most of private enterprise. How, then, did Britain and her people manage to do so well? Was it all really a recommendation for inflation as a policy?

Who and What Went to the Wall?

The solution to the apparent puzzle lies in four main facts. First, the nation's needs of all new productive capital—to equip it to meet *all* demands on its productive capacity—simply were not met. Although about 2,800,000 new post-war houses were built up to 1958 (mainly on taxpayers' money, and let at subsidized rents which also therefore artificially boosted consumption) not enough new hospitals, schools, colleges, etc, were constructed with public funds. While many new electricity stations and atomic energy plants were allocated public money, for the first two-thirds of the post-war decade and a half at any rate not enough steel was produced from an industry which was first politically interrupted, disorganized and handicapped, and only forged ahead on its own funds and on borrowings from the market towards the end of that period. Although almost £540 million of public money was sunk in coal-mining between 1951 and 1958 total coal output over the eight years never reached the level of 1938.

Not until the end of the fifteen years following the war did the State make even a bit of progress in improving the capital of the railways and highways and in expanding their capacity. Indeed the state of the national highways and of the railways' tracks, rolling stock, traction stock and performance was a matter of common public derision. As compared with the highways and railways of other industrial nations, big or small (USA, Holland, Germany, Belgium), Britain entered the 1960s with woefully few stretches of first-class highway and with a woeful railway service. In short, so inadequate were the savings made by the entire nation over the major part of the period that they came nowhere near providing all of the resources needed for urgent modernization. If Peter had his capital needs met, Paul had to go without; and the lack of Paul's output was a source of trouble.

Secondly, the State—under successive Governments—took the responsibility of deciding between the covering of Peter's or Paul's capital needs. Until the end of 1954, ten years after the war, private industries' needs of new capital went to the end of the queue. Yet 100 per cent of Britain's exports came from private enterprise, overwhelmingly in manufacturing. When added to the State's demands for capital, the amount of new capital which private manufacturing industry could get—out of the half (or less) of its profits left to it by the Inland Revenue, or out of people's savings (insurance funds, etc) put into the capital market—outran the total of the nation's savings. In fact, successive Governments only managed to cut the nation's over-all investment to the cloth of savings in three years out of the first fifteen after the end of the war, in spite of the heaviest taxes in the free world, frequent budget surpluses 'above the line', and continual controls over capital issues. In nearly all post-war years there were not enough funds for all the State's needs on capital account, to say nothing of the capital needed by all of British private enterprises.

The method adopted by governments to cope with this situation itself contributed to the continuation of the nation's problems. Instead of borrowing at high interest rates at long or medium term from savers; instead of cutting down their own demands for cash for current and capital purposes (including of course defence); instead of raising taxes even higher (which admittedly would have defeated itself by stopping saving and encouraging the spending of savings) they had the money printed. By 'borrowing short'—that is by issuing IOUs (Treasury Bills) or 'floating debt' (renewable *every three months*)—the first Labour Governments after the war greatly expanded the liquid assets of the banking system, which consist largely of these Government short term bills. The more the banks or the money market advanced cash to the Government the more bank credit could be expanded and granted to others on this growing basis.

This deliberate 'cheap money' policy of the Labour Governments forced down all interest rates, owing to the superfluity of money and credit and to the comparative rarity of goods and services. Government borrowing by gilt-edged bonds was done at a 2½ per cent long-term rate—a low price which (after the Chancellor of the Day, Dr Hugh Dalton) earned them the sobriquet of 'Daltons'. The reckoning bided. Within a decade they stood below one-half of their issue price, when the long-term rate of interest had risen to over 5 per cent; and all lenders to the Government in the later 1940s lost half—and more—of their capital by the end of the 1950s.[1]

Nevertheless the succeeding Conservative Governments dared not cut or 'fund' this vast 'floating debt', to change it into medium or long term debt. Throughout the post-war decade and a half it remained at five times its pre-war total. That goes a long way to explain the fourfold increase in the cash and credit held by the nation. If this short-term, floating debt had been 'funded' into medium or long-term debt, which does not form the basis for bank credit, interest rates would have greatly risen and both State and private activities would have had to be curtailed. But the economy would have been on a sounder basis of values, and deci-

[1] See Chapter 4, p. 59.

sions could have been better taken on which lines of investment to pursue.[1]

As a result of this governmental policy enabling the supply of cash and credit to expand (in order to meet the State's bills) the stream of money flowing into pockets and bank accounts continually swelled. The better-run concerns could cover all demands for higher wages. Profits rose. The inflationary booster went on maintaining full employment, shortages, profitability (even for inefficient firms) from rising prices, a rising cost of living, new wage demands, etc. As the inflation in the supply of money kept up full employment and there were not enough resources to meet the rising money demands at home, 'money chased goods'. Prices steadily rose. Then wage demands were again pressed, and conceded out of inflationary profits. And so it went on. As prices rose more money was required in the system. Partly this requirement was met by the banks and printing press; partly by pushing money and credit around faster, making it do more work in a week or year. As in all inflations therefore the velocity of circulation of money rose as the inflation progressed.

Costs of Inflation

The various governments occasionally tried to reduce inflation by holding down the capital demands of all private enterprises that were not judged to be 'dollar earners' or of highest priority. Of necessity this was an almost impossible task for the State to undertake in a democracy. But in Britain it was doubly damaging because it involved deciding who should supply whom, with what, in a private-enterprise sector producing over three quarters of the country's output *and all her exports*. Such decisions inevitably led to arbitrary injustices and—worse—to inefficiencies. Not even the State industries and agencies got all the new capital they needed.

Next the State, in order to finance all its own continued expenditures, had to keep all taxes on productive industry, incomes, pleasures and necessities of life for the mass of the people crushingly high. This in its turn led to inflationary demands for higher wages and other incomes, and even for subsidies for con-

[1] See pp. 73 and 78-87 and the remarks of Professor F. W. Paish, Mr L. W. Robson and the author in their joint evidence before the Radcliffe Commission, Minutes of Evidence, Vol. 3, p. 189.

sumers. People got used to 'discounting taxes and inflation'—*i.e.* reckoning the real, net, levels of income, reward, or price, and demanding more to cover all taxes. One-half, on average, of any profits made by any person or private or public company was taken in taxes.

The State also had to raise continuously the employers' and employees' contributions to National Insurance in order to pay for the rising costs of the Welfare State, including the necessary increases in pensions to offset the inflation. These too were taxes. On average over the 1950s contributions to the Health Service alone fell short by £500 million a year of covering the expenditure on goods and services in running that portion of the Welfare State. This deficiency was roughly equivalent to an extra half-crown on the average standard rate of income tax, and had to be found by all taxpayers.

Finally both Labour and Conservative Governments had continuously to raise the taxes on leisure pastimes or pleasures of the majority of the people and spasmodically to place restrictions on hire-purchase. Petrol, tobacco, motor cars, motorcycles, domestic apparatus, radios and television sets and a host of other products used in the enjoyment of leisure suffered taxation, or controls, or both, at levels unparalleled in the free half of the world.

Certainly this State-fostered inflation was keeping up employment, but keeping it up as an overstoked furnace keeps up pressure in a boiler. The safety of the place and the people around depends on the tolerances inside the boiler and the degree to which it is overstoked. The indications of overstoking in Britain were the biennial crises for sterling (four in eleven years), rising prices, social tensions, and the continuous deterioration of the UK's place, relative to other countries, in world markets for manufactures. They were the evidence of resources overstrained for far too long, of a people overburdened by its own apparatus of State.

Debtors' Devices

The third clue to the puzzle of Britain's achievements, in spite of her difficulties, lay in maintaining a high volume of trade inside the sterling area. Half her doubled exports went to other sterling area countries. Much of this trade, however, was in repayment of wartime and post-war sterling debts which she owed.

