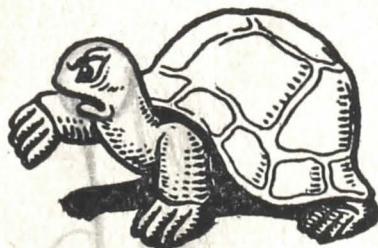


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SOCIALISM AND NATIONALISATION

HUGH GAITSKELL, M.P.



FABIAN TRACT 300

TWO SHILLINGS

HUGH GAITSKELL, M.P., Leader of the Parliamentary Labour Party, has been a Fabian for many years.

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July, 1956.

FOREWORD

MOST of this pamphlet was written three years ago as one of the chapters for a projected volume of essays which, unfortunately, was never completed. The Fabian Society were kind enough to propose publishing it in its present form and I readily agreed to this course. But I have not been able to revise it thoroughly or to take account of all that has been written about the various nationalised industries since 1953—including especially the Herbert Report on the Electricity Supply Industry and the Fleck Report on the National Coal Board. In writing it, I drew principally upon my own experience as a member of the Labour Government who, for a time, was closely concerned with some of the nationalised industries. Parts of it may, therefore, be out of date. Moreover, having been written originally as one of a number of essays and, therefore, limited in length, it omits discussion of many significant issues. In particular, there is no reference at all to Co-operative production, marketing and distribution and their relationship to Socialism—an important subject on which too little has been written. I hope, nevertheless, that this pamphlet will provoke discussion.

H. G.

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SOCIALISM AND NATIONALISATION

Rt. Hon. HUGH GAITSKELL, M.P.

1. SOCIALIST IDEALS

MOST recent writing on nationalisation has been about the way in which the newly nationalised industries are functioning, their achievements and weaknesses, the legislative and administrative framework in which they operate, their relationship to Ministers and Parliament, and similar issues.

Although I shall touch upon some of these matters in the course of this pamphlet, its scope is both wider and different. It is principally concerned with the relationship between nationalisation and public ownership and the broader, ultimate Socialist ideals for which the British Labour Party stands.

What are these ideals? We are not a doctrinaire party: we do not set out in great detail an exact declaration to every word of which every member must subscribe. The statement I make here represents only my own views, though I hope that it would also command fairly widespread assent among British Socialists.

Social Equality

First, we aim at social equality, which to us is substantially the same as social justice. We regard as unjust a class structure, in which a person's income, way of living, education, status and opportunities in life depend upon the class into which he is born. We reject a society in which one man is regarded as superior or inferior to another, regardless of personal qualities, again simply because of the section of society to which his parents happen to belong.

While we do not say that all should receive the same income, we hold that the differences should be related to generally accepted criteria of merit—such as the nature of the work—more being paid for dirty, harder, more skilled, better performed, more responsible jobs. We say too that these differences should not be greater than are necessary to provide adequate incentives in the interest of economic progress. We believe in equal opportunity for all, and we claim that this is only possible if privately-owned wealth is fairly evenly distributed, and if therefore a strict limit is placed on the extent to which it can be inherited.

But can there be equal opportunity? Does not the existence of natural differences between people make this an illusion?

Of course it is true that some children are cleverer, or more hard-working, or stronger or healthier than others: and of course it is true that these differences will play a large part in their lives. But firstly, this is no

argument against providing equal opportunity at least to those with roughly the same abilities. Yet we are still a long way even from this.

And secondly, there is an obligation on society—not to make people alike—Heaven forbid!—but to help those who are less gifted to overcome their handicaps.

Equal Opportunity for What?

I must correct another misunderstanding. The phrase 'equal opportunity' is sometimes taken to mean a highly competitive and materialistic affair in which all start on the same line and proceed through life racing against each other to amass as much wealth as possible. This is not what I mean. While I certainly do not despise any desire to 'get on' and to enjoy higher living standards, I would not regard a society in which this becomes the sole motive of most people's lives as at all satisfactory. By 'equal opportunity' I mean equal opportunity for the pursuit of happiness, however people decide they can best achieve this.

I do not think it is the business of the State to lay down and to preach a set of rules. No doubt there have to be licensing and gambling laws—but these at least are negative. If the State were to direct ordinary people on how to pursue happiness, it would be intervening far too much with individual freedom. This is a matter which is best left to preachers, priests, teachers and poets—and I suppose one should add today, psychiatrists! And it is best done by persuasion, discussion and example, rather than by laws. It is surely true that people find happiness in different ways—some through artistic or intellectual development, some in more mundane and materialistic pursuits, some—perhaps the vast majority—in family life and relations with their friends.

There have been, and still are, some sincere and ardent reformers who do not take this view. They believe, not only that visiting an art gallery or listening to a concert of classical music is superior to watching a football match or reading a novel at home, but also that it is the business of the State to make people prefer the former to the latter. But to me the pursuit of happiness has always seemed such an individual and personal matter that it is in the main best left to people themselves to decide, though evidently their capacity for making wise decisions in these matters is limited, if they have never been given the chance to appreciate a concert as well as a football match. What the State should do is to provide the framework, the opportunities through which people have the best chance of finding happiness for themselves.

Full Employment

The second Socialist aim is economic security or full employment. This has always been a major item in Labour Party policy. And no wonder, when one considers the way in which unemployment itself, and the fear of it, have wrecked so many lives. Not many attempts have been made to give expression to full employment in exact quantitative terms. It has been recognised and made clear often enough that it cannot be taken to mean that everybody is guaranteed the same job for life. That would cause

economic stagnation. But it has been interpreted as at least implying that there are more jobs available than persons seeking them.

This aim of full employment has usually been grouped with another—that of maximum productivity, of ensuring that all the natural and human resources available, all the most modern techniques, were so organised and applied as to produce the largest output of goods and services possible. Whether or not this is described as a separate aim, it must certainly be mentioned.

For despite constant propaganda to the contrary, the Labour Party is not simply concerned to share out more fairly an existing volume of production. It aims at a large output more fairly shared, not only so that living standards here may rise, but also in order that this country may play a greater part in helping the poorer, less developed countries of the world.

Industrial Democracy and Co-operation

Thirdly, we aim at industrial democracy, by which is meant a change of atmosphere and relationships in industry, which will give to the workers a better status, more power, more responsibility, and a true sense of participation. We want, in short, to see in people's working lives a reflection both of the political democracy we already enjoy, and of the greater economic equality which we intend to bring about.

We also want to see more 'co-operation'—better relationships between people whereby they work together more for the common good. In practice it is not easy to separate this ideal as an ultimate aim, on the one hand, from the ideal of social equality which we certainly expect to produce happier relations; and on the other hand from industrial democracy, in which the workers obtain a greater share of control and responsibility, and enjoy a greater sense of participation.

In short, the society we wish to create is one in which there are no social classes, equal opportunity in the sense described above, a high degree of economic equality, full employment, rapidly rising productivity, democracy in industry and a general spirit of co-operation between its members.

Furthermore, we intend to advance to these ideals by and through parliamentary democracy, the maintenance of which we regard as an aim of equal importance. This means that we have to proceed gradually, step by step, persuading our fellow citizens that our ends are just, and the means we choose well adapted for the purpose.

2. THE TRADITIONAL CASE

BUT what means? This brings us to the question of nationalisation. Anybody who thinks about it for a moment will agree that nationalisation, which is an institutional change in the ownership and control of industry, must be treated as a means and not grouped with the ultimate aims which I have just described. The fact that it is nevertheless often treated as an end, as, indeed, more or less identical with Socialism, is because it has been regarded not as a means to achieve the ideals of Socialism but as the only possible means which could not fail to produce the desired ends. This

applies both to *nationalisation*, which is generally understood to mean the taking over by the State of a complete industry so that it is owned by and managed and controlled for the Community, and *public ownership* which strictly speaking means the ownership by the community of any property whether individual or not, whether embracing the whole of an industry or only part of it. This is an important distinction to which I shall return later.

Why, however, was it supposed that these ultimate Socialist objectives were regarded as attainable only through the nationalisation of the means of production, distribution and exchange? To this vital question there are four answers, broadly corresponding to our four objectives. To begin with, I shall describe these without comment or criticism. Later I shall analyse them more fully.

Ending Unearned Income

The first, is in essence a Marxist argument, based upon the Labour theory of value. The flow of unearned income—of rent, interest and profits—is the root evil of capitalism; it represents the toll laid upon the workers by the owners of capital, who thereby deprive them of their rightful earnings. The existence of unearned income is wrong in itself, irrespective of how it is distributed. In any case it all goes to one class—property owners—and not at all to the other—the workers—and, by a natural historical process, its distribution becomes more and more unequal.

Since this flow of unearned income to private persons by virtue of their ownership of capital or land is a major social evil, the transfer of their property to the State is obviously the necessary correction. In this way the toll levied on the workers will be brought to an end, and they will at last enjoy the full fruits of their labour. Thus public ownership brings social equality and the classless society.

Capitalism and Waste

The second main argument relates to the working of the capitalist system. Both in the light of experience and on theoretical grounds, it is claimed that the free individualist economy leads perpetually to the unnatural result of 'poverty in the midst of plenty.' Artificial scarcity is imposed through the existence of unemployed workers and unused factory space. Thus while consumers are left hungry, cold and poor, producers are complaining of gluts and surpluses. They are even driven into deliberately curtailing production, despite the vast unsatisfied needs of the world.

Unemployment, economic insecurity and waste are thus inevitable in a capitalist system. They can only be mastered by substituting a planned for an individualist economy, in which there will be no artificial scarcities but only such scarcities as are imposed by nature and are unavoidable. If the means of production are publicly owned and controlled, the State, it is held, can ensure that they are all fully used and to the best advantage. As in the case of an individual business, there will be a conscious purpose directing the efforts of all towards whatever objectives are laid down in the Plan.

The Abuse of Power

Thirdly, it was argued that the private possession of capital inevitably gave too much power to those who own it, too much power over their employees, too much power to take, on their own, decisions of vital economic importance to the community, too much power and influence in society generally. This power ought to be exercised only by the community as a whole, which should therefore become the owner of the capital from which the power is derived. Only then could the workers enjoy greater power; only then would there be real industrial democracy.

Greed as the Spur

Fourthly, it was held that the capitalist system, based upon competition—the survival of the fittest, the desire to do down your neighbour, whether as a competitor or employee or consumer—was fundamentally unchristian, and would always prevent a real spirit of co-operation. Only in a co-operative economy, where men and women worked for the community, would the new spirit prevail. The rivalry between firms, the hostility between employer and worker, the greed for the maximum profit, would thus all be replaced by new and better relationships.

3. NATIONALISATION TODAY

SUCH were the traditional arguments which linked public ownership with the ideals of Socialism. How far do they appear convincing today?

It is easy enough to criticise them, to say that the experience of nationalisation so far does not support them; it can be pointed out that unearned income goes on, that there has been less unemployment, but this cannot really be credited to nationalisation; as for competition and co-operation, it can be argued that if there is less of the former, this does not seem to have brought any noticeable spiritual progress towards the latter, that while power in the nationalised industries has certainly been removed from private management, it is not clear that we have yet achieved real industrial democracy.

We must face up to these arguments. For without doubt they underlie much of the frustration and anxiety felt by some Socialists, who have been discouraged by the contrast between what they were taught in the past, and the experience of the present.

In part they are the result of a false comparison. The traditional arguments linking nationalisation and Socialism were related to a state of affairs where *all* the means of production were to be publicly owned. It should be no surprise, therefore, that they by no means fully apply when only a few industries have been nationalised. But this is not the whole explanation. It is time to re-examine the traditional arguments one by one to see how far, even assuming public ownership were more or less universal, they can still be accepted.

A.—RE-DISTRIBUTING PROPERTY AND INCOME

The first—justifying nationalisation because it abolishes private income from capital—would be powerful enough if, in the process of nationalisation, no compensation were paid to the shareholders or bondholders. But once this condition is dropped and fair compensation is paid, the force of the argument is diminished. For compensation means that the flow of 'un-earned' income continues—in the form of interest instead of profits or dividends.

The Significance of Compensation

Some conclude from this that we should not pay compensation, or at least that we should not pay 'as much' as we have done in the past. But there are overwhelming reasons—moral, political and economic—why fair compensation must continue to be the policy of democratic Socialists. The democratic process means that if we want to nationalise we can only do it piecemeal, one industry at a time, and with a maximum of perhaps four or five major industries being transferred to public ownership in one Parliament. In these circumstances there could be no possible justification for confiscating the property of one particular group of owners, whether they had inherited it or saved it, whether they were rich or poor, simply because, for totally different reasons, the Government had decided that the particular industry in which they held shares should be transferred to public ownership.

By the same argument we must also reject the idea of paying only 'partial' compensation. There is no case for treating the property owners in these industries less favourably than others. To give them less than full compensation really means the imposition of a tax upon them; and taxation, whether on capital or income, is something which public opinion rightly expects to be related to some principle. There is plenty of room for argument about the principles, as there is about what constitutes fair compensation in any particular case. But a proposal to confiscate the property of some people but not others for no relevant reason, cannot be defended on the basis of any principle and is never likely to commend itself to a British electorate. Indeed, even in the case of wholesale nationalisation, confiscation would be a very lopsided affair with a national debt of £25,000 million, whose holders would retain their property on the one hand, and Pension Funds, Universities, Trade Unions and all sorts of institutions on the other losing at least part of theirs because it was invested in industry. A capital levy on large fortunes would be far more efficient and fair. But that—whether it be favoured or not—is quite different from, and not necessarily associated with, nationalisation in the usual sense of that word.

Finally, because any transfer to public ownership must be gradual, there is bound to be for a very long time a substantial private sector. If the Government is to retain the confidence of the electorate, this private sector must work smoothly and efficiently. It will not do so if there is a continual threat of arbitrary confiscation.

Because fair compensation must be paid, however, we should by no means conclude that nationalisation has no effect upon the distribution of

income and property. First, the interest income, though guaranteed, is smaller than the profit income would have been. The high dividends offered to and obtained by purchasers of shares in the denationalised steel companies make this only too plain as the opposite process takes place. Secondly and far more important—nationalisation eliminates the possibility of capital gains. Untaxed capital gains in equity shares are one important reason why, despite death duties and surtax, the distribution of wealth remains so uneven. Inflationary conditions plus the rise in the proportion of undistributed profits are chiefly responsible. In a nationalised industry the ploughing back of profits can go on, but no increase occurs in the capital value of the compensation stock. And the more the nationalised industry finances its growth out of profits the greater the expansion of public ownership.

Nor is there any longer the possibility of large fortunes being made by private individuals as a result of luck or shrewd judgment. The community henceforth gets the good luck or bad luck, and shrewd judgment will no longer be extravagantly, though it should be adequately, rewarded. Finally, it becomes possible under full nationalisation to fix whatever should be the appropriate level of top salaries. How high these should be is a matter which requires care. The differentials deliberately introduced in Russia appear to be greater, after taking income tax into account, than exist between earned incomes in this country to-day. But there must be some differentials for skill, responsibility and general ability. The point is that under nationalisation the Government can settle these, whereas at present salaries in business can be and are settled by Boards of Directors. Although competition between firms and industries plays some part, there is an arbitrary or conventional element in the whole matter.

Other Means to Equality

While there thus remains a very definite relationship between nationalisation, even with full compensation, and greater equality, it should be appreciated, before judging how much weight to attach to it, that there may be other methods of achieving the same end—in particular taxation, including death duties, and the power of trade unions to increase the share of labour in the national product. This is not the place to discuss either the advantages or the difficulties of these methods. But they have certainly played a much greater part in recent years in redressing the unfair distribution of wealth and income than the nationalisation of a few industries. To the extent that these other methods of achieving equality can be continued, the case for nationalisation, as a method of reaching this particular end, is not so strong. On the other hand, it may be that public ownership, or nationalisation, is necessary because these other fiscal methods of securing a fairer distribution of income are not compatible with the effective working of industry if it is purely privately-owned. This is a matter to which we shall come in due course.

B.—PRESERVING FULL EMPLOYMENT

In the second argument, which justifies nationalisation on grounds of full employment, there is no reason to suspect any logical fallacy. Un-

doubtedly a government which owns and controls the whole of industry ought to be able to ensure full employment—in the sense that everyone can draw his or her wage at the end of the week for doing something. Admittedly the existence of foreign trade makes this task more difficult, and even in a self-sufficient economy the planning and its execution could go wrong so badly that, because of shortages of materials or power, some workers were idle part of the time.

This, however, is a difficulty which is more likely to result from an incautious full employment policy than from nationalisation. It is created by the absence of reserve stocks and reserve labour. Such a possibility in no way disposes of the argument that the nationalisation of all the means of production by the government does make it virtually inconceivable that there would be a general slump with heavy unemployment and unused capacity. For the volume of business orders is, in such conditions, directly under the control of the Government, and no longer determined or affected by the expectations of business men—that intensely variable ~~variable~~ which plays such a large part in the fluctuations of a private enterprise economy.

A more important criticism is based on the argument that nowadays it is also possible, even in a capitalist economy, to maintain full employment. If this were true, the relative advantage of public ownership here would have disappeared. But is it true? Undoubtedly a great deal more is now understood about the problem, and undoubtedly the governments in capitalist countries have at their disposal not only greater knowledge but also more effective instruments for preventing depression. Indirect controls through budget and credit policy can be supplemented by variations in public expenditure over a wide field, even though there is little actual public ownership of industry. Whether all this makes it possible to prevent serious recession is uncertain: only experience will show. What can be said, however, is first that the greater the degree of public ownership the greater the extent to which the government can directly influence the volume of orders placed by industry—especially for investment—and thus the level of employment; and secondly that the existence and use of direct ‘physical’ controls, even when these are negative, makes possible over a period a higher level of employment without inflation than if such controls were not available.

C.—THE PROBLEM OF POWER

The third argument—public ownership as a means for transferring power—needs a full and careful analysis. In any groups, from the family to the State, individuals must be entrusted with power—power to make decisions on behalf of the groups, power to make decisions that affect the lives of others. The real objection to the exercise of power by ‘capitalists’ is that they exercise it *irresponsibly*, that they are often not answerable to anybody for what they do (because the shareholders can be ignored) or, at any rate, not answerable to the community. What we have to ask is, what forms of power are possessed by these so-called ‘capitalists,’ whether they are really as great as they are said to be, and whether nationalisation

ensures that the exercise of power can properly be brought under the control of the community.

Who Exercises It?

A preliminary question concerns the people who are said to exercise this power. In modern conditions it can hardly be held that shareholders as such, by virtue of their ownership of property and the income they receive from it, exercise this particular power. We can object to the fact that rich people have the power to buy more than the poor, but that is an objection to inequality: there is no new or additional 'power' argument involved. I must emphasize this point because people sometimes object to what they call 'power' when they really mean wealth. Here I am drawing a distinction. I mean power as distinct from wealth, power which is not just the power of money. The target for criticism is the exercise of power in this sense in industry and economic life. Those who exercise it may, but need not necessarily be, large shareholders in their businesses. What gives them power is their position in the firm as Chairman, Managing Director, Director, General Manager, etc.

But how and over whom do they exercise power? Undoubtedly the force and feeling which originally inspired this particular attack sprang from objections to the power these men have over their workers, their power as employers—the power to hire and fire, the power to order men about with the sanction of dismissal behind it. Those who elaborate this criticism of capitalism have usually depicted the employer as being in a monopoly position vis-a-vis the worker, and have underlined the weakness of the worker's position—compelled to work or starve.

A Changed Situation

That such was often the situation in the past, and that it to some extent exists to-day, is not denied. But as an account of what happens in Britain now, it needs serious qualifications. It is true that in times of depression the workers' 'bargaining power' is low, but then so is the employers' bargaining power vis-a-vis the consumer; while in times of boom the employers' bargaining power is weak vis-a-vis the workers, but strong in respect to consumers. But whether in boom or depression, there can be no doubt that the power of the employers over workers is nowadays very severely limited by the trade unions. Even the power associated with the right and duty to maintain discipline can be exercised only to the extent tolerated by the unions.

It is not surprising in these circumstances that nationalisation seems to have made relatively little difference to the exercise of this particular power by management. Insofar as it has done so, it is not so much because Parliament has transferred power from private individuals, as because nationalisation has strengthened the power of the trade unions.

It may be said that nationalisation has not so far lived up to expectations in this matter precisely because too much power is left in the hands of managements and not enough given to the workers. Certainly most of us would like to see a greater degree of 'workers' control'; and there will be general agreement on the desirability of creating a greater sense of

partnership and participation. But the very hesitations and doubts which assail the Labour Movement on 'workers' control' at the moment, show how much more complicated the issue of 'power' is than at first sight appears.

The Role of Trade Unions

There is a real dilemma which involves the whole question of the function of the Trade Unions. Is it their job simply to protect and advance the interests of the workers? If so, how can they combine this with exercising any responsibility as part of the management? How can they argue from both sides of the table?

No doubt if management and workers combine against consumers, conflicts between them are less frequent. It is no accident that monopolistic industries often have better relations with their workers than competitive industries. And it must be admitted that the demands for nationalisation and workers' control are sometimes associated with the desire of a particular group of workers to get more for themselves, if not at the expense of the shareholders, then at the cost of the rest of the community. Such attitudes, however, have nothing in common with the ideals of Socialism.

A Socialist approach to workers' control involves a constructive policy, an attempt to create a new spirit which will give better results for the community as well as for those who work in the industry. The Trade Unions have done their best to assist in creating this in the nationalised industries. But, generally speaking, they have preferred only to retain the traditional functions of the Unions. At present the majority of them accept that the ultimate power and responsibility for making decisions must rest with the management—in the nationalised industries as well as in the private sector—and are content, provided full consultation with the workers' representatives takes place beforehand. It is only a minority which demands that the workers, through their representatives, should share the power and responsibility with management, and it is doubtful whether there is much pressure from the industrial workers behind this. The most promising first line of advance, therefore, may be in developing and giving real meaning and content at *all* levels to consultation.

Making Economic Decisions

It may also be said that 'capitalists' can exercise power without responsibility in their relations with consumers. Under competitive conditions, this is very limited. The manufacturer in a competitive market often feels that it is he who is at the mercy of the consumers rather than the other way round. A monopoly undoubtedly does exert far greater power and consumers all along the line may suffer from it. But the case for breaking up or nationalising a private monopoly stands on its own very firm feet, and hardly needs to be buttressed by elusive arguments about power.¹

¹ I do not underrate the power of salesmen, aided by advertisements, to deceive. But this could be dealt with by special protective measures, and by setting up an effective Consumer Advisory Service.

There remains the power of the 'capitalists' to take vital economic decisions which directly and indirectly affect thousands and perhaps millions of their fellow men. It must be emphasised that it is the extent of this particular power which matters. Almost every decision taken by every individual—what a man buys, how much he saves, where he works, how he works, affects others. The significance of the capitalists' decisions is that they have a bigger effect on more people, so that those who make them can be described as having an unusual amount of individual power. It follows that the force of this criticism is stronger the larger the size of the firm, and the fewer the number of firms.

The apologists of capitalists do not deny the existence of this power. They claim, however, that the working of a free pricing system and the profit motive, ensure that the decisions made by independent competitive managements will be in the best interests of the community. They assert that, though nominally free to make purely arbitrary decisions, managements are really themselves automatons driven to act under the compulsion of the system.

It is impossible to inject into the middle of this pamphlet a full explanation and critique of the system known as private enterprise. All that need be said is that to those of us who reject the classical doctrine of *laissez faire*, this cry of 'All power to the capitalists' makes no appeal. We believe, first, that despite the influence of the profit motive, a great many decisions are in fact made arbitrarily on the basis of imperfect foresight, and sometimes influenced by irrelevant personal considerations; and secondly, even assuming we were content with the distribution of wealth and income, that the amount of profit expected from a particular project is not always the best criterion for making those decisions in a modern free enterprise economy. Moreover the directors and managers of large firms are, in fact, handling not their own but other people's money. Any claim, therefore, that they ought 'to be free to do what they like with their own' cannot be sustained.

'Big Business' Influence

There remains one last 'power' which is sometimes brought into this argument—the power which, it is alleged, big business men have in society generally. It is hard to pin down this idea, and therefore hard to appraise it. For it rests not on any specific rights that they possess, but only vaguely on their influence. That this is substantial is beyond question. And it is natural that the Labour Party should be aware of it. Such men can by their opposition make the task of a Labour Government exceedingly difficult. In the financial field the dangers here are especially great. But while such men certainly are influential by virtue of their position in society, the same is true of many others. Trade Union leaders to-day are powerful, so are newspaper proprietors and editors, so are senior civil servants, and so are some politicians.

These men are powerful because within a certain margin they are free or are thought to be free to exercise power 'arbitrarily,' i.e., simply as they themselves desire. The business executive can influence his board and his

trade association one way or the other; the trade union leader can swing his executive in favour of or against some policy; the newspaper man can abuse or praise, ignore or publicise more or less as he wishes; the civil servant can influence his Minister; the politician may be able to make trouble in the House of Commons or influence a vote. I doubt if one can say more than that managements in industry—and still more in finance—have rather more power and influence of this kind than various other individuals and groups. I doubt, too, if it will be possible to eliminate all power and influence of this kind in any society, however democratic or Socialist.

What Public Ownership Achieves

I come now to the last question. What effect does public ownership in industry have on the exercise of power? I have no doubt that members of a nationalised board who are answerable to a Minister, who can be and often are criticised in Parliament and the Press, are oppressed or blessed with a greater and more continuous sense of responsibility than the management of a private firm. I have used the words 'oppressed or blessed' deliberately, because the feeling of responsibility has its bad as well as its good aspects. It can easily degenerate into timidity, into playing for safety—a weakness with which the civil servant is often charged, but which insofar as it exists, springs mostly from a keen sense of responsibility to his Minister, and the fear that he may get his Minister into trouble.

To some extent we have protected the nationalised boards from this by giving them complete independence on 'day to day' matters. But insofar as we do this we are, of course, allowing them to exercise power without being answerable for it. In important matters of policy however where the 'power' argument counts for much more, the boards are to a much greater extent answerable to the Minister for what they do, for example in their investment plans or in price policy.

Parliamentary Accountability

Here, on the whole, nationalisation has done much to achieve the change from irresponsible power. The decisions, whether right or wrong, are made only after full discussion with Ministers, and with the consciousness that they may be debated in Parliament. It is possible, of course, that the present practice will be modified, and the Boards given in future either more or less independence. Discussion on this subject is lively to-day, and will no doubt continue for many years. But I doubt if there is any escape from the dilemma that the more independent the boards are allowed to be, the more they will exercise power without responsibility, and the less independent they become, the greater the risk of over-centralisation and lack of enterprise.

On the whole the present method of dealing with the dilemma—the distinction between 'day to day' matters and others; the existence of some, but not too much Parliamentary intervention; and an informal relationship between the Ministers and the boards, is regarded by most of those who have served as Ministers responsible for nationalised industries as probably the best answer. This does not mean that, the power which private managements once held can now be directly exercised by the electorate, or even by Parlia-

ment. The attitude of the electorate is there in the background as something which has to be taken into account. But the electors make no management decisions themselves. Parliament, fully occupied as it is with the affairs of the whole country and even the world, has only a limited time to probe into or debate the affairs of the nationalised industries, though it is widely felt that it should take more interest in them. But the prospect of some awkward question, and the knowledge that there must be a debate eventually—and that there may be one at any time—does greatly affect both Ministers and boards.

As a result of nationalisation, then, the ultimate power is more diffused, and on all important matters exercised by men who are very conscious of their responsibilities to the community. Nobody can be sure that the decisions must always be better, but at least they are far more likely to be made after taking into account all foreseeable consequences for the nation.

D.—CO-OPERATION FOR SERVICE

The fourth argument—that ‘co-operation for service’ should replace ‘competition for private profit’ has, despite its vagueness, appealed strongly to generations of British Socialists. It accords closely with the religious ideals in which they were nurtured. But what exactly was the change which they desired? And how precisely was nationalisation to bring this about? I have already pointed out that to some extent this aim overlaps with two others—equality and industrial democracy. But there is more to it than that.

There are at least three different ideas involved here. First there was the broad basic Christian conception that people ought to be more concerned with helping their neighbour, less concerned with their own material well-being and advancement, more inspired by love and the desire to serve, and less the prey of selfish ambition. This change of heart, it was believed, could only come about if there was first a change in institutions; for man was not vile by nature, but only by reason of the system; and the institutional change that was needed was to transfer the ownership and control of industry to the community in whose service the natural goodness of man would grow and flourish.

The Profit Motive

The second idea in the general doctrine of co-operation was narrower and more precise. It was based on an objection, not to universal selfishness, but to the drive for profit as the mainspring of economic life. But profit here was used in its proper technical sense as the difference between costs and returns, and the people who were seen to be driven by this were not the mass of the workers but the merchants, dealers and employers. It was the greed and materialism of these people which was the target for the reformers’ arrows—because it was ugly in itself, because it poisoned relationships between them and their fellow business men and their employees, because it set the wrong tone for society.

In this there was undoubtedly a nostalgic element—a harking back to the days before the industrial and commercial revolution, even to a feudal

society where the behaviour of the ruling classes was conditioned more by custom and tradition and less by the motive of gain. This attitude to 'commercialism' was of course by no means confined to Socialists. It still forms, for instance, part of a deep-rooted criticism of 'the American way of life' which is to be found all over Europe. It is only very slowly that the status of 'business' has risen in Britain. As compared with America, far more of the best University students still go into the professions and the Civil Service in Britain rather than into industry and commerce. Assisted by this more general attitude, the Socialist reformers drew the conclusion that a good society required the elimination of the driving force of profits, and its replacement by a spirit of service on the part of those controlling industry.

The Competitive Scramble

Thirdly, and even more specifically, there was objection to competition as such. The discreditable scramble, the free-for-all knockabout struggle was disliked. It was not only the self-regarding profit motive which was wrong, but the undignified, cruel and ruthless rivalry. An important element in all this was the feeling of the workers that they were so often the victims. Competition squeezed them out because it forced the introduction of labour-saving machinery, cut their wages, and drove them to work harder. Such views were also shared by many employers, who proceeded to find their own way out by forming monopolies. In part, all this was very much a producer's reaction: it ignored the benefits which consumers gained; it reflected the point of view of the worker in the factory, even the director in the board-room—rather than the housewife at the shop.

A Change for the Better

How much importance should we attach to-day to this group of ideas or sentiments, and the conclusions which were based upon them? While nationalisation may not yet have produced in a particular industry any very noticeable general change among the employees to a less materialistic outlook, and while the chief motive of most workers continues to be that of earning a living to keep themselves and their families, there is little doubt that the workers enjoy greater security and better working conditions and are subject to less driving from above. Moreover in at least some instances I would claim that the workers have a greater sense of participation and control and no longer regard the management with the same hostility. These are at least changes in the right direction even if they still fall a long way short of the ideals of the Christian Socialists.

It can be said too that public ownership has the negative advantage—that so long as the workers feel that the real purpose behind what they do is to swell the profits of shareholders, it is impossible to produce the desired change of heart because they cannot, even if they wish to, work for the community. When the private profit element has been removed, however, then at least one important barrier is out of the way, and the spirit of service has at least a chance to develop.

Will the change on the management side be more significant? Undoubtedly there is a powerful case here. We can at least expect a change when someone who has previously been a private employer or business man becomes a salaried servant in a nationalised industry, for he is probably being paid on a different basis. But the extent of this change can easily be exaggerated.

Management's Function

First of all, though the board of a nationalised industry is under no compulsion to maximise profits, it is under strict instructions to avoid losses. It must pay its way, 'taking one year with another.' It must pay interest on the compensation stock, repay capital, and it should also accumulate reserves—all out of profits! It pays taxes like other firms. It will certainly be expected to do everything possible to reduce costs. Thus, although those responsible for management may have no direct material interest, they will in fact, for the sake of their own reputations and even their jobs, be very much concerned with the profit and loss account, and, up to a point, be governed by the same considerations as the directors of a private firm. Though they are responsible to Ministers and work in the glare of publicity, their job is essentially commercial, and therefore different from that of most civil servants.

Secondly, the extent to which all private firms are directly inspired by the desire to make the largest possible profit, or still more, to pay the largest possible dividends, can be exaggerated. It is more likely to be the case where the firm is small and where the directors and managers are the main shareholders, though some family businesses would be notable exceptions. But in larger businesses, the divorce between ownership and management has gone very far, and the influence of the shareholders on management, as long as the business is running reasonably well, is negligible. In such cases the part played by the profit motive on business executives is to be found partly in the fear of less (but almost exactly the same fear will be found in nationalised industry), partly because a very large profit would be regarded in the case of a private firm—far more than in that of a nationalised board—as evidence of outstanding success, partly because they will probably own *some* shares themselves, and partly because the managers or directors often receive bonuses according to the level of profits earned. How important these latter are in influencing decisions by management it is difficult to say, but they could clearly be introduced in nationalised industries too. Indeed, during the period of steel nationalisation, the executives of the companies whose shares had been taken over by the State were allowed to continue such arrangements.

One must conclude, therefore, that even in the case of management the change, either for good or bad, is not so great as was at one time desired or feared. [The nationalised industries cannot be so disinterested in 'profits,' and the larger private firms are not quite so obsessed with them as they were once thought to be.]

As for the dislike of competition, here the arguments have in recent

years changed considerably, partly in reaction against the steady growth of monopoly over the last half century, partly as a result of a long period of full employment, partly because the workers, even under competitive conditions, are protected by much more powerful unions. Public opinion to-day is much less hostile to free competition in itself. But new and more subtle criticisms of it are being put forward—criticisms of its alleged inefficiency and waste. These criticisms, with their implied support for public ownership, will be examined more fully later. However superior to free competition, standardisation, pooling of knowledge, specialisation in a monopoly framework may be, it was not really on these lines that the earlier Socialists based their opposition to capitalism.

4. ACHIEVEMENTS OF NATIONALISATION

THE conclusions to be drawn from this analysis of the earlier traditional arguments for general nationalisation are that they are weakened but destroyed. It still remains true that nationalisation of the means of production, distribution and exchange should assist the advance to greater equality, contribute to a full employment policy, associate with the power to make important economic decisions a far greater sense of national responsibility, ease the development of industrial democracy, and diminish the bitterness and friction in economic relationships.

Whether these advantages are sufficient to justify, from a Socialist angle, a rapid extension of the field of nationalisation depends partly on what other arguments there are in favour of this course, partly on what disadvantages may be expected to follow from it, and partly on whether the principle ideals of Socialism can be achieved in other ways.

Practical Arguments in 1945

There certainly are other important arguments in favour of nationalisation. Indeed it is a most striking fact that in presenting the case for nationalising the industries transferred to public ownership between 1945 and 1950, the Labour Party spokesmen relied far less on the traditional arguments and far more on practical considerations designed to show that nationalisation was the best or only way to achieve higher production, greater efficiency and protection against monopoly.

For example, in the case of coal, while there was very great emphasis on the bad relations which had existed between the miners and the coal owners, and the expectation of improvement, the central argument was the need for a radical reconstruction of the industry on the lines proposed by the Reid Report. What was required, according to this essentially technical report, was the grouping of collieries, larger units of management, and a programme of capital investment. The Labour Party argument was that only public ownership could achieve these objects. Experience had shown that private ownership delayed and blocked re-organisation, and could not attract the necessary capital.

Another new argument which bears directly on the scope of nationalisation was that, in the case of a basic industry like coal, the State must accept responsibility. It could not afford to leave this to private enterprise, because the consequences to the country of failure were too serious. Although the reasoning was never clearly expressed, the implication was that private ownership was risky, that you could not be sure that it would operate efficiently, whereas under public ownership Parliament and the Government had the power to insist that what was needed to be done should be done.

X

Structural Changes Required

Somewhat similar arguments were used in the case of electricity and gas. In both cases Committee reports had recommended far-reaching changes in the structure of the industry. The Heyworth Committee on the Gas Industry proposed outright nationalisation in order to carry this out, and thus made the case for the Labour Party. The McGowan Report on Electricity Distribution did not go so far; it hoped that the structural changes would be carried out voluntarily, with a touch of compulsion if need be. But it was easy to show that this was extremely improbable, and that only complete ownership would be able to cut through the jungle of vested interests obstructing re-organisation.

In the case of transport, the nationalisation of the railways and of road haulage was advocated, partly on the ground of greater efficiency, and partly because co-ordination between them was claimed to be essential, and because this could only be secured through public ownership. Indeed, it is quite possible that had the railways remained in private ownership, the government would have been obliged to intervene on behalf of holders of trustee debenture stocks. And re-equipment on the necessary scale, including electrification, could hardly have been carried through without nationalisation.

In the case of steel the arguments were similar, though the emphasis was different. Particular stress was laid on the importance of the industry to the community. It was also argued that some further concentration of production in the best plants would be necessary, and that this could be more easily carried out if the obstruction imposed by private share-holdings were first removed. But since a great deal of nationalisation had already been completed, and since there was already a very highly organised and powerful cartel, the greatest emphasis was placed on the need for public ownership in place of private monopoly. This difference of objectives is also one reason why the form of nationalisation in the case of steel was simply the creation of a holding corporation—owning the shares of the individual companies without disturbing the structure of the industry.

Thus in all these instances the crucial arguments for public ownership were either that it alone could carry through the structural changes needed to increase efficiency, or, if this change had already been carried through and central planning and co-ordination established, that it was necessary in order to protect the public from the evils of private monopoly. It was claimed that the desired increase in efficiency was not compatible with private competitive enterprise, that the choice lay between inefficient private

competition, efficient private monopoly, or efficient public monopoly. The first was obviously unsatisfactory, the second could not be tolerated because it was wrong for the profits of a monopoly to go to private persons. The third course was, therefore, the right one to follow.

Criteria for Efficiency

At an earlier stage in this pamphlet we discussed the validity of the traditional arguments for nationalisation in the light of experience. What does experience show about the validity of the more recent practical arguments supporting the 1945-50 programme?

This question has been discussed too often on a superficial level. It has been taken for granted that efficiency, which was the core of the argument for nationalisation, can be measured and tested by the simple criterion of profits and prices. Now the nationalised boards are under instructions to pay their way, taking one year with another, and obviously if they fail to do this and make losses year by year, they are not carrying out the intentions of Parliament and deserve criticism. But even so this would not prove that they were inefficient. The losses might simply be the result of selling too cheaply, of failing or of not being allowed to put up prices when costs beyond their control were rising. If this is true where there is a long series of losses, it is obviously still more ridiculous to describe an industry as inefficient because of only one or two bad years. It would be equally wrong to accept as the sole criterion of efficiency in the case of national or local monopolies a good profit and loss account; for this may result from over-charging, or from a fall in the prices of materials used by the industry.

The test of selling price is no better. One board may have to put up prices because at the moment it took over profit margins were low or non-existent, or because wages had to be sharply increased to retain an adequate supply of labour. Another board may have been more fortunate because, just before vesting date, prices were raised, or because it did not have to worry so much about higher wages in view of the fact that labour was only a small part of total costs of production. During the nine years since nationalisation, coal prices at the pithead have risen by 44 per cent; during the first seven years of its nationalisation, the average charge per unit of electricity by only 21 per cent. Yet it would be wrong to deduce from this that the Central Electricity Authority and Area Boards were necessarily far more efficient than the National Coal Board.¹

But if these simple tests are useless, how can we judge? Complete proof one way or the other is impossible. For of course we do not, and can never, know for certain just what would have happened if the industry in question had not been nationalised. Moreover, time must pass before the full effects of nationalisation show themselves, and yet the passage of time itself makes comparisons more difficult.

¹ There is also the more subtle argument put forward by economists that the 'right' price for a nationalised industry to charge is marginal cost, and that this might involve either heavy losses or large profits.

Nevertheless—and recognising to the full the difficulties—there is a good deal of evidence accumulating which suggests that the improvements in efficiency in physical terms, and the structural economies which were predicted for the nationalised industries, are taking place.

The Evidence of Achievement

This evidence is to be found in the Annual Reports of the various boards, and was for the earlier years set out conveniently in the T.U.C. *Interim Report on Public Ownership*. I must content myself here with some illustrations only.

In the case of the Railways, for example, unification had made possible within five years the closing of 48 district offices, 76 goods depots, 34 marshalling yards and 36 motive power depots and sub-depots. Up to 1955, 173 stations and 712 miles of route had been closed to goods traffic, while for passenger traffic 324 stations and 1,784 route miles were closed. Because company boundaries do not count, freight traffic has been re-routed along the shorter, simpler, or less congested routes; standardisation—a typical amalgamation economy—is continuing to reduce the number of different locomotives and types of waggons.

Freight carrying efficiency—net ten-miles per total engine-hour—as well as the average wagon load has risen considerably under nationalisation, even if it is more difficult to show that this is also a case of cause and effect.

As for road haulage, there seems little doubt that nationalisation was in process of making considerable economies in manpower. The index of administrative personnel per 100 tons carried had been reduced by one-fourth, and that of operating personnel by one-fifth, before denationalisation broke up the new organisation. A Ministry of Transport Survey has shown how British Road Services has a much higher operating efficiency than private hauliers.

Rising Productivity

In the case of electricity, the growth in productivity has been particularly striking, but it is more difficult to attribute this to full-scale nationalisation; partly because productivity is so dependent on demand, and partly because structural changes had to some extent already been carried out by an earlier public corporation, the Central Electricity Board. Nevertheless, it is unlikely that generating capacity would have expanded by nearly 64 per cent in seven years, and that the yearly addition would be twice the pre-war level, if it had not been for the centralised drive and buying power of the C.E.A. And it seems probable that the pooling of knowledge and co-ordination with the Coal Board has contributed to the notable increase in fuel efficiency which has saved 17,500,000 tons of coal in seven years. As for the Area Boards, the largest economies have been in capital expenditure. The increase in size of the territory served has made big savings in the fixed installations needed to supply a given number of customers. Moreover, the speed at which rural electrification has been carried out—on average 11,000 additional farms a year now connected, and in more remote areas, compared with 4,000 before the war—is

undoubtedly one of the benefits of the larger management units with adequate capital behind them, and the possibility of pooling receipts over wider areas.

Much the same record is found in the case of gas, though the savings from concentrating production on fewer works and the construction of gas grids were at first delayed by government restrictions on investment and shortage of steel.

Reconstruction and Development

In coal, more than in any other nationalised industry, the human element is overwhelmingly important, and the purely technical gains from large-scale management are less certain. Yet there seems no reason to doubt that the Coal Board's plan for reconstruction and development do in all essentials follow the lines of the Reid Report. If there is disappointment that production is still well below the level required to satisfy both home and export demand, total output has nevertheless risen since the beginning of 1947 by 32 million tons, and this has been mainly the result of a rise in output per manshift which passed the highest pre-war level in 1949. Undoubtedly a good part of this is the result of capital investment; and if this has lagged behind what was planned and is needed, the delay is largely due to the shortage of highly-skilled mining engineers—itself a legacy from private enterprise.

As for the nationalised aviation corporations, these are rather different from the other nationalised industries in that they face fierce international competition. In their case financial returns are more an indication of success than in the case of the other industries—or would be had it not been that they were hampered for a long time by obsolete or obsolescent planes. In the year 1954/55 British European Airways achieved the remarkable result of cutting the cost of each capacity ton-mile flown from 47.5d. to 41.7d., and both corporations made surpluses before the end of the ten year period for which they were to be subsidised. One interesting feature of their work has been that they have devoted much time and effort to working with aircraft companies in the breaking-in of new aircraft. This is a striking example of the manner in which the nationalised industries have given assistance to the private sector.

Less Tangible Changes

Finally, on the credit side of the nationalisation balance sheet, must be added some more general advantages which have appeared in all cases. These include far better training facilities—of which the Coal Board's 'ladder' plan is the best known; higher welfare standards applied far more universally; much greater attention to and more expenditure on research—though it is still much too low—and the very considerable reductions in payments for capital, when—say— $3\frac{1}{2}$ per cent only in place of a probable average of at least 6-7 per cent. has had to be paid. This last, of course, is not a new point, and has already been mentioned in the discussion of traditional Socialist theory on earlier pages. But it has, not only a social significance, but also an effect on the level of costs in the individual industries.

There is one further specific argument in favour of nationalisation which must be mentioned. It is really an extension of the 'efficiency' argument, but it has only partially applied in the case of industries so far nationalised. This argument is that private enterprise to-day creates in many industries a state of affairs known as 'monopolistic' or 'imperfect' competition, in which the firms are producing at a level below the optimum, and competing for their share of the market by wasteful expenditure on advertising and other selling devices which do not benefit the consumer. The very process by which each firm is driven, by this form of competition, into making its own products more distinctive and different is also bound to work against standardisation and greater efficiency in the industry.

This situation is often put forward as an explanation of the lower efficiency here compared with America in the production of motor-cars, refrigerators, washing machines and other 'durable consumer goods.' American firms, it is stated, can produce at a higher level of output and therefore more cheaply, because of the much larger market each commands. It follows that if in Britain we had fewer firms, each could have a larger share of the market and therefore become as efficient as the Americans. But this cannot happen without a change in the structure of industry, which will not come on its own. Moreover, in some industries, with the smaller British market, the maximum efficiency would require only one or two or three more firms, who would then form themselves into a monopoly. Nationalisation would make it possible to have just the right number of producing units in the industry for the output to be at lowest cost, would make possible much more standardisation, and would cut advertising and selling costs sharply.

These arguments are very powerful. All that can be said against them in general terms is simply that while competition is wasteful it is also stimulating, and that it is very hard to be sure, on balance, whether in terms of efficiency the gain from eliminating it is greater than the loss.

5. PROBLEMS OF EXPERIENCE

WHY then, in face of a very respectable catalogue of achievement, is there talk of disappointment with nationalisation? No doubt it is due partly to energetic propaganda by the opponents of nationalisation; but it cannot be wholly explained by this.

The major cause lies, in my opinion, in the illusions which existed beforehand, and which had little relation to the actual arguments put forward by the Labour Ministers, or to the reality of the situation. Some disillusionment is inevitable in any social advance. The emotion engendered in a political struggle gives rise to myths—on both sides. What happens afterwards is neither as good or as bad as the most politically excitable persons expect. In this case there were people to whom nationalisation meant not the slow technical gains of more 'ton-miles per engine hour,' but

the whole promised land involved in some or all of the traditional Socialist doctrines already discussed.

There were others, less familiar with Socialist thought, who looked on nationalisation as a direct method by which they could quickly raise their own standard of living. There may have been some who, as consumers, expected that they would reap immediate benefits in lower prices and greater supplies. In a period of world inflation and rising wages they were certain to be disappointed; for, even when sufficient time had passed to secure greater efficiency, its effects would be felt more in higher wages and salaries and less in lower prices. Moreover, even though the prices of articles produced in the private sector of the economy were rising even more, that would attract the attention of consumers much less than the prices of commodities produced under public ownership, which were always in the limelight.

Nationalisation and the Worker

But it was among the workers more than among the consumers that nationalisation was thought to promise immediate material gain: certainly their attitude to it has been greatly affected by what has happened to their wages. One can hardly doubt that the greater enthusiasm for nationalisation among the miners in the early years as compared with the railway workers, is associated with the fact that the wages of the former have risen by over 110 per cent and the latter by less than 60 per cent.¹

The belief that nationalisation was designed to give the workers more at once (a belief which has not disappeared among some in the private sector clamouring for the nationalisation of their industries) was accompanied, when it failed to work out like that, by a series of grievances against the methods of carrying out nationalisation. It was objected that 'the same faces' were to be seen on the management side; that there was not enough workers' participation; that full compensation should never have been paid. These are the natural consequences of a misunderstanding as to what the relatively short-run effects of partial nationalisation were likely to be.

The Problem of Size

But disillusionment is not just the child of misunderstandings. There have been genuine drawbacks and difficulties in nationalisation which must be recognised. These are not the inadequacy of incentives, or gross extravagance, or the other alleged abuses on which the opponents of nationalisation so fondly dwell. The real weaknesses arise, not so much from a change of ownership as from a change in structure. They are almost all associated with large-scale management.

¹ These figures are not strictly comparable. The miners' figures refers to a notional average wage, while the second refers to one grade, i.e., a top rate engine driver. The period is from 1st January, 1947 for the miner and 1st January 1948 for the railwayman.

Just how much importance to attribute to them is even more difficult to judge than efficiency. At least in the latter case there is some statistical evidence, though it needs interpreting with care. But the criticism which now has to be considered has no such basis. For this reason there is even more room for biased judgment—and it is one of the great difficulties in this field that almost everybody is biased one way or the other.

Moreover, in matters of organisation, charts and other such evidence tell only part of the story. Where personal relationships count for so much, what is printed in black and white can be most misleading. Consequently those who look at the organisation from the outside often misunderstand. On the other hand, those who are actually employed in the organisation and really know how it works in practice, seldom talk or write on the subject—unless they have first quarrelled with the management, in which case their evidence is suspect. Finally, and perhaps most important of all, it is hard to distinguish the teething troubles inevitable in a new administrative machine from more serious long-run defects.

Though precise appraisal is difficult, it remains true that large-scale management does have its defects, and that these have been evident in the nationalised industries. Two serious associated weaknesses are that fewer final decisions can be taken at 'lower levels,' and that the larger organisation does not so easily generate staff loyalties or *esprit de corps*.

Frustration in Management

The local manager cannot have such a free hand as if the unit he runs were his own business. It is not possible both to reap the benefits of standardisation and at the same time leave the local manager free to design and order as he wishes. