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THURSDAY, SEPTEMBER 3

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ANY MESSAGES FILED WITH THE EMBARGO

BRITISH ARMY IN THE THIRD YEAR OF THE WAR

NEW TASKS IMPOSED BY JAPAN'S AGGRESSION

UNITED KINGDOM NOW ANGLO-AMERICAN BASE FOR WESTERN OFFENSIVE

Appendix I --- THE LIBYAN CAMPAIGN

Appendix II --- MALTA

The record of the British Army's arduous and endurances, - its successes, reverses and preparations for final, decisive struggle - during the Third Year of the War has to be viewed against a background dominated by an event unforeseen a year ago. Japan's aggression in the Far East, having as its immediate consequence the accession of the United States to the cause of the nations allied against the Axis, presented the British army not merely with new and immediate tasks, for which it had been impossible to provide adequately in advance, but also with an ultimate objective - operations on a Continental scale - whose attainment, now brought within the range of practical possibilities, called for an intensification of preparatory effort.

On the one hand, the campaign which began with the Japanese attack on Pearl Harbour on 7th December, 1941, imposed on the limited British forces which were stationed in, or could be transported in time to, the Far East, a defensive strategy in which dispersion of strength against a powerful enemy holding interior lines was bound to be a grave handicap.

#### Credit As Well As Debit Entries

The reverses suffered by British arms in the new theatre of war were severe; yet they can be seen in their true perspective only if it be borne in mind that the essential tasks of our forces and those of our Allies were, first, to endeavour to prevent the enemy cutting vital supply lines linking the United Nations across the Pacific and Indian Oceans, and, secondly, to gain time in which the defence of bases essential for an eventual counter-offensive against Japan could be made secure.

In its contribution - part failure, part success - to the fulfilment of those tasks the Army of the British Commonwealth played no inconsiderable role. There are credit as well as debit entries in the Far Eastern pages of the year's balance sheet of war, however heavy the price which had to be paid, both in local reverses and in the diversion of resources from the Middle East.

#### Greater Concentration Of Striking Power

On the other hand, the assurance that the whole resources of the United States in man-power and material would be thrown into the struggle against the Axis not merely meant that in the West some portion of responsibility for defence - e.g. in N. Ireland and Iceland - could be transferred from British to American forces, thus enabling greater concentration of British striking power; it also meant that as the mobilisation, equipment and training of United States formations forged ahead, operations against the enemy on a Continental scale in the West could be envisaged, and thus became the target at which all training and other preparations must aim.

#### THREE DANGERS

Whether the entry of Japan into the war was a concerted piece of combined Axis strategy, or whether the Japanese were pursuing a policy of exclusive self-interest, is a question on which there is room for difference of opinion. Whatever the answer may be, the Japanese offensive involved for the United Nations three dangers in ascending order of importance.

The first was that land contact with the armies of Marshal Chiang Kai-Shek might be cut.

The second was that Japan might not only sever communications between the United States and Australia, but might acquire such a dominating position in the Western and Southern Pacific that no base, not even Australia itself, might be left in Allied hands from which a counter-offensive against the Japanese invader could be mounted.

The third danger, which had a close bearing on the future course of operations against the Axis powers in the European theatre of war was that the Japanese offensive might extend to

/India

India, Ceylon and the Indian Ocean, thus cutting lines of supply from Great Britain and the United States, not merely to the Middle East but, via the Persian Gulf, to Russia.

Moreover, had Japan been able to join forces across Egypt with the European members of the Axis, not only would a vital link between the Russian and North African sectors of the Eastern Front have been severed; this partial isolation of Russia might have tempted Japan under German pressure to have aided the Axis cause in Europe by attacking the U.S.S.R.'s Maritime Provinces in the Far East.

#### Hong Kong and Malaya

The first of these dangers - the temporary loss of land contact with the Chinese armies - the British Army was unable to avert.

On 8th December, 1941, Japanese Forces began an offensive simultaneously against the Leased Territories of Hong Kong, Malaya and Burma. By Christmas Day the garrison of Hong Kong, its supplies of water, food and ammunition exhausted or cut off, had been forced to capitulate.

By the end of January our forces in Malaya, having fought for 52 days a succession of stubborn rearguard actions covering a withdrawal of 450 miles in the face of an enemy who enjoyed both superior mobility on the ground and superiority in the air, had been compelled to withdraw to the Island of Singapore - a naval fortress which had been designed for every eventuality except that of attack from the mainland.

By 15th February the troops on the island - reinforced at a juncture when the odds were too heavily weighted against us for success to be attainable, subjected to overpowering air bombardment, and finally faced with the exhaustion of supplies both of food and fresh water - were compelled to yield. By 9th March Sumatra and Java, in which contingents of British and Australian troops aided the gallant resistance of the Dutch Forces, has suffered the fate of Malaya and Singapore.

#### Burma Road Lost

In Burma, whose garrison, in view of other commitments, had received - like that of Malaya - only belated and limited reinforcements, the struggle lasted for several months longer. From the Salween 500 miles northwards to the Indian Frontier, British and Indian troops conducted a resolute, fighting withdrawal in co-operation with Chinese formations which had entered Burma, in an endeavour to keep open the Burma Road.

Outnumbered, and with little air support, the force commanded by General Alexander was more than once threatened with envelopment and annihilation. Time and again, on the Sittang, at Pegu and Prome, the day was saved by stout fighting and the hard core of discipline; but the enemy's pressure was too strong to be halted. By the end of May General Alexander's formations had been compelled to fall back - intact, despite their heavy casualties - into Assam, while our Chinese Allies had been forced to withdraw eastwards to China.

The Burma Road had been lost.

#### SET-BACK, BUT TIME WAS GAINED

The gravity of the set-back to the Allied cause involved in these successive losses of important territory cannot be minimized. Since, in addition, the Philippines and many other islands of the South West Pacific had meanwhile passed into Japanese hands, the extent of Japanese conquest in the space of six months was formidable.

Nevertheless the fighting withdrawals achieved by British and Indian troops and, above all, the heavy losses inflicted on the enemy in the resolute defence of Burma achieved one result of the utmost value.

/Time

Time was gained on the one hand to make secure the defences of Northern India and Ceylon, and on the other hand to enable a British Expeditionary Force to occupy on 5th May the northern portion of Madagascar, thus denying to the enemy the use of the strategically vital harbour of Diego Suarez.

As a result, command of the waters of the Indian Ocean still reposes in Allied hands, while the maintenance of sea communications between Australia and both the Middle East and the United States is enabling the Allied Command to build up in the Commonwealth a force adequate, not merely for its defence, but for eventual offensive operations against the enemy.

#### THE MIDDLE EAST

As has been said, the necessity of diverting a considerable part of our strength, not merely to Malaya but also to India and Australia, inevitably had adverse reactions on our offensive power in the Middle East. In that theatre of war, (a more detailed record of whose developments is appended in these notes), fortune has ebbed and flowed.

The first phase, from 18th November 1941 until the third week of January, 1942, was that of a British offensive which drove the mixed German and Italian forces under General Rommel back from the Egyptian frontier to that of Tripolitania.

The second phase, beginning on 21st January, 1942, was that of General Rommel's first counter-attack, which brought him back from the edge of Tripoli to the Gazala-Bir Hachein line.

The third phase, which began on 26th May and has not yet ended, was that of a major offensive by the Axis against Egypt - an offensive halted since 1st July at El Alamein.

In connection with this theatre of war also, the British Army has had an important part to play in garrisoning a base from which other branches of Britain's armed forces could operate against the enemy. Whereas our command of Iceland, Gibraltar and West Africa - outposts vital to the needs of naval and shipping strategy - was not disputed by the enemy, Malta lay athwart Axis lines of communication from Italy to Tripoli and Libya. During the past nine months its garrison (a fuller record of whose story is appended) has had to bear the brunt of concentrated German and Italian air attack - an attack which has cost the enemy dear.

#### THE ARMY AT HOME

##### Transition From Defensive to Offensive Preparations

Meanwhile, in the United Kingdom the third year of the war has been marked by a steady transition from defensive to offensive preparations. The organisation, equipment and training of Britain's land forces have been conditioned throughout by concentration on a new objective - the conversion of the British Isles into a base for joint Anglo-American operations against the Axis in the West.

##### Tackling the Man-power Problem

In the background the basic problem of man-power has been tackled from two angles. On the one hand, the future needs of the Army in terms of reinforcements and replacements have been met by an agreement with the Ministry of Labour whereby the Army now obtains a stated monthly quota of recruits. To provide these, eligibility for the Armed Forces has been extended to new age groups.

The 1923 and 1900 classes are now being called up; the 1924 class has registered; and the class of 1898 has become liable for service. In addition, for a period of 12 months beginning 1st December 1941, the age of reservation in most trades is being raised one year each month.

/Ability

### Ability Test for Every Recruit

On the other hand closer attention has been paid to the task of employing individuals with maximum efficiency. New methods have been elaborated for dealing with the intake of recruits. Instead of passing, on attestation, straight to Regimental depots, each recruit under the new system undergoes a common preliminary training combined with a series of tests designed to reveal special aptitude for this or that branch of the Service, thus eliminating, as far as possible, waste of ability or the square peg in the round hole.

### Combing the Static Defences

Simultaneously, the strengths of personnel engaged in static defence have been constantly reviewed with the object of releasing the maximum numbers for offensive operations overseas.

For example, in the A.A. Command, the past year, with enemy activity on a much reduced scale, has been utilised not merely to perfect technique in the use of both old and new weapons, but also to economise man-power by the employment of A.T.S. personnel in certain duties and by handing over a number of A.A. batteries to companies of Home Guards, who have also taken over the manning of various Coast Defence strong-points.

### More Responsibility for Home Guard

The past twelve months, indeed, have seen great progress made in organising and training the Home Guard to assume a larger part of the responsibility for the defence of Britain, thus releasing regular troops for offensive action in other spheres.

First, the strength of Home Guard units and formations has been raised by the introduction of compulsory service.

Secondly, the provision of ampler equipment in terms both of fire power and transport has enabled the training of this force (including many exercises in conjunction with regular troops) to be notably extended and improved.

### THE FIELD ARMY

Lastly, and most important of all, there is the Field Army. In respect to material, growing supplies of A.F.V.s, guns of all patterns, and mechanical transport have added greatly to the Army's mobility and hitting-power. In organisation the tendency has been to increase to self-sufficiency of brigade and divisional formations.

These developments have imposed on the Field Army the need for a much greater versatility in training, which should prove of the utmost value in the field. At the same time, a notable expansion in Battle Schools has imported into training and exercises a vital atmosphere of realism, while the Army as a whole has been progressively prepared for offensive action over sustained periods in conditions of severe physical hardship.

As was proved by the successful large-scale reconnaissance raid on Dieppe, normal infantry units - belonging in this case to the Canadian Army, but the principle applies to the Field Army as a whole - have now reached a level of training in shock tactics which previously was attained only by Commando specialists. Along the coast, units have practised embarkation drill, the use of tank-landing craft, and beach attacks by crews of assault boats.

Finally, Special Service contingents and air-borne formations have continued to grow in strength and have shown already in combined operations the practical results of their training.

### Special Service Troops in Raids

During the past year Special Service troops have been used in raids on the Lofoten Islands, Vaagso, Brunoval, St. Nazaire, Boulogne (on two occasions), and Dieppe, taking specially important parts in the operations at Vaagso and St. Nazaire.

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## Appendix I

### THE LIBYAN CAMPAIGN

In September, 1941, the position in Libya was that General Rommel, with three German divisions (of which two were armoured) and seven Italian divisions (of which one was armoured and two motorised), held the Italian frontier forts and Sollum and Halfaya on the Egyptian side of the frontier. The British 8th Army was east of the frontier, with SIDI BARRANI as its advanced base. We held also the isolated fortress at TOBRUK in eastern Cyrenaica. There had been little change in the position since May.

#### Eighth Army Attacks

On November 18, General Cunningham, commanding the 8th Army, attacked. At the outset all went well. The forts at CAPUZZO, MUSAID, SIDI AZEIZ, and SIDI OMAR NUOVO were captured; and while the 1st New Zealand Brigade pushed on past BARDIA to GAMBUT on the TOBRUK road, the 70th Division, which had relieved the Australians as the garrison of TOBRUK, started to break through the investment lines to the south-east. Our main striking force, including the 4th, 7th, and 22nd Armoured Brigades with the 200th Guards Brigade and the 1st South African Brigade, making a wide detour from the south towards TOBRUK, reached SIDI REZEGH and BIR EL GUBI. Violent tank actions resulted. In the first three days a considerable proportion of the enemy's armour had been put out of action, but his recovery system worked well, and our own losses were severe.

On November 23 the 5th South African Brigade was overrun and SIDI REZEGH was lost; the enemy was able to mass his armour; the New Zealand advance had been held up and the 70th Division was also at a standstill.

The situation was definitely bad, and General Auchinleck took over the command in the field.

#### Rommel's Mistakes

Fortunately, General Rommel, in an ambitious attempt to round up from the rear the New Zealand Division, now pushing along the TRIGH CAPUZZO, detached a strong force of tanks and sent it off to the frontier area. It did no good, lost most of its strength, and only a fraction of it eventually rejoined the main body.

Meanwhile, a combined effort of all our forces had restored the SIDI REZEGH position. The New Zealand Division advanced and joined hands with the 70th Division which, by dint of heavy fighting, had forced its way out of TOBRUK, and the enemy forces were divided east and west of the corridor.

But on November 30, we suffered a serious setback: SIDI REZEGH was lost again, the corridor was cut, and the 5th New Zealand Brigade suffered very heavily. This encouraged Rommel, who had been digging in at BIR EL GUBI, to take the offensive. While pinning down our advanced forces he attempted to cut their lines of communication and attack from the East. He failed, his columns being attacked piecemeal and cut up by our mobile columns.

The central desert area was cleared of the enemy and Rommel was forced to stand on the defensive behind his BIR EL GUBI lines.

#### Tobruk Relieved

After hard fighting the enemy's position was outflanked and he started to fall back.

By December 9 enemy pressure on the TOBRUK perimeter had been completely relieved; on December 10 ACROMA was clear and our troops were advancing along the TOBRUK-DERNA road, close to GAZALA. Using his armoured forces and artillery to cover his rearguard, Rommel withdrew slowly towards the hill country, fighting all the time. Our flying columns, however, advanced to IMMI on the coast, to BU CREIMUSA in the hills, and were approaching MEKILI on the direct track to BENGHAZI.

On the night of December 16 a general retreat began all along the enemy line: it was only saved by the exhaustion of our troops and by our difficulties of maintenance from becoming a rout.

Derna was occupied by us, on December 19, and 74 aircraft were found wrecked on the landing ground. On the same day eight new tanks were found abandoned and intact at MEKILI. The whole line of retreat was littered with abandoned tanks, M.T., and equipment, and such was the pressure of our advance that it was not even possible to collect the prisoners.

#### Rommel Digs In At Jedabya

The German forces, retreating across the desert, avoided BENGHAZI and made for the JEDABYA area. The bulk of the Italian infantry, passing through the JEBEL AKHDAR, went through BENGHAZI, where they came up with their motorised divisions, to join Rommel at JEDABYA, where he proposed to make a stand. His concentration was completed on December 22, at that time, too, he received tank reinforcements, brought by sea from TRIPOLI and landed from barges.

At JEDABYA Rommel dug himself in and laid minefields, forming a defensive front of about 25 miles strengthened by heavy artillery. Against this we had very little. Bad weather had made the desert tracks extremely difficult and some of our columns were bogged for days on end. Our heavy tanks were still well away to the rear: there was a shortage of petrol; supplies and equipment were held up by the conditions both of the roads and of the over-worked M.T., the infantry had had to transfer most of their transport to the armoured units, in order that the latter might advance, and were themselves therefore largely immobilised. All that we could do was to harass the enemy with our light columns and by air attack and deceive him, so far as possible, regarding our real strength.

The actions which followed were expensive to both sides, but whereas Rommel was receiving some reinforcements brought along the metalled coast-road from TRIPOLI, our position grew no better but, if anything, worse.

#### Enemy Withdraw to El Aghaila

On the night of January 6 Rommel withdrew from JEDABYA to EL AGHAILA, a naturally strong position protected by salt flats now made impassable by rain. He had mined the roads heavily, the weather was atrocious, with alternating sand and rain storms, and our light columns could only advance slowly; not until January 15 were they in position, and then they were no more than a mobile screen.

With the 200th Guards Brigade, the K.D.G., and the 12th Lancers and a support group, we had to contain a force which included 14,000 Germans, the remains of seven Italian divisions reinforced by the (weak) SABRATA division from Tripoli, and at least 90 tanks. Fortunately, Rommel remained quiet until January 21; had he counter-attacked from JEDABYA he might have saved much that his delay caused him to lose.

#### Rommel Hesitates Again

By January 1 BARDIA had fallen, taken by assault; after preliminary fighting, by South African and New Zealand troops. Nearly 9,000 prisoners were captured, 1,150 British prisoners were released; more important, all the stores and equipment amassed by Rommel for the invasion of Egypt fell intact into our hands.

On January 12 Sollum was taken, with about 500 prisoners; on January 17 HALFAYA surrendered with another 5,000 prisoners and great numbers of tanks, guns and M.T. and stores of ammunition.

Had Rommel delivered his counter-attack in time to save the frontier forts - which he well might have done considering the state of our forces - he would have achieved a real victory.

As it was, he advanced from EL AGHEILA on January 21. Three days' fighting sufficed to dispose of most of our light armour. The 2nd Armoured Brigade had lost 100 of its tanks, the 1st Support Group and the 10th Hussars had suffered in proportion: there was nothing that could hold up the enemy's advance, and his capture of our field maintenance centre at MSUS was disastrous. The 4th Indian Division gallantly blocked the road to BENGHAZI but on January 28 had to fall back into the hills. The 7th Indian Infantry Brigade, which had been in the town, cut their way through the enemy lines and joined our armoured formations falling back on MEKILI.

The 11th Indian Division, fighting rearguard actions, fell back on TIMMI, and on February 4 were withdrawn eastwards in conformity with the general movement whereby our troops were taking up their positions on the line determined upon by General Auchinleck as soon as the retreat from BENGHAZI began. On February 9 the GAZALA-BIR HACHEM line was occupied and held.

#### Axis Counter-Offensive Exhausts Itself

By February 14 Rommel had massed his forces - estimated at 27,000 men with 360 guns and about 100 tanks, apparently for an attack; but the destruction that day of virtually all his available dive-bombers compelled him to abandon his plan.

His counter-offensive had now exhausted itself; his forces dug themselves in on a line TIMMI-MARTUBA-MEKILI, and as time went on advanced strong-points were established so as to narrow the No-Man's Land between the opposing forces. There was no major action, though patrols were constantly in contact; both Rommel and General Ritchie, now G.O.C. 8th Army, were bringing their forces up to strength and receiving fresh reinforcements of men and armour.

#### ROMMEL'S NEW ATTACK

On May 26 Rommel attacked. While a containing action was staged along the greater part of the front, the bulk of his armour and German infantry by-passed BIR HACHEM and struck north to capture TOBRUK. This plan failed; and the position of this force, unsupported and cut off from its supply base, looked almost desperate. But the enemy managed to cut a passage through our minefields and later over-run one of our strong points, thus re-establishing connection with his forces in the west, and was able therefore to maintain his position.

Furious armoured battles ensued daily in the "Knightsbridge" area, while further south BIR HACHEM was violently attacked.

On June 10 General Ritchie, in view of the difficulty of getting supplies into BIR HACHEM, withdrew the garrison. Rommel was now able to concentrate his armour and artillery.

#### General Withdrawal Ordered

In four successive days (June 10-13) of hard fighting we lost three-fourths of our tanks and the order for a general withdrawal had to be given. The main body, with most of the remaining armour, fell back slowly to the Egyptian frontier, fighting delaying actions, while the equivalent of nearly two divisions were left in TOBRUK. But on June 20 TOBRUK was attacked in force, and fell.

The frontier line now became impossible to hold and the 8th Army, deprived of a large part of its infantry, effectives, retired to EL ALAMEIN 60 miles west of ALEXANDRIA.

A long-drawn delaying action at MERSA MATRUH cost us heavy casualties but afforded time for the organisation of the EL ALAMEIN lines and for the arrival of reinforcements there.

/During

During his advance ROMMEL suffered severely from the harassing tactics of our light columns, losing about 130 tanks in ten days. On July 1 he reached EL ALAMEIN and flung his exhausted troops against our lines. An initial success emboldened him to think that he had the Delta in his grasp; but the gap was made good and successive attacks during the next two days brought him only losses.

British counter-attacks followed, and we were able to improve our position, but neither side could achieve decisive success in a struggle which, on the narrow EL ALAMEIN front, was developing into static warfare with both armies dug in and protected by minefields, a warfare in which infantry and artillery, instead of tanks, had to play the major part in any offensive.

The Axis drive on Egypt had been held, but the danger to Egypt was not removed.

WAR OFFICE

M A L T A

From the point of view of military activities the year under review may be divided into two periods; from September to December 1941 when the island was subjected to attack by the Italian air force, and from December to September 1942 when the German air force took over the major share of intensified air operations over the island.

During the first period, the Army in Malta was engaged in normal routine duties of training, patrolling, perfecting defences, and engaging enemy aircraft by anti-aircraft fire, in cooperation with the fighters of the R.A.F.

Heavy Extra Burden on the Army

In the latter period, the weight of attack and damage caused to the harbour installations, airfields and barracks threw a heavy extra burden on the work of the Army. In the first place, working parties were employed intensively for long periods on the important tasks of repairing runways, and preparing dispersal areas for the R.A.F. Others assisted the R.A.F. in servicing the fighters, filling belts, bombing up, and filling petrol tanks. Others again were employed in the unloading of ships and in providing smoke screens over the harbour to cover these operations. Yet others, mostly R.E., assisted with the maintenance of essential services, repairing water pipes, drains and communications, and digging people out of bombed houses.

Defence by the Guns

From the end of March to the beginning of May, the weight of German air attack was such that our fighter defence, since rebuilt effectively, was much reduced and the burden of air defence of the island was borne predominantly by the anti-aircraft artillery.

During the month of April alone, our anti-aircraft guns destroyed 102 aircraft for certain, 12 more were probably destroyed, and 67 damaged. In one period of 72 hours the guns were manned continuously for 66 hours. The weight of bombs dropped on the island during this same month of April was nearly 7000 tons.

The anti-aircraft guns and their crews naturally suffered casualties under this terrific bombardment but they were relatively light owing to the fact that the guns were kept firing uninterruptedly against all planes which attacked their positions.

Altogether, in the period from September 1941 to June 1942 nearly 14,000 tons of bombs have been dropped on the island, the heaviest weight on any one day being 500 tons; anti-aircraft artillery has destroyed over 175 enemy aircraft, probably destroyed 34 more, and damaged 151. The corresponding figures of losses inflicted on the enemy by the R.A.F. was 477, 172 and 545 respectively.

What Malta Has Achieved

The garrison of Malta, together with its dauntless inhabitants, have put up a defence which, already, can take its place among the most gallant feats of arms of all time.

In harassing the communications between Italy and North Africa it has performed a service of great strategical importance for the defence of the Middle East, while its exploits against enemy aircraft have been of the greatest significance in pinning down large enemy forces, many of which were drawn from the Russian front.

On April 16th, 1942, it was announced that His Majesty the King awarded to the island fortress of Malta the George Cross to honour her brave people and to bear witness to a heroism and devotion that will long be famous in history.

Not to be published, broadcast  
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5 p.m.

30.8.42 - No.12

Following is the speech to be delivered by  
Sir Kingsley Wood in Dundee this afternoon:-

In a review of the national financial situation the Chancellor said that our financial front stood firm and strong, and that British finance had played a vital part and had made a potent contribution to the War effort.

He gave the latest official figures with reference to the taxation of various classes of taxpayers; he said that small savings had now mounted to £1,500,000,000 since the beginning of the war; and he pointed to the unnecessary risk that was being run by the hoarding of notes by the general public.

Our financial front stood strong and firm. It was based on the heaviest possible taxation, borrowing at low rates of interest and the utmost saving. At all times our strictly financial operations must conform to, and be a real partner in, our wider economic policy.

It was not an unfair or exaggerated claim to say that in all these ways British finance had played a vital part and had made a potent contribution to the war effort. Certainly in the financial sphere the whole world could see real and tangible evidence of our firm resolve to leave nothing undone to achieve victory whatever the cost. It was one more, but a considerable, piece of evidence of the determination of our people to put all they had into the fight and to pay fairly and squarely for the war.

Our taxation burdens were heavy and grievous. They were being borne by the whole community with fortitude and acceptance because it was generally recognised that this was not only the most expensive war in history but also because money was as nothing compared with the sacrifices so many others were making in life and limb and suffering.

#### 9,500,000 WAGE EARNERS ETC. NOW PAYING TAXES

The Budget of 1941 had increased by 4,000,000 the number of persons of the smaller income groups liable to direct taxation and there were to-day some 9,500,000 wage earners, black-coated workers and others with small incomes, who were making a direct contribution to the war of the order of £270,000,000 per annum through the income tax. Large numbers of them were helping also by voluntary savings and lending to the state on a considerable scale, and they also made a further substantial contribution through indirect taxation.

/GREAT

#### GREAT REDUCTION IN LARGER INCOMES.

It was not even yet sufficiently realised how great was the contribution that was being made by those who possessed the larger incomes, most of whom had considerable commitments and responsibilities.

The weight of taxation today was such that if we were to take away every penny of income above £2,000 from those whose incomes at present exceeded £2,000 per annum, the gain to the Exchequer would only be of the order of £30,000,000.

It was estimated that the number of persons with net incomes between £1,000 and £2,000 had fallen since 1938 from 155,000 to 105,000; those between £2,000 and £4,000 from 56,000 to 30,750; those between £4,000 and £6,000 from 12,000 to 1,170; and those with £6,000 or more from 7,000 to 80.

The effect had been that the total amount left after payment of tax out of all incomes above £500 a year had been very greatly reduced, but against this, and despite the heavy increase of taxation in the smaller incomes groups, the total amount left after payment of tax in the incomes between £125 and £500 a year had actually increased since 1938 by no less than £700,000,000.

The result was that 85% of the total net purchasing power was now in the incomes below £500 a year and that was why, though savings were certainly wanted from all, the Savings Campaign must depend in the future very largely upon the regular efforts of the small saver.

#### CONTROL OF PROFITS

An exorbitant rate of profit was one of the unfortunate features of the last war. In this war we had taken drastic steps to eliminate the war profiteer with the approval of every section of the community.

#### SUCCESS OF CHEAP BORROWING POLICY

There was our cheap borrowing policy. It was of the utmost importance that we should not burden the country now or after the war with high rates of interest.

During the last war the rate of interest on War Loans had increased as the war went on until 5% and 6% were being paid. In this War we had not paid more than 3% even on the longest loans, and successive issues had been made on even more favourable terms to the Treasury than their predecessors.

#### SMALL SAVINGS NOW REACH £1500 MILLIONS

The maintenance and intensification of our Savings Campaign was vital to our financial stability in the war on inflation, against which we had always to be on guard.

The success of this Campaign had been one of the most striking features of the War effort. The growth of private savings had been remarkable. No less than £1,500,000,000 had been raised in small savings since the War. The fact that a capital of £1,500,000,000 was thus in the hands of the "small" man and woman was of the greatest national importance, and would mean much to us after the War, particularly so far as our social stability and security were concerned. All these savings were of the safest character in the world - every loan to the State would be honoured without exception or qualification.

The danger to the Savings Movement, as in many other directions, was complacency and self-satisfaction. It was true there were more genuine Savings this year than last, and the rate of Savings had increased, but the June and July savings figures had been lower, and while no doubt there had been spending on holidays, which were necessary to efficiency and further endeavour, it was a pointer to the fact that the Savings Movement could not for a moment afford to relax its drive.

#### FREE GIFTS OF £20,000,000

As Chancellor of the Exchequer, every morning he received a constant stream of gifts in money and in kind from people and institutions at home and abroad, who expressed in this way their devotion to our cause. These gifts were entirely unsolicited. There were many people who could not afford to make gifts, and it would not be right to bring pressure in this connection.

These gifts had mounted up to some £20,000,000, and of that sum £15,000,000 had come from Governments and institutions in the Colonies and other overseas countries. The Exchequer had also received some £50,000,000 by way of loans free of interest.

#### UNNECESSARY RISK IN NOTE HOARDING

Some questions had been asked about the recent increase in our note issue; whether it was inflationary and whether also it was at any rate in part due to the hoarding of notes, and whether this was right.

People certainly saved in various ways; there were the weekly deductions from pay and the purchase of Savings Certificates and the deposits in the Post Office and Savings Banks.

Undoubtedly there was a lot of saving which never got beyond the saver's home or his person. There were the £1 and 10/- notes in the teapots and stockings, up chimneys, under mattresses and in more orthodox money boxes and wallets. This kind of saving was undoubtedly one of the principal reasons why our note circulation went on increasing. It was not a sign that active inflation had arrived. People were holding notes against private emergencies, cash was being used instead of cheques for shopping and small traders whose stocks were reduced were holding cash instead.

It was natural that many felt that they must keep more cash about them for possible emergencies. But when we did so we ran unnecessary risk of loss - by mislaying the notes, or by their being stolen or being destroyed by fire or bombing. They certainly would be better in Savings Certificates or the Post Office Savings Banks where they could be withdrawn without difficulty and where they provided a better and more reliable basis for our war-time financial structure.

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11 DOWNING STREET