Yet by 1960 the total of the UK's sterling debts had not been significantly reduced. The inflation had merely slashed the debt-holders', the creditors', purchasing power. Since a high proportion of the cost of any export made to repay sterling debt has already been circulated (by the time the export is made) as wages and other incomes inside Britain, it is still circulating as purchasing-power at home. Almost all of it goes in consumption and is not saved. Far more money was thus pushed into the system than goods for it to buy, for at least half the extra goods had been sent abroad in repayment of debt.

However, a gradual improvement in the terms of trade set in after 1955; and the opening at the end of the 1950s of a new stage in international trade in general was another help to Britain. Although one effect of her exports to the rest of the sterling area was inflationary (in so far as it was in settlement of debt) she benefited from the high volume of international trade which she and the rest of the world were able to maintain.

The cause of rising costs and prices inside the United Kingdom, and of the falling value of the pound, was the continuous over-spending, both on current and capital account, by governments and State undertakings—over and above, first, their revenues and, secondly, their long-term borrowings of current savings through the capital markets. Governments 'kept the heat on' in the national boiler by expanding the basis for the creation of money and credit. More money flowed than goods and services—available for all purposes in the UK—to offset it. Had the flow of goods and services *available for all domestic uses* matched the continuously rising outflow of money, the evils of the inflation would have been avoided; or, if it had nevertheless occurred, it would not have been Britain's fault.

What happened in other sterling area countries (*e.g.* India) had its effects on the process as well as what was done—or was not done—in Britain. When other sterling countries imported more than their exports and borrowings could pay for, they also weakened sterling. Between 1950 and 1958 the rest of the sterling area taken together failed to balance its current trade with the non-sterling world by a total of roughly £1,000 million. Much of this deficit was covered by investments in the sterling area from America, Britain, and other countries, and by outright charity (*e.g.* to India). Over this period, therefore, Britain was helped by her partners in the sterling pool, to the extent that she ran up, and kept up, short-term debts to them ('sterling balances') which she then lent to others at long-term. It was an odd and dubious procedure, and scarcely one that could be relied on to endure as more of her former dependencies (to whom she owed debts) became independent.

Had every other nation, within and without the sterling area, inflated as fast as Britain, it might not have mattered: what was lost on the international swings might have been gained on the international roundabouts. Had Britain managed—as Germany did—to increase her productive efficiency (productivity of machines and men) as fast as, or faster than, the outflow of money, the relationship between goods and services on the one hand and of money on the other could have been balanced. Prices would then have been more stable. They might even have fallen while those of the products of other nations continued to rise. Then, like Germany, Britain would have been increasingly able to expand her imports to raise her people's welfare; to discharge her foreign debts with more exports; to make investments overseas to develop the Commonwealth and other underdeveloped resources; and to accumulate gold and dollar reserves against the rainy day. As it was, from well-nigh bankruptcy, Western Germany finished the decade of the 1950s with 80 per cent more reserves than Britain and the entire sterling area; yet the mark only had to finance 6 per cent of world trade, while sterling had to finance 33⅓ per cent of it and yield Britain a profit.

Devaluation No Remedy

By the middle of the 1950s the benefits of the devaluation of the pound in 1949 had been exhausted in export markets. Britain's competitors in these markets (especially the USA, Germany and Japan) had been gaining ground on her since 1950. The unfavourable effects of the devaluation inside the country were continuing. Inflation was uninterrupted. The thing that had caused devaluation to be necessary was now nourished by it. Britain could not hope to keep this up, and to hold her Commonwealth and sterling area friends in economic co-operation with her, if there were a danger that every two years or so, or with even accelerating frequency, her currency would be devalued, and so force devaluation on all of theirs. They could hardly be expected to go on earning balances in dollars and marks and other 'hard' currencies, and handing them over to the UK, in exchange for a pound which was becoming rapidly softer and softer in its purchasing power. Even less could they be expected to go on piling up and leaving in London those sterling balances, the proceeds of their toil and soil, in a currency which the British themselves were depreciating.

Among the sterling countries, the fifty-one million people of the British Isles—endowed by Nature only with skills, leadership, aptitudes, trainability, brains and wisdom—were the people with the highest standard of living. They therefore stood to lose most in material welfare from uninterrupted depreciation of the pound, its devaluation, and the break-up of the sterling area. That this danger existed can be gauged from two aspects of the 1956-57 version of the post-war sterling crises:

(a) the central gold and dollar reserve of the whole sterling area in London had sunk to danger-level; the amount of world trade and its value had risen, yet the reserves had fallen; this was because other members of the area than Britain (*e.g.* India) had overspent on imports, as well as being due to general distrust abroad of sterling's future in view of developments inside and outside Britain; and

(b) the distrust of the general trend inside Britain felt by foreigners persisted in spite of Britain's performance in maintaining her own balance of payments in credit with the rest of the world; foreigners looked back to 1947, 1949, 1951 and 1954 and wondered if Britain could ever stop inflation.

It followed that the first requirement for the safety of sterling—and of the welfare of the British people and their friends in the sterling area—was the repair of the economic foundations of their welfare. That could only be done by halting the long inflation, or at least by moderating it to a rate below that registered in America, Germany and elsewhere.

Halting inflation was the only sure and certain foundation for encouraging new long-term investment of new savings: savings induced by confidence in the future value of the pound; savings earned from increased productive efficiency of men and machines. These new savings were essential to finance the new investment programmes in Britain (and less industrialized sterling countries) which were being loudly, widely and urgently demanded; in Britain to construct modern schools, hospitals, highways, railways, ports, ships and so forth; in economically less developed lands to raise agricultural productivity and to begin industrialization and diversification. To make such development projects possible it was vital to call a halt to the rate at which the purchasing power of the pound was falling, a rate sufficient to destroy half the currency's worth in one decade.

For these needs the actions—and inactions—of successive governments were useless. Inflation as a policy ran flatly counter to saving and to long-term investment in government bonds. Indeed, Socialist apologists for 'only a little', but a regular, inflation managed to inspire a major devaluation by 1949 and then as major an inflation after it as before it. (Mr—as he then was—Attlee's 'consequential measures' were announced in the autumn of 1949 but never taken.[1]) So far did dislike of private property and saving take Socialist thinkers that even in the late 1950s some of them still advocated expropriation by deliberate inflation, *after* lulling savers and investors into a false sense of security by intermittent periods of stable prices. ('Securities' had in better days been the word for savings willingly lent to governments honouring their bonds.) This led one commentator to the following observation:

'There may be argument about the precise social and economic consequences of inflation, although no adult German, for example, will have the least doubt about them. But what can be said of the claim made by Mr Alan Day in the *Observer* (29 November, 1959), and apparently shared by other young economists, that "periods of stability" are "a good thing in that they suggest to some people that price stability has come to stay, so that confidence in the currency is restored"? This suggestion shows scant respect for the intelligence of the emerging masses. Will not a mature electorate see it as a confidence trick?'[2]

Redistribution by Taxation and Inflation

There was a fourth reason—not widely appreciated and even

[1] See author's article in *The Observer*, November 6, 1949, 'Inflation to Order'.

[2] See footnote on page 103 of *Not Unanimous: A Rival Verdict to Radcliffe's on Money*. London, Institute of Economic Affairs, 1960.

less publicized—why three quarters of the British people were able to raise their consumption, on average, by 30 per cent compared with before the war. In point of brutal fact, the 30 per cent increase in the consumption of these three quarters of the people by 1960 was taken, not so much from their own increased output or productivity, but largely from the incomes of the remaining one quarter of the population. This was inevitable if three quarters of the people were to consume 30 per cent more *out of an output available for consumption purposes only just over one-eighth bigger than in 1938-39.* Yet this increase in output *available for consumption* meant that insufficient was saved for all urgent capital demands to be met. So, inevitably, the consumption of the remaining quarter of the people was far lower than it was in 1939.

That might not have mattered, in justice or in politics, if those whose consumption had been compulsorily slashed by penal taxation and inflation had been all 'the rich'. But it was far from true that this luckless quarter were the rich and better-off who could afford it. Even before the war the better-off were never more than one-twentieth to one-tenth of the nation. In the post-war years, after high taxation, less than one-twentieth of the population could be called better-off. Yet one quarter of all the British people were consuming less after the war, on average, than before. Of course, a small minority of this quarter were 'the rich'. But the majority were all the old and retired, everybody living on a fixed income, lawyers, accountants, doctors and other professional people or unorganized workers who could not force up their income levels, civil servants, local government officers, managers in both State and private enterprises, technicians, technologists, and many workers of proven responsibility and skill—in fact, any household receiving, on average, over £1,000 a year in gross income in 1959. And in this context it should not be forgotten that with full employment there were on average *nearly two whole weekly pay-packets going into each household* in that three quarters of the populace covered by wages and lower salaries, who were now so much better-off than in 1939.

The one quarter therefore who were worse off were overwhelmingly the old, who deserved better of the nation, or the people on whom the nation's future as an industrial democracy depended. These were the people on whom were placed, almost exclusively, the material sacrifices demanded by the fighting of a war and by Britain's changed, debt-burdened position in an altered world. They had to make the sacrifices on behalf of the nation.

The other three quarters of the population were able to escape the overburdening and overstrain, the very inflation even, by pushing up their incomes not only to offset the depreciation of the pounds they earned, but also to race ahead of it and gain in power to consume. They were also the three quarters of the nation to whom, on balance, the new State welfare accorded most of its benefits. On average, their incomes outpaced the cost of living from 1954 onwards, so that their consumption of goods and services, their real (not money) income, continued to rise. Their gains were made throughout the decade and a half which followed the war and largely because of penal progressive taxation coupled with inflation. The remaining quarter of the British people bore the material losses, the reductions in real income.

Against that obvious prosperity of the mass of the British people, three quarters of them, there are thus a large number of costs to be weighed: the recurrent crises of overstrain, and of over-importing for consumption; the lags, lacks and shortfalls in the many overdue modernization programmes (like those which could have speeded transport); the disincentives to personal saving; the incentives to spending, to push up costs and pass them on (in higher prices) to the favoured three quarters of the nation —who were able to bear them anyway because, being organized, or influential as big voting groups, they could simultaneously push up, and win, their demands for more pay so long as governments continued to overspend and pump out new money.

Social Stresses and Strains

Such sacrifices and costs borne by only a quarter of the people were by their nature not the kind of costs to be felt by the mass, the majority, the three quarters. If they did not have a direct, tangible effect on those three quarters of the nation whose level of consumption was so much raised, they nevertheless were indirectly responsible for that malaise, that disquiet, which most people shared. That uneasiness was occasioned by a sense of insecurity, of uncertainty that the rising standards of life they had come to regard as a continuous phenomenon would in fact continue much longer, of disbelief in the future. It was thus through this doubt that the evils of inflation affected even those who for so long kept pace with, or even overtook, the upward movements of prices.

As this doubt lingered in their minds, anxiety grew at the constant, powerful pressure of the biggest, most organized group of British voters: the trade unions. By 1959 most of the electorate in Britain, including many of the trades unions' most loyal members, had come to fear the power which organized labour could exercise upon democratic governments. It was manifestly, after a decade and a half of its exercise, one of the biggest causes, if not the biggest single cause, of inflation as a policy: inflation determined, or acquiesced in, because the seeking and ensuring of sound money would have arrayed the biggest organized grouping of voters and income-demanders against any government of the day, and perhaps even against democracy itself. Therewith came acute bitterness, a sense of inequity and injustice, envy, and much hostility. Therewith, too, came the arbitrary altering of rewards, 'differentials' of different trades unions and their members, and social and industrial unrest. Thus within British democracy social tensions and political fissures were developed by inflation akin to those created in the ancient world and in other modern countries: tensions and fissures capable of undoing democratic society itself.