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## **Financial policy, coalition and Sir Kingsley Wood, 1940-41\***

### *Abstract*

There has recently been renewed interest in British politics during the Second World War. Meanwhile the financial strategy pursued by the Churchill government – widely considered an important step towards ‘Keynesian’ measures – has long received extensive attention from scholars. This article makes a fresh contribution to the literature, exploring the process through which the political legitimacy of that strategy was established and communicated in the first year of the coalition. It places particular emphasis upon the role of Sir Kingsley Wood, Chancellor of the Exchequer, in integrating the coalition government. He gradually constructed support for the policy and worked to avoid destabilising rows over finance between the major parties. The article concentrates on the crucial period during 1940 and 1941 when policies were being simultaneously formulated *and* explained. It seeks to give a sense of how Wood’s policies were justified – particularly the methods and language employed to sell them – in the context of coalition.

### *Keywords*

Conservative party; finance; Churchill coalition; Second World War

When Winston Churchill became prime minister in May 1940, he appointed Sir Kingsley Wood, a veteran Conservative MP and senior party figure, as the new Chancellor of the Exchequer.<sup>1</sup> Remaining at the Treasury until his death in late 1943, Wood was charged with the formidable task of financing the British war effort. And he had to do so at a time when the Treasury was demoted from its position as the leading department of state. There followed more than a year of study and argument. Wood's eventual strategy – expressed in the 1941 Budget – moved Britain down the road towards Keynesian economics. His method of paying for the war was innovative. But, *politically*, the task of settling on a policy and then constructing support for it was a significant challenge; over the course of 1940 and 1941, financial policy threatened to destabilise the coalition between the Conservative and Labour parties. While the story of Britain's slow and partial turn towards Keynesianism has been explored before, this article analyses the gradual process through which the political legitimacy of the measures necessary to finance the war was established.

In seeking to draw out this important aspect of public life during the early stages of the conflict, the paper builds upon the existing literature examining wartime Westminster.<sup>2</sup> In recent years there has been a renewed emphasis among scholars on the politics of war. Some innovative work within this body of literature has revised established ideas about political communication with the wider public.<sup>3</sup> There have been reassessments of party politics: the grass-roots have been the subject of exhaustive investigation by Andrew Thorpe, while the importance of Clement Attlee in holding the coalition together and advancing Labour's

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\* I am grateful to Paul Addison, Martin Chick, Henry Irving, Gordon Pentland and Richard Whiting, as well as the editors and four anonymous referees, for very helpful comments on earlier drafts of the article.

<sup>1</sup> There is no published biography of Wood. But consult the perceptive essay by G.C. Peden, 'Kingsley Wood', in Lawrence Goldman, Brian Harrison, and Colin Matthews (eds.), *The Oxford Dictionary of National Biography* (Oxford, 2004, online edn.), and Roy Jenkins, *The Chancellors* (London, 1998), chapter seventeen.

<sup>2</sup> Paul Addison, *The Road to 1945: British Politics and the Second World War* (London, 1975) and Kevin Jefferys, *The Churchill Coalition and Wartime Politics, 1940-1945* (Manchester, 1991) provide powerful overviews.

<sup>3</sup> Laura Beers, *Your Britain: Media and the Making of the Labour Party* (London, 2010), chapter nine, and Richard Toye, *The Roar of the Lion: The Untold Story of Churchill's World War II Speeches* (Oxford, 2013).

interests has been highlighted.<sup>4</sup> David Edgerton has offered a fresh perspective on the British state itself, building on his challenge to ‘declinist’ literature and stressing the power and wealth that drove the war effort.<sup>5</sup> Though there is no single historiographical agenda here, this wave of new work betokens a reappraisal of a crucial period of transition.

What follows is an attempt to recall a neglected moment when policies were being simultaneously developed *and* explained. The article explores the year-long process through which a financial strategy was devised and articulated over 1940 and 1941. It highlights a close connection between action and utterance. While historians have noted Wood’s status as a leading Conservative he has remained elusive, with little attention paid to his significance as Chancellor. In fact he was intimately involved in managing a cross-party negotiation over the distribution of scarce resources at a time of crisis. In foregrounding Wood’s activity, this article demonstrates his contribution to the process of integration and stabilisation under the Churchill regime. It shows how considerations of coalition, the give-and-take of alliance, impacted upon financial policy. This also raises broader questions about the creative role played by Conservative politicians in domestic politics after 1940. Simon Ball reached similar conclusions from Oliver Lyttelton’s stint as President of the Board of Trade, an architect of the state’s apparatus of rationing and controls.<sup>6</sup> The article complements this. Within the older historiography of wartime politics, relatively little attention was paid to Conservatives as a creative domestic force – probably because of the ascendancy of Churchill’s cabal and the marginalisation of the rest of the party. Kevin Jefferys offered one

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<sup>4</sup> For instance, Robert Crowcroft, *Attlee’s War: World War II and the Making of a Labour Leader* (London, 2011), and Andrew Thorpe, *Parties at War: Political Organization in Second World War Britain* (Oxford, 2009) and, by the same author, ‘Locking out the communists: The Labour party and the Communist party, 1939-46’, *Twentieth Century British History* (forthcoming, 2014). See also Peter Sloman, ‘Rethinking a progressive moment: the Liberal and Labour parties in the 1945 general election’, *Historical Research* (2010), 722-44.

<sup>5</sup> David Edgerton, *Britain’s War Machine: Weapons, Resources and Experts in the Second World War* (London, 2011).

<sup>6</sup> See Simon Ball, *The Guardsmen* (London, 2004), chapter six.

of the few exceptions, highlighting the role of the party in domestic debates.<sup>7</sup> Yet Jefferys's paper did not emphasise the importance of Wood and finance. Meanwhile, Paul Addison examined the Conservative struggle to remain relevant, but largely focused on the final stages of the conflict.<sup>8</sup>

Grappling with the political presentation of complex, nuanced economic problems, Wood played a significant part in the early stages of the coalition. The tax historian Basil Sabine observed that 'There have been biographies of World War II figures whose importance ... rank far below' that of Wood.<sup>9</sup> The article's principal area of focus is the politics of Whitehall. The justification for this is that Wood seems to have carefully gauged his measures specifically in relation to the atmosphere at Westminster. The development of strategy within Whitehall was consistently (and often explicitly) linked to its articulation and reception within parliamentary politics. But the article also seeks to highlight the reception of significant financial policies among the wider public in order to contrast the two realms of activity.

In addition, it adds to a second body of literature, that on economic policy. A number of scholars have probed Britain's journey towards Keynesianism from the 1920s.<sup>10</sup> This article complements these works, assessing how policy was refined and 'sold' at the moment of implementation. Although the Treasury lost its pre-eminence under Churchill as the state gave priority to mobilising 'physical' resources, this has sometimes deflected understanding

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<sup>7</sup> Kevin Jefferys, 'British Politics and Social Policy during the Second World War', *Historical Journal* (1987), 123-44. See also Hartmut Kopsch, 'The approach of the Conservative party to social policy during World War II', unpublished University of London Ph.D thesis (1970).

<sup>8</sup> Addison, *The Road to 1945*, chapter nine.

<sup>9</sup> Basil Sabine, 'The Finance Act 1941', *British Tax Review* (1984), 185-90, at 190.

<sup>10</sup> Stephen Brooke, 'Fundamentalists and revisionists: the Labour party and economic policy during the Second World War', *Historical Journal* (1989), 157-75; Peter Clarke, *The Keynesian Revolution in the Making, 1924-1936* (Oxford, 1990); Daniel Ritschel, *The Politics of Planning: The Debate on Economic Planning in Britain in the 1930s* (Oxford, 1997).

of what the department *did* do during the war.<sup>11</sup> The comprehensive official history by R.S. Sayers, published in 1956, remains an excellent guide to the details of policy.<sup>12</sup> G.C. Peden drew out the implications of the domestic and international policies settled on in Whitehall. Other aspects of economic management have received extensive attention.<sup>13</sup>

The article seeks to deepen our understanding by properly situating some of these departures in financial policy within the maelstrom of wartime Westminster. What is missing from the historiography is a clear sense of how these policies were justified, and the language that was used to explain them, in the context of coalition. This was important in establishing the stability of the cross-party government. The article examines Wood's presentation of a range of issues, from profiteering and wages to Budgetary policy, identifying common themes and methods. This approach shaped the 1941 Budget. The sensitivities of the Labour party were particularly important. In addressing this, the article makes linkages between the work of economic and political historians. Other scholars have recently taken a not-dissimilar approach.<sup>14</sup>

This period has long been marked by a debate about the supposed-forging of a 1940s 'consensus' on major issues of policy.<sup>15</sup> What is now clear is that politicians continued to disagree, and the evidence for 'consensus' is largely dependent on which area of policy one

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<sup>11</sup> G.C. Peden, *The Treasury and Public Policy* (Cambridge, 2000), chapter seven, addresses this.

<sup>12</sup> R.S. Sayers, *History of the Second World War: United Kingdom Civil Series – Financial Policy, 1939-1945* (London, 1956). Consult too W.K. Hancock and M.M. Gowing, *History of the Second World War: United Kingdom Civil Series – British War Economy* (London, 1949).

<sup>13</sup> For a flavour of the other literature, see Corelli Barnett, *The Audit of War* (London, 1986); Alec Cairncross, 'Economists in wartime', *Contemporary European History* (1994), 19-36; D.N. Chester, *Lessons of the British War Economy* (London, 1951); G.C. Peden, *Arms, Economics and British Strategy* (Cambridge, 2007), chapter four.

<sup>14</sup> Studying John Maynard Keynes's efforts to build bridges with Labour during the 'phoney war', Richard Toye has demonstrated that the political packaging of economic ideas was frequently as important as their content: see Richard Toye, 'The Labour party and Keynes', in E.H.H. Green and D.M. Tanner (eds.), *The Strange Survival of Liberal England* (Cambridge, 2011), 153-85, at 168. Jim Tomlinson, on Margaret Thatcher, explicitly stressed the merits of examining the politics of financial policy. Consult Jim Tomlinson, 'Thatcher, monetarism and the politics of inflation', in Ben Jackson and Robert Saunders (eds.), *Making Thatcher's Britain* (Cambridge, 2012), 62-77, at 68.

<sup>15</sup> The literature is vast, but for this period Addison, *The Road to 1945* makes the case for consensus, while Jefferys, *The Churchill Coalition and Wartime Politics* argues against. See also Arthur Marwick, 'Middle opinion in the thirties: planning, progress and political "agreement"', *English Historical Review* (1964), 285-98.

considers. Richard Toye has suggested that, rather than pondering how far political parties ‘fundamentally agreed’, it is more profitable to ask ‘what ... politicians [were] trying to achieve’ through the *language* of agreement.<sup>16</sup> Naturally enough, this style served a useful purpose in the coalition. Policies were needed to counteract inflation and social unrest. Meanwhile Brian Harrison has also highlighted the tactical and calculative dimension to ‘consensus’.<sup>17</sup> Wood appears to be a useful wartime test case of Harrison’s approach: politicians ‘estimating where consensus can be most securely based’ and then guiding opinion towards it.<sup>18</sup>

What emerges is a sharper sense of how the coalition was safeguarded in its crucial early stages. In integrating this within the literature, the article draws on a variety of archival sources. While Wood left no personal papers, an analysis can be developed from other materials. It makes particular use of Cabinet and Treasury records, as well as correspondence, diaries, newspapers, Mass Observation data and Home Intelligence reports.

## I

Kingsley Wood was shaped by the political traditions of reforming liberal conservatism and coalition liberalism. These would be important influences on his style. In 1918 he had earned a knighthood for organising a petition calling upon the government to establish a Ministry of Health, before entering national politics as a Conservative MP.<sup>19</sup> After serving as Parliamentary Private Secretary to two coalition Liberal Ministers of Health in the Lloyd George government, Christopher Addison (1919-21) and Alfred Mond (1921-22), he worked under Neville Chamberlain as Parliamentary Secretary at Health from 1924-29. Wood held

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<sup>16</sup> Richard Toye, ‘From ‘consensus’ to ‘common ground’: the rhetoric of the postwar settlement and its collapse’, *Journal of Contemporary History* (2013), 3-23, at 6.

<sup>17</sup> Brian Harrison, ‘The rise, fall and rise of political consensus in Britain since 1940’, *History* (1999), 301-24.

<sup>18</sup> Harrison, ‘The rise, fall and rise...’, pp. 301-2.

<sup>19</sup> The brief sketch that follows draws on Wood’s obituary in *The Times*, 22 September 1943, as well as Peden, *DNB*.

numerous posts in the National Government, being Secretary of State for Health between 1935-38 and Secretary of State for Air from 1938-40. In these roles he developed a reputation for innovation, enthusiasm for working across party boundaries, and actively seeking out the guidance of specialists. He was consistently sensitive to presentational issues. For instance, at the Air Ministry Wood displayed surefootedness in responding to public anxiety when dealing with the profits stemming from air force production. This was a first-class presentational problem, and in March 1939 he managed to cajole the industry to forego a third of its annual profits.

Representative of the new brand of interwar Conservatism and a friend of Chamberlain,<sup>20</sup> Wood's standing was underlined when he was elected grand master of the Primrose League as Stanley Baldwin's successor. But on the morning of 9 May 1940, he met with Churchill and seemingly planted a seed in his mind by advising him to 'say nothing' if asked to serve under Lord Halifax,<sup>21</sup> before telling Chamberlain in front of the Cabinet that he would have to resign.<sup>22</sup> Wood was an 'extremely barometrical politician', as one contemporary had it.<sup>23</sup> He denied betraying Chamberlain, though somewhat unconvincingly.<sup>24</sup> Addison concluded that the Treasury was a 'reward' and described his alignment with Churchill as the 'new firm' in the party.<sup>25</sup> Wood later advised the prime minister not to antagonise the Conservatives with any 'Munich victimisation[s]'.<sup>26</sup>

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<sup>20</sup> John Colville, *The Fringes of Power: Downing Street Diaries, 1939-1955* (London, 1985), 11 May 1940, p. 124.

<sup>21</sup> The Earl of Avon, *The Reckoning* (London, 1965), 96-7.

<sup>22</sup> Many historians have noted that Wood's important walk-on part in the fall of Chamberlain. See John Charmley, *Churchill and the End of Glory: A Political Biography* (London, 1995 edn.), 394; Sheila Lawlor, *Churchill and the Politics of War, 1940-1941* (Cambridge, 1994), 100; Graham Stewart, *Burying Caesar: Churchill, Chamberlain, and the Battle for the Tory Party* (London, 1999), 418-9.

<sup>23</sup> Colin Coote, *Editorial* (London, 1965), 203-4.

<sup>24</sup> House of Lords, Lord Beaverbrook papers, BBK/D 489, 'Kingsley Wood. Question and Answer' (n.d.).

<sup>25</sup> Addison, *The Road to 1945*, 102.

<sup>26</sup> Churchill College, Cambridge, Winston S. Churchill papers, CHAR 20/2025-27, Wood to Churchill, 27 July 1941.



The rest of the article will delineate the new Chancellor's efforts to devise financial policies which were effective in meeting the challenge of total war while being politically palatable across the party spectrum. Achieving both was a *sine qua non* if the war effort and coalition were to be sustainable. This necessitated a gradual process of persuasion, intra-coalition bargaining and an emphasis on political symbolism.

Treasury matters awaiting the government's immediate attention were potential sources of destabilisation. Grappling with them compelled Wood to build bridges with the Conservatives' new coalition partners. For instance the issue of profiting from the war had proven to be a highly combustible public problem a generation earlier, during the Great War. In his first major decision after entering the Treasury, Wood moved quickly to address the question. In late May 1940, he sought to neutralise it altogether by levying an Excess Profits Tax (EPT) at a rate of 100%. Under this scheme, businesses operated on a 'cost plus' basis; profits above a certain level (and this varied) were to be taken by the state.<sup>27</sup> This tax would be applied universally across the economy. Politically, it was a sensible decision. And it was *his* decision: in a paper brought before the War Cabinet in late May, the Chancellor rejected a counter-proposal that export industries might pay only 60% EPT, asserting bluntly that such an idea 'could not be entertained'.<sup>28</sup>

It is difficult to judge how far the policy was specifically designed with Labour sentiment in mind, but in his official history Sayers suggested that it was probably 'political' in motivation.<sup>29</sup> As will be seen below, while policy was usually articulated as being targeted at 'public opinion', for Wood's purposes 'public opinion' frequently amounted to the sensitivities of Labour; and in fact his measures were often better received among the latter than the former. In an accompanying memorandum to colleagues, Wood wrote that 'I ask as a

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<sup>27</sup> CAB 65, WM (40), 145, 29 May 1940.

<sup>28</sup> *Ibid.*

<sup>29</sup> Sayers, *Financial Policy*, 46.

*matter of grave urgency* for the concurrence of the War Cabinet in the proposal that the EPT should be raised to 100% in *its application to all undertakings*.<sup>30</sup> He justified the decision by invoking the spirit of legitimacy: ‘in the very grave times through which we are passing’, such a policy was sure to ‘accord with public feeling’ about profits.<sup>31</sup> The paper acknowledged that while an EPT targeted only on industries undertaking war work was feasible, a universal 100% tax would command support and remove a likely source of friction.<sup>32</sup> The Chancellor’s justification, in so strongly emphasising legitimacy, was implicitly political. At the least, the approach was a way of bringing together financial necessity and appropriate political presentation. A blanket policy was needed to prevent profits from becoming a running problem. Churchill proved unhappy about the EPT, complaining in 1941 that it was ‘harping to insatiable left-wing propaganda’;<sup>33</sup> yet Wood arguably showed himself more alive to the nuances of coalition than the prime minister. Measures such as this were a test of coalition bona fides. And it did appeal to Labour, Herbert Morrison seconding the proposal in Cabinet.<sup>34</sup> Outside the government, Labour’s F.W. Pethick-Lawrence – one of the parliamentary party’s two ‘acting leaders’ – welcomed it from the dispatch box in the Commons.<sup>35</sup> It was agreed that the new, universal, EPT should be implemented.<sup>36</sup> Invoking a ‘greater incentive than profit’, Wood appealed in Parliament to the ‘will to victory’.<sup>37</sup>

The EPT was an illustration of the Chancellor’s recognition of the need to present policy so as to build cross-party agreement. In acknowledging the implications of a blanket

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<sup>30</sup> CAB 66, WP (40), 176, ‘Excess Profits Tax: Memorandum by the Chancellor of the Exchequer’, 28 May 1940 (emphasis added).

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.

<sup>33</sup> Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914-1979* (Cambridge, 2002), 184.

<sup>34</sup> CAB 66, WP (40), 176, ‘Excess Profits Tax: Memorandum by the Chancellor of the Exchequer’, 28 May 1940.

<sup>35</sup> H.C. Debs., 5 June 1940, col. 951.

<sup>36</sup> CAB 66, WP (40), 176, ‘Excess Profits Tax: Memorandum by the Chancellor of the Exchequer’, 28 May 1940.

<sup>37</sup> H.C. Debs., 5 June 1940, col. 949.

policy on profits, and – crucially – explaining himself to colleagues in terms of political integration and stabilisation, Wood thus helped to set the tone for the new coalition. At a moment of wider and accelerating social upheaval, the appearance of ‘fairness’ and being seen to ‘do the right thing’ was vital.<sup>38</sup> Moreover this was a contingent process dependent on sensible decision-making; politicians had often been unable to achieve an air of legitimacy in the previous war.<sup>39</sup>

The Chancellor was also able to cooperate successfully with Labour in the sensitive – and financially risky – realm of wages policy. In an intervention on 30 May, he initially rejected a proposal from the Minister of Labour, Ernest Bevin, that the government should increase wages for agricultural workers in order to boost food production. He objected that such a proposal would introduce ‘violent change’ and risk ‘serious’ damage to the economy by being ‘acutely inflationary’.<sup>40</sup> The concern was that if wages were increased in one sector, trade unions could be expected to press new wage claims elsewhere, resulting in rising inflation. Wood made clear his displeasure that the proposal was leaked to the *Daily Express* – an obvious attempt to force his hand and ‘greatly embarrass[ing]’ to the government.<sup>41</sup> Yet it is perhaps telling that Wood withdrew his objection to the wage rise as soon as Bevin pledged that the unions would not seek to exploit a favourable settlement.<sup>42</sup> At the same meeting, the Chancellor similarly agreed to improve the wages of railway workers by 3s per week after Bevin offered further reassurances that it did not amount to a slippery slope. (Bevin revealed that he had told the Trade Union Congress to suspend new wage claims.)

This was another early but important contribution to the process of demonstrating inter-party good will.

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<sup>38</sup> Mary Evans and David Morgan, *The Battle for Britain: Citizenship and Ideology in the Second World War* (London, 1993), 25-9.

<sup>39</sup> Consult John Turner, *British Politics and the Great War: Coalition and Conflict 1915-1918* (London, 1992), for the political effects of this failure.

<sup>40</sup> CAB 65, WM (40), 149, 31 May 1940.

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

Throughout 1940 Wood sought to extract the sting from further sensitive issues. In October he devised a new policy under which the state would pay full compensation for war damage.<sup>43</sup> This would be financed via a 3% charge on the value of all property, the state matching the funds raised. The timing of payment would vary according to priorities for materials, but if payment was deferred the government would pay interest and offer an advance of up to £500 to assist with new accommodation.<sup>44</sup> This measure attracted widespread support across the parties. And in late November, Wood sought common ground on the matter of reconstruction planning. If there was one issue likely to divide the parties, this was it. The Chancellor endorsed Attlee's suggestion that the Cabinet War Aims Committee should decide the 'broad principles' for reconstruction planning by which Whitehall would be guided.<sup>45</sup> This body was comprised of senior ministers. Yet, importantly, Wood actually took Attlee's idea further, proposing that the committee might also draw up a clear 'hierarchy of priorities' for transmission to government departments.<sup>46</sup> Issues that might destabilise the coalition were to be kept in the hands of politicians.

This approach did not simply entail making concessions to Labour. Wood was resistant where he felt it necessary. The Chancellor fought Bevin over increasing unemployment insurance in June,<sup>47</sup> rejected a land tax,<sup>48</sup> and in September had a confrontation with Attlee on family allowances payments to service personnel. The Labour leader wanted Wood's proposed rise (from 27s to 30s for the average family) to be tripled, and threatened that his party would oppose this 'inadequate' policy in Parliament.<sup>49</sup> However the Chancellor remained intransigent, arguing that 'the state of the national finances would

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<sup>43</sup> CAB 67, WP (G) (40), 'Compensation for War Damage to Property: Memorandum by the Chancellor of the Exchequer', 1 October 1940.

<sup>44</sup> Ibid.

<sup>45</sup> CAB 87/90, WA (40), 9, 'Note on a War Aims Secretariat', 26 November 1940.

<sup>46</sup> Ibid.

<sup>47</sup> CAB 65, WM (40), 180, 24 June 1940.

<sup>48</sup> H.C. Debs., 23 July 1940, col. 649.

<sup>49</sup> CAB 65, WM (40), 251, 17 September 1940.

not justify increases greater than [I] had proposed'.<sup>50</sup> In October he mounted a defence of the profits of the railway industry, contending that companies were entitled to a 'fair and modest reward' for efficiency and thus should not be restricted to the pre-war average of profits of £40m per annum, as some had proposed, despite the otherwise 100% level of EPT.<sup>51</sup> A harsh policy would remove incentives to cost-cutting in a critical area of infrastructure.<sup>52</sup>

On the whole, however, these measures – particularly the EPT – had a stabilising effect on parliamentary politics. Westminster was not wracked by the recurrent tensions over profits that had characterised the First World War. But, importantly, it should be noted that their influence over wider public opinion was limited. Within days of initiating the EPT, at the Bow and Bromley by-election the Labour candidate, an alderman called C.W. Key, told a public meeting that 'excess war profits are to be wholly taken over by the state. For the first time, public interest is supreme'.<sup>53</sup> Yet months later, Mass Observation still reported a pervasive national suspicion among those who considered themselves 'progressive' that 'profits had not been reduced'.<sup>54</sup> Discussing a motivational poster campaign bearing the slogan 'Go To It!', one worker was 'nauseated' that the government should ask this 'when they're making such huge profits'.<sup>55</sup> Clearly, in the eyes of some, the state and employers remained hostile to workers. The Dunbartonshire by-election in February 1941 saw the expression of similar sentiments.<sup>56</sup>

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<sup>50</sup> Ibid.

<sup>51</sup> CAB 67, WP (G) (40), 'Financial Arrangements for the Railways: Memorandum by the Chancellor of the Exchequer and the Secretary of State for Transport', 21 October 1940.

<sup>52</sup> Ibid.

<sup>53</sup> Mass Observation archive (online), file report 205, 'The Bow and Bromley by-election', June 1940.

<sup>54</sup> Mass Observation, file report 1077, 'Excess Profits Tax', February 1942.

<sup>55</sup> Mass Observation, file report 306, 'Testing the slogan "Go To It!"', June 1940.

<sup>56</sup> Mass Observation, file report 593, 'Dunbartonshire by-election', February 1941.

The fact that hostilities between socio-economic groups – especially workers and business – endured is now well-understood.<sup>57</sup> Pre-war views remained entrenched.<sup>58</sup> Class consciousness was strong.<sup>59</sup> Yet Mass Observation found that reaction to the EPT was strongest from ‘industrial, commercial and business elements’.<sup>60</sup> It was attacked ‘from the start’ as an ‘enormous’ task for companies to oversee given that it was a ‘maze’ of regulations.<sup>61</sup> It was ‘a whole continent of pits and traps’. Both workers and business alike remained unhappy. Wood’s efforts to neutralise controversy over profits was largely a success at Westminster. But the evidence of strong, and diverse, public feeling on the issue underlines the limited capacity of politicians to reshape wider social and cultural attitudes during the war.

Perhaps in recognition of the Chancellor’s growing political significance, in October 1940 Churchill brought Wood into the inner War Cabinet. According to Lord Beaverbrook, Wood was one of the ‘Tory managers’ who vetoed Churchill’s intention to also bring Morrison inside the War Cabinet as it would ‘disturb the balance of the parties’.<sup>62</sup> The Chancellor kept lines of communication open with Lloyd George.<sup>63</sup> He later warned the prime minister that ‘the Socialists’ wanted ‘to see the position of prestige of the Treasury weakened as much as possible’.<sup>64</sup> But in blending finance with a sensitivity to symbolism and ‘legitimacy’, Wood’s approach resembled a tentative bid to map the new centre-ground created by cross-party alliance and the shock of war.

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<sup>57</sup> For new insights on wartime social history, see Geoffrey G. Field, *Blood, Toil and Sweat: Remaking the British Working Class, 1939-1945* (Oxford, 2011). Consult also Sonya O. Rose, *Which People’s War? National Identity and Citizenship in Wartime Britain* (2004).

<sup>58</sup> For a contemporary perspective, see Tom Harrison, ‘A note on class consciousness and class unconsciousness’, *Sociological Review* (1942), 147-65.

<sup>59</sup> Field, *Blood, Toil and Sweat*, chapter three.

<sup>60</sup> Mass Observation, ‘Excess Profits Tax’.

<sup>61</sup> *Ibid.*

<sup>62</sup> Beaverbrook interview with W.P. Crozier, 24 August 1940, in A.J.P. Taylor (ed.), *W.P. Crozier, Off The Record: Political Interviews, 1933-1943* (London, 1973), 196-9.

<sup>63</sup> House of Lords, Lloyd George papers, LG/G/19/22/1-8, Wood to Lloyd George, 22 July 1940.

<sup>64</sup> Churchill papers, CHAR 20/2025-27, Wood to Churchill, 27 July 1941.

## II

In his own words, Churchill's policy was to spend every penny Britain could lay its hands on and 'leave future financial problems on the lap of the Eternal Gods'.<sup>65</sup> After moving to the Treasury, one of the Chancellor's first significant decisions was thus to ensure that he received adequate expert advice. He established a 'Consultative Council' of outsiders, consisting of economists, bankers, industrialists and trade unionists that became the catalyst for major changes in financial policy. John Maynard Keynes was a member. The Council's terms of reference were deliberately broad – 'the special problems which confront the Treasury as a consequence of war conditions' – because it was supposed to operate across all fronts, devising solutions to a range of challenges. And it is important to note that this was *additional* advice: Wood was not replacing existing, internal processes but ensuring that he was exposed to as much counsel as possible. He had pursued a similar approach at the Air Ministry and Post Office.

The biggest challenge confronting the Treasury was to transfer resources to meet the cost of war without resorting to inflation. The deficit between government revenue and expenditure was soon labelled the 'inflationary gap'. From the outset, Wood was clear that inflation was the principal problem to be countered; but he was equally clear that doing so was *politically* difficult. Whatever decision he took, whichever strategy he settled on, the Chancellor risked arousing controversy. As such the problem was not simply that of paying for the war, but doing so in a way that was politically and socially sustainable. The next two sections deal with not only the content of policy, but how it was communicated and explained to the political parties in Parliament and the wider public. We lack clear evidence about Wood's private thought-process on this issue, but his strategy is discernible in the policies pursued over the next year. The Chancellor chose to move incrementally and build

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<sup>65</sup> Churchill, *Their Finest Hour*, 492.

agreement. That was why the coalition's initial Budget, delivered in July 1940, was somewhat underwhelming.

Presented to Parliament on 23 July, this was a revision of the April 1940 Budget of Sir John Simon. Simon had projected a deficit of £1.5 billion for 1940-41; his successor revised this to £2.2 billion.<sup>66</sup> The logical means of bringing this under control was through new taxation. That would simultaneously boost Treasury revenue while reducing consumer spending-power. Consumer goods were already scarce in shops, and this threatened price inflation. If less money remained in people's pockets as a result of higher taxes, and a purchase tax was levied on consumer goods, the risk of inflation would be reduced. Wood was convinced that 'civilian consumption must be strictly controlled' lest there be a chain-reaction of inflation.<sup>67</sup>

But a significant obstacle was the Labour party. The junior partner in the government opposed the plan for a purchase tax on consumer goods, arguing that it would disproportionately hit working-class living standards.<sup>68</sup> Financial policy thus threatened to strike at the base of the coalition. Addressing this while achieving the desired goal was an obvious presentational challenge. After much haggling, the Chancellor opted to keep the purchase tax but mollified opposition by making it only one among several measures of stiff taxation. Standard income tax was raised from 7s. 6d. to 8s. 6d. A further 10% estate duty was levied on estates above £10,000. Surtax on the first slice of income above £2,000 was increased from 1s. 3d. to 2s., while the top rate of 9s. 6d. was reduced from those earning £30,000 to £20,00. The result was an increase in direct taxation of over £200m per annum.<sup>69</sup> This was the crucial political counterweight needed to win Labour's support for increased

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<sup>66</sup> H.C. Debs., 23 July 1940, col. 638.

<sup>67</sup> H.C. Debs., 29 May 1940, col. 567.

<sup>68</sup> H.C. Debs., 23 July 1940, cols. 637-57.

<sup>69</sup> Ibid.



indirect taxation. In addition to the tax on consumer goods, the 1940 Budget boosted revenues through substantially increased duties on alcohol, tobacco, and entertainments.<sup>70</sup>

In his Budget speech, the Chancellor was careful to present his measures to politicians and public alike as ‘a tax on personal expenditure’.<sup>71</sup> The Budget contained exemptions for food, fuels, and children’s clothing. Luxury items – defined as purchases that could be postponed or avoided – would be taxed at 33.5% under the new purchase tax, and items that needed to be replaced – such as adult’s clothing and crockery – at 16%. It was estimated that these measures would yield another £110m per annum.<sup>72</sup> The scale of the political challenge confronting Wood is apparent in that despite his cautious presentation, the purchase tax still met opposition in the Commons, especially from the Labour benches. ‘We have heard it said many times that we cannot soak the rich any more, but I always find that there is a class of society which lives very well indeed after all the soaking. The soaking does not seem to trouble them very much, and cannot ever have gone very deep’, declared John Tinker, a Labour MP.<sup>73</sup> Another, Robert Richards, argued that ‘the poorer section of the community’ was contributing disproportionately: ‘the fact is that there is no equality of sacrifice’.<sup>74</sup> Though not generally representative of Labour opinion, the Communist William Gallacher blamed the crisis on ‘the capitalist system’ and denounced the squeeze on consumer goods as being sure to ‘starve’ the masses. ‘Before there is the slightest thought of cutting down the consumption goods of the masses of the people, every luxury hotel and wealthy house in the country should be closed down.’<sup>75</sup>

Sayers argued that in 1940 Parliament remained unwilling to face up to the costs of war, suggesting that while much rhetoric about ‘equal sacrifice’ was deployed in response to

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<sup>70</sup> Ibid.

<sup>71</sup> *Daily Telegraph*, 24 July 1940.

<sup>72</sup> H.C. Debs., 23 July 1940, cols. 637-57.

<sup>73</sup> H.C. Debs., 23 July 1940, cols. 685-6.

<sup>74</sup> H.C. Debs., 24 July 1940, col. 941.

<sup>75</sup> H.C. Debs., 23 July 1940, cols. 693-4.

the Budget, practical alternatives were conspicuous by their absence.<sup>76</sup> The Chancellor's approach blended the sensitivity required to achieve the crucial task of carrying the bulk of Labour MPs with the broader policy effects of raising tax revenue and restraining purchasing power – and thus tackling inflation.

It is possible to see the 1940 Budget as something of a false start. Yet though it did not signify a bold leap in policymaking – that would come in 1941 – and was criticised in the press as 'timid', 'shirking the issue', and not a 'serious attempt to grapple with the financial difficulties of the war',<sup>77</sup> it is important to recognise that Wood was consciously engaged in a process of long-term political education within Parliament. Even before introducing the Budget, for instance, the Chancellor indicated that policy and legitimacy went hand-in-hand, stating that while 'I have no doubt that it will be necessary to increase [taxation] further in the near future ... I think it is essential to afford some short period ... during which the country can adjust itself to the considerable burdens already placed upon it'.<sup>78</sup> Keynes and other advisers were pressing for a more decisive shift but Wood judged that, in the context of coalition, a bolder policy was sustainable only if it commanded support.<sup>79</sup> To that end 'a little time, however short ... is valuable'.<sup>80</sup> In the Budget speech itself he reiterated that 'it is plain that we cannot expect' to raise all the necessary revenue 'in one Budget', and thus '*we must regard this Budget ... as an interim Budget*'.<sup>81</sup> These public statements are important pieces of evidence and shed light on the thinking behind the policy, as well as the recognised importance of presentation. They indicate that in Wood's view the 1940 Budget effectively had to be inadequate because the political support for a bolder measure simply did not yet exist. Moreover, the justification offered – 'time' – was, again, one of political stabilisation.

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<sup>76</sup> Sayers, 52-3.

<sup>77</sup> *The Times*, 24 July 1940.

<sup>78</sup> H.C. Debs., 29 May 1940, col. 567.

<sup>79</sup> T171/355, 'The Control of Inflation', 12 Jul 1940.

<sup>80</sup> H.C. Debs., 29 May 1940, col. 567.

<sup>81</sup> H.C. Debs., 23 July 1940, cols. 640-2 (my emphasis).

The atmospherics of the Budget appear to have been largely determined by the mood at Westminster. For Wood ‘public opinion’ seems to have often consisted of the Labour party in Parliament. Yet considering the Budget’s wider public reception is also illustrative. Home Intelligence reported a mixed reaction. For some, there was an outlook of ‘cheerful resignation’, while the deduction of income tax at source was ‘popular’.<sup>82</sup> The Chancellor’s targeting of the purchase tax at luxuries ‘gave satisfaction to the artisan population’.<sup>83</sup> But others were more negative. The increased taxation of even small incomes ‘causes anxiety’.<sup>84</sup> The inclusion of books in the purchase tax was ‘condemned’.<sup>85</sup> Some were critical of a ‘compromise Budget’.<sup>86</sup> Here – as with the EPT – the capacity of politicians to lead public opinion in one direction was limited. Reaction to policy remained diverse. Moreover Wood himself was never a prominent public figure; even in 1942, Mass Observation found that only ‘one man in two and one woman in four knew who the Chancellor was’.<sup>87</sup> Political communication was, perhaps, easier to manage at Westminster.

The evidence indicates that, whatever the limitations of the Budget, Wood conceived of his role as being a consensus-builder in parliamentary politics. He acknowledged the continuing threat of inflation (‘I do not hesitate to say that this is a fundamentally dangerous situation’),<sup>88</sup> but, as Harrison postulated of ‘consensus’, one important component was politicians’ slowly guiding opinion towards it.<sup>89</sup> Wood was particularly careful to run

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<sup>82</sup> Home Intelligence daily reports, 24 July 1940, ‘Points from the regions’, reproduced in Paul Addison and Jeremy Crang (eds.), *Listening to Britain: Home Intelligence Reports on Britain’s Finest Hour, May to September 1940* (London, 2011), 263 and 5 August 1940, ‘Nottingham (north-midland region)’, 302.

<sup>83</sup> Home Intelligence daily report, 16 July 1940, ‘Belfast (Northern Ireland)’, in Addison and Crang, *Listening to Britain*, 237.

<sup>84</sup> Home Intelligence daily report, 16 July 1940, ‘Reading (southern region)’, in Addison and Crang, *Listening to Britain*, 237.

<sup>85</sup> Home Intelligence daily report, 29 July 1940, ‘Cardiff (Wales)’, in Addison and Crang, *Listening to Britain*, 281.

<sup>86</sup> Home Intelligence daily report, 24 July 1940, ‘London’, in Addison and Crang, *Listening to Britain*, 265.

<sup>87</sup> This was below the average recognition of senior ministers. See Mass Observation archive, file report 1209, ‘Ignorance’, April 1942.

<sup>88</sup> H.C. Debs., 23 July 1940, cols. 640-2.

<sup>89</sup> Harrison, ‘The rise, fall and rise...’, pp. 301-2.

proposals past Bevin.<sup>90</sup> Toye has demonstrated how, prior to May 1940, Keynes found that the difficulty in persuading Labour of his ideas had at least as much to do with *political* presentation as *economic* policy.<sup>91</sup> The same was true after the formation of the coalition.

### III

It seems clear that these measures played a role in the early stability of the new government in a way that has not previously been explored. But it would be some time before the Chancellor felt able to shift policy. Wood spent months – from the autumn of 1940 onwards – planning the 1941 Budget. He challenged Treasury advisers to come up with ideas and gradually synthesised them into a strategy.<sup>92</sup> The resultant policy, expressed in the 1941 Budget and an accompanying White Paper, reinforced the coalition and helped to ensure that the equal distribution of misery did not become a disruptive public issue.

In the autumn of 1940 Keynes produced four ‘Notes on the Budget’ for Wood.<sup>93</sup> His intellectual rationale was that the ‘inflationary gap’ must be closed through a definitive Budget. Keynes wanted the state to conceptualise the national economy in a new way, grappling with demand and balance in the whole economy in order to make the country run at peak efficiency. He also advocated that the Treasury should secure working-class assent for higher taxes by underwriting the cost of living.<sup>94</sup> Both of these proposals were radical courses of action. The first would constitute a shift in the role of the state. The second would commit the government to an unknown and unlimited liability until normal economic conditions resumed.

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<sup>90</sup> For example, CAB 118/62, Wood to Bevin, untitled memorandum on the cost of living (n.d., November 1940); Bevin to Wood, 28 November 1940.

<sup>91</sup> Toye, ‘The Labour party and Keynes’, 168.

<sup>92</sup> T171/355, ‘The Control of Inflation’, 5 September 1940; T171/355, ‘Financial and Economic Problems’, 18 October 1940; T171/355, ‘Memorandum by Lord Catto’, 22 October 1940; T171/355, ‘Note by the Board of Inland Revenue on the suggested Excess Earnings Tax’, 5 November 1940

<sup>93</sup> For instance, T171/355, ‘Notes on the Budget I: The Dimensions of the Budget Problem’, 21 September 1940, and ‘Notes on the Budget II: Prices and Wages Policy’, 28 September 1940.

<sup>94</sup> T171/355, ‘Notes on the Budget III: Subsidies to the Cost of Living and Indirect Taxation’, 29 September 1940.

The Chancellor had already been left furious at an effort by Labour's Arthur Greenwood to develop a dual economic policy.<sup>95</sup> On 21 October Wood held a meeting with Keynes, Lord Catto, Sir Horace Wilson, Sir Richard Hopkins, and Sir Frederick Phillips to discuss strategy.<sup>96</sup> After considering Keynes's philosophy, he instructed the Treasury to launch a study of the four competing ideas for the Budget: the schemes of Keynes (financed by a surcharge on top of the existing income tax and surtax), Catto (a flat-rate surcharge on all incomes), Josiah Stamp (a new excess earnings tax, modelled on the EPT), and the Inland Revenue (straightforward increases in direct taxes). Wood also requested an assessment of Keynes's suggestion that 'as part and parcel of a severe Budget I should agree to stabilise the Cost of Living Index'.<sup>97</sup>

Significantly, he explicitly ordered that the 'psychological' implications of each scheme be weighed in detail alongside the 'financial'.<sup>98</sup> A report commissioned by Wood stressed that 'wartime economic policy has got to work not only in economic terms, *but in what may broadly be called political [or] sociological terms*'.<sup>99</sup> These are telling phrases. They underline the Chancellor's awareness of the importance of perception and the 'selling' of strategy. It is unclear whether he was primarily concerned here with the 'psychology' of Labour, the wider public, or both. But in seeking to devise a financial policy that would endure for the remainder of the war, the imperatives of coalition politics remained ever-present. Wood's sensitivity to the maintenance of broad support for higher taxes on the public is apparent in that while still pondering the details of the policy, he began building a political consensus for it. One component of the 1941 Budget was a revision of the EPT to enable businesses to plan for the future with greater confidence. This perhaps indicates a degree of

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<sup>95</sup> Colville, *The Fringes of Power*, 19 October 1940. Also CAB 71/2, LP (41), 11, 28 March 1941.

<sup>96</sup> T171/355, 'The Next Budget', 21 October 1940.

<sup>97</sup> T171/355, Wood to Wilson, 'The Next Budget', 14 January 1941.

<sup>98</sup> T171/355, 'The Next Budget', 21 October 1940.

<sup>99</sup> T171/355, 'Public Opinion and Paying for the War', (n.d., but January 1941) (emphasis added).

responsiveness to the vocal complaints about the tax emanating from the private sector. But wider suspicion towards profits remained, the *Manchester Guardian* calling for a ‘revolutionary change of outlook’ to shift away from the ‘profit motive’.<sup>100</sup> Aware of the disruptive potential of this at a time when taxes on the general population were to be increased, the Chancellor circulated a Cabinet memorandum on the topic in January 1941. This was much earlier than his other Budget proposals. The paper stressed that the 100% rate of EPT left companies without sufficient funds to invest in their own future.<sup>101</sup> There was concern that it would have a debilitating effect in reducing enthusiasm for innovation. He outlined two solutions: either to reduce the EPT from 100%, or to add various ‘amendments’ to its management.<sup>102</sup>

The War Cabinet agreed – as the Chancellor probably expected – that there would arise ‘great difficulty’ in any deviation from the symbolic 100% rate that he himself had implemented.<sup>103</sup> Therefore Wood suggested that ‘in practice the best plan’ might be for some proportion of the total – he proposed a fifth – to be treated as a ‘loan’ and repaid to companies after the war, subject to being used on reconstruction rather than dividend payments.<sup>104</sup> This was more palatable than the alternative of a cut in EPT. Labour ministers backed the idea, and the War Cabinet gave its approval.<sup>105</sup> It was a further illustration of Wood’s sensitivity to issues of presentation. He had achieved his goals – and given reassurance to Conservative pro-business sentiment – while carrying the Labour party with him. Yet though the Chancellor offered assistance to businesses, he did not reverse his policy of strengthening the hand of the state. When the Financial Secretary to the Treasury, the Conservative Harry Crookshank, hyperbolically compared Wood’s methods to those of the

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<sup>100</sup> *Manchester Guardian*, 4 April 1941.

<sup>101</sup> CAB 65, WM (41), 6, annex, 1, 14 January 1941.

<sup>102</sup> *Ibid.*

<sup>103</sup> *Ibid.*

<sup>104</sup> *Ibid.*

<sup>105</sup> *Ibid.*

Fuhrer, he met with the response that ‘As for Hitler, I am not aware that he has done anything as yet which could be regarded as comparable to my proposals!’<sup>106</sup>

After much preparation, Wood was now willing to make the change demanded by ‘the costliest war in history’.<sup>107</sup> On 1 February 1941, he took a final decision on financial strategy.<sup>108</sup> The Chancellor had already informed the War Cabinet that he intended the Budget to be ‘definitive’ and would not repeatedly revise taxes or continually add new ones.<sup>109</sup> He resolved to utilise Keynes’s conviction that the Budget should become a comprehensive survey of the whole economy. It was through this that Wood left a lasting mark on the British state. In essence, his strategy was to employ cost of living subsidies (on food and essentials like fuel) from the Treasury to restrain increases in the price of goods. Bevin had been pressing for this since early 1939.<sup>110</sup> It was hoped that this protection of living standards would leave the public willing to accept taxation being rendered as stiff as possible in order to swallow up all excess purchasing power in the economy. It was an experimental policy, but there was widespread concern that inflation was getting out of control.<sup>111</sup> Keynes drafted the White Paper which was published alongside the Budget, making explicit the state’s conversion to basing financial policy on total national income.<sup>112</sup> In representing the first formal endorsement of Keynesian ideas, W.H. Greenleaf was right to label this an ‘historic’ moment.<sup>113</sup>

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<sup>106</sup> T172/2113, Wood to Crookshank, 27 March 1941. For additional Conservative complaints, see Beaverbrook papers, BBK/D/336, Beaverbrook to Wood, 5 January 1941, and Wood to Beaverbrook, 7 January 1941; and Durham County Record Office, Cuthbert Headlam papers, diary, 23 July 1940 and 15 October 1941.

<sup>107</sup> *The Times*, 7 February 1941.

<sup>108</sup> T171/355, ‘The Next Budget’, 1 February 1941.

<sup>109</sup> CAB 65 WM (41), 6, annex, 1, 14 January 1941.

<sup>110</sup> Trade Union Congress archive, University of Warwick, TUC General Council minutes, 23 March 1939.

<sup>111</sup> *The Economist*, 4 January 1941.

<sup>112</sup> Keynes to Hopkins, 19 January 1941, in Keynes, *Collected Writings*, volume XXII, 277-9.

<sup>113</sup> W.H. Greenleaf, *The British Political Tradition, Volume Three: A Much Governed Nation, Part One* (London, 1987), 323-4.

Henceforth the Treasury would manage not only the government sector, but assume a wider concern with demand and balance in the economy as a whole. Moreover the Chancellor cooperated with Bevin here: the state was to protect living standards, and in return Bevin used his influence with the unions to encourage restraint in pressing wage claims. Bevin had already assented to Wood's request, made at the Lord President's Committee, for assurances that the Minister of Labour would 'join with him' in resisting wage increases.<sup>114</sup> Keynes advised Wood to put union leaders 'on their honour'.<sup>115</sup> *The Times* labelled this 'extremely bold'.<sup>116</sup> Concerned that living standards and industrial peace were being endangered by inflation, the Treasury targeted inflation of both cost and demand in order to achieve stability. The aim was to create conditions 'which will enable the wages situation to be held about where it is now'.<sup>117</sup>

Though the inspiration came from Keynes, Wood harnessed the economist rather than allow him to dictate policy. For instance, while the principles sketched out in Keynes's 1939 articles in *The Times* on 'How to Pay for the War' – estimating total national income, and identifying the gap between revenue and expenditure that would need to be plugged – had been accepted, Robert Skidelsky emphasises that the Budget was far from a carbon copy of Keynes's ideas.<sup>118</sup> In shaping the final policy Wood had in fact chosen to combine the funding plans of Keynes and the Inland Revenue. He dropped Keynes's surcharge as 'impracticable' and settled on the idea that revenue would have to be raised through income tax, while imposing on the Inland Revenue Keynes's plan that half of the increased income tax would become a 'withholding tax' repayable to all taxpayers after the war.<sup>119</sup>

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<sup>114</sup> CAB 71/2, LP (41) 1, 17 January 1941.

<sup>115</sup> T171/355, 'Notes on the Budget II: Prices and Wages Policy', 28 September 1940.

<sup>116</sup> *The Times*, 8 April 1941.

<sup>117</sup> H.C. Debs., 7 April 1941, col .1322.

<sup>118</sup> Robert Skidelsky, *John Maynard Keynes, volume three: Fighting for Britain, 1937-1946* (London, 2000), 87.

<sup>119</sup> T171/355, 'Note by the Board of Inland Revenue on Mr. Keynes's revised proposal for a war surcharge', 15 January 1941, and Wood, 'The Next Budget', 1 February 1941.



Essentially, it amounted to forced saving – and could thus be presented to the public in a more positive light than confiscatory taxation. The Chancellor drew on Keynes’s ideas, but ultimately he took the decisions: he balked at the economist’s proposal for the immediate introduction of universal family allowances, while the ‘withheld’ component of income tax was much smaller than Keynes desired. Keynes proposed that the ‘withheld’ component of income tax should amount to 15% of domestic spending; Wood made it just 3%. This might have been because of a fear of runaway post-war inflation by injecting a huge volume of purchasing power into the economy, or, alternatively, because Labour would discern it as enabling the rich to live off their capital. Either way, Skidelsky concluded that in pursuing legitimacy through high taxation of the wealthy, subsidising the cost of living, and universal rationing the Budget was actually more ‘socialist’ than ‘Keynesian’.<sup>120</sup> But if we set aside economic theory, it is apparent that Wood had crafted a new approach to the economy that, in the end, proved tolerable to most significant shades of political opinion. This was a difficult achievement, as the Great War had demonstrated. Keynes himself respected Wood’s skill in the political presentation and packaging of economic ideas. Upon hearing of the Chancellor’s death in 1943, Keynes remarked that ‘he had the gift of converting [any economic idea] into a platitude intelligible to the merest child. This is a great political gift, not to be despised’.<sup>121</sup>

When the Chancellor presented the proposals to the War Cabinet, he projected an estimated government expenditure of £3.7bn compared to total revenue of £3.2bn. This left a shortfall of £500m to be found. Wood believed the lack of consumer goods on the shelves would lead to a rise in personal savings of £2-300m. He therefore sought £250m in new taxation. It was decided to increase income tax from 8s. 6d. to 10s: this would bring 3m new taxpayers into income tax, and yield £255m per annum.

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<sup>120</sup> Skidelsky, *Keynes*, 87.

<sup>121</sup> Milo Keynes (ed.), *Lydia Lopokova* (London, 1983), 171-2.

Characteristically, Churchill was privately sceptical and interpreted the Budget proposals as a further sop to ‘other elements in public opinion’, by which he plainly meant Labour.<sup>122</sup> That Churchill remained suspicious was implicit in the working title of a Treasury memorandum to be sent to his office: ‘Budget Policy Peptonised and Predigested for the PM’.<sup>123</sup> For his part, Crookshank implored Wood to ‘just change your mind!’<sup>124</sup> But this overlooked the scale of the problem, and the need to meet several challenges simultaneously. The revenue yield would be enough to close the inflationary gap, and given that the Chancellor was making concessions on the EPT, planned to resist increases in inheritance tax, and emphasised that forced saving was strictly a temporary expedient, to interpret the 1941 Budget as a shift towards ‘socialism’ is to miss the point. The reality was more complex, and reflective of Wood’s approach. In balancing doctrinal concerns, it had something – enough – for all.

Ultimately, the government accepted the Budget. As many scholars have noted, this established the core principles which would shape financial policy until the end of the war. The Budget speech itself, delivered on 7 April, perhaps represented the peak of Wood’s career.<sup>125</sup> Earlier drafts, written from March 1941 onwards, had debated how to publicly sell what the Chancellor described as the ‘necessity of stabilisation’.<sup>126</sup> He eventually settled on repeatedly stressing ‘fairness’, and in that respect the speech indicated the continued primacy of legitimacy in his calculations.

At the outset the Chancellor summarised the objective as being ‘... to ensure that we continue to maintain our national finances on sound lines and that we are able, when the time comes, to pursue post-war measures of reconstruction and social advance which we all desire

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<sup>122</sup> PREM 5/18/7, Churchill to Wood, 19 February 1941.

<sup>123</sup> T171/356, ‘Budget Policy Peptonised and Predigested for the PM’, 25 February 1941.

<sup>124</sup> T171/356, Crookshank to Wood, 23 March 1941.

<sup>125</sup> H.C. Debs., 7 April 1941, cols., 1297-1332.

<sup>126</sup> T171/356, Wood memorandum, ‘Suggested lines of Budget speech’, 10 March 1941.

to see achieved'. Wood went on to emphasise taking 'the profits out of war' and banishing 'war fortunes', something which had been done 'with the approval of every section of the community'.<sup>127</sup> And he offered an account of his approach to inflation:

The danger which we have to control ... is that of being flooded out by an excess of purchasing power. ... To avert that menace, it is vital for us to possess a stout and well-constructed dam. That is the object of our systems of food and industrial controls, of our systems of price control, rationing and the like. But we also have to abate the force of the torrent. That is the function of finance. The solution would be impossible unless [the torrent] was eased by the withholding of a substantial part of the surplus purchasing power through the instrument of taxation.<sup>128</sup>

The speech warned of 'the evil effects, the indiscriminate injustices and the catastrophic burdens imposed by unchecked inflation'. And, once again, 'fairness' was its primary linguistic instrument: the Chancellor wanted to 'to distribute with all possible justice the weight of the resulting burden'.<sup>129</sup> As Sabine observed, that this explanation was accepted in the Commons was apparent from the fact that the subsequent debate transcended the 'once rigid demarcation of ... Budget[s] ... on party lines', in contrast to 1940.<sup>130</sup>

Importantly, the Budget was well-received in the press, *The Times* declaring that Wood had taken 'the longest and most drastic view', to 'practically universal welcome'.<sup>131</sup> 'Nothing ... more drastic could be imagined'.<sup>132</sup> The Budget speech represented 'a lesson on the nature of money and the function of government finance'.<sup>133</sup> Moreover newspapers at opposite ends of the political spectrum welcomed it.<sup>134</sup> The *Daily Mirror* thought it 'balanced and fair'. *The Times* observed that, through cost of living subsidies, the Budget cleverly

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<sup>127</sup> H.C. Debs., 7 April 1941, cols., 1297-1332.

<sup>128</sup> Ibid.

<sup>129</sup> Ibid.

<sup>130</sup> Sabine, 'The Finance Act 1941', 187.

<sup>131</sup> *The Times*, 8 and 22 April 1941.

<sup>132</sup> *The Times*, 8 April 1941.

<sup>133</sup> *The Times*, 22 April 1941.

<sup>134</sup> *Daily Mirror*, 8 April 1941; *Daily Telegraph*, 8 April 1941; *Manchester Guardian*, 8 April 1941; *Daily Mail*, 8 April 1941.

imposed a 'great moral obligation' on the Labour movement to moderate wage demands: it simultaneously wooed Labour while making living standards dependent on restraint.<sup>135</sup>

But, as before, not all audiences were impressed. The Budget 'dashed many hopes' among businesses, with the post-war 20% refund on EPT judged to be 'pie in the sky'.<sup>136</sup> One Mass Observation diarist, a school teacher, remarked later in the year that 'I wonder where Sir Kingsley does his shopping' when discussing inflation.<sup>137</sup> And, despite the effort to encourage saving, in 1942 Mass Observation found that 'about a third' of working class populations admitted they could still 'save more than they did'.<sup>138</sup> On the whole, however, the Budget did succeed in its aim of preventing serious instability or recrimination. Home Intelligence found that 'the Budget was well-received', and 'the principle of compulsory saving is popular'. 'There is considerable relief that there are no new taxes on beer and tobacco'. Meanwhile 'the middle-classes are glad that direct taxation is at last to affect the labouring classes ... little comment is reported from the working-classes themselves'.<sup>139</sup> Within several months, even protest from businesses against taxation had 'almost disappeared'.<sup>140</sup>

Historians have always recognised the importance of the 1941 Budget. This article, however, has explored the year-long political process of which the Budget was the culmination. If the destination of the paper is familiar, the journey – especially the process of framing and *selling* policy – is perhaps less so. Judged from a political perspective the Budget was, in the context of total war, the embodiment of the centre-ground. The way in which it was articulated was politically unobjectionable. Wood had been careful to be seen as equitable in imposing hardship. Indeed, equity was no longer a political question from 1941.

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<sup>135</sup> *The Times*, 7 April 1941.

<sup>136</sup> Mass Observation, 'Excess Profits Tax'.

<sup>137</sup> Mass Observation, diary 5015, October 1941.

<sup>138</sup> Mass Observation, file report 1053, 'A Savings Survey (Working Class)', January 1942.

<sup>139</sup> INF 1/292, report 28, 9-16 April 1941.

<sup>140</sup> Mass Observation, 'Excess Profits Tax'.

The fact that during the Second World War the coalition was not wracked by rows about equal suffering was arguably a significant contribution to the process of integration. *The Economist* later called the appearance of equity ‘one of the great social triumphs of the war’.<sup>141</sup>

#### IV

If broadly ‘Keynesian’ financial strategies were one of the bases of the post-war settlement, then the political and linguistic process through which this was first established as a core part of the British state’s activity needs to be understood. As we have seen, that was a gradual task; Wood had proceeded in increments, not merely developing policy but actively persuading audiences in Parliament of its utility. In doing so, he relied on the language of fairness. While ‘fairness’ might seem a somewhat banal (and contestable) idea, nonetheless it was a ubiquitous rhetoric in which ministers focused on the domestic arena articulated their actions and policy choices. Between the summer of 1940 and the spring of 1941, the Chancellor wrestled with the question of how to articulate and explain complex economic and political problems, and justify solutions. It had proven incumbent on Wood, perhaps more consistently than any other politician, to deal with the strains inherent in a radically reordered political space. While Keynes later bemoaned the primacy of ‘political considerations’ and ‘concessions to sentiment’, in practice those considerations could not be ignored.<sup>142</sup>

Reaction to these policies – especially the EPT and the first two Budgets – among the public was inevitably diverse. Long-standing social tensions remained strong. If Mass Observation and Home Intelligence data is any indication, it is apparent that Wood’s political

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<sup>141</sup> *The Economist*, 24 October 1942.

<sup>142</sup> T171/367, ‘Budget Committee. Note by Richard Hopkins. Annex: Lord Keynes on the EPT post-war credit’, 4 February 1944.

signalling was more effective at Westminster than it proved in the wider country. On the other hand, Addison and Jeremy Crang have shown that grumbling, about all manner of issues, was widespread.<sup>143</sup> It was part of everyday life in a country at war and afraid for its future. And the 1941 Budget, at least, can be judged a success in entrenching an approach that, while still the subject of some public unhappiness, was broadly acceptable.

Following the 1941 Budget, finance was no longer a major political question and Churchill later dropped the Chancellor from the War Cabinet.<sup>144</sup> Wood's obituaries in 1943 (he died on the day that he was due to announce a significant measure of tax modernisation, the creation of Pay-As-You-Earn),<sup>145</sup> were marked by comments on his political shrewdness. In a piece entitled 'Taxing without Tears', *The Times* emphasised his 'thorough understanding of current political values' and 'precise place' in 'the balance of the government'.<sup>146</sup> Later, when Churchill complained of his own weak grasp of Conservative opinion, he observed 'that is why I miss Kingsley Wood so much'.<sup>147</sup> One Conservative MP, Sir Edward Campbell, remarked that 'he would have made a successful Test Match captain'.<sup>148</sup> The Chancellor's role indicates that Conservatives were perhaps a greater creative force during the war than has sometimes been realised. The same might be suggested of Sir John Anderson (in practice a Conservative despite his ostensibly 'National' affiliation): probably the most powerful man in Whitehall at this time, but who has still not been properly integrated within literature on the period. As noted above, Oliver Lyttelton was a central figure in developing the apparatus of controls. Throughout the first year of coalition, Wood's goal seems to have been to restore equilibrium to a political system that was seriously unbalanced. He had overseen the construction of a series of sophisticated and effective

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<sup>143</sup> Addison and Crang, *Listening to Britain*.

<sup>144</sup> Churchill papers, CHAR 20/53 A, Churchill to Wood, 19 February 1942.

<sup>145</sup> T172/2115, Wood to Stafford Cripps, 8 September 1943.

<sup>146</sup> *The Times*, 22 September 1943.

<sup>147</sup> Cited Addison, 235-6.

<sup>148</sup> H.C. Debs., 23 September 1943, col. 217.

financial policies, especially the 1941 Budget. *The Economist* interpreted that as being one of the ‘social triumphs’ of the war. But it was perhaps a considerable political success, too.

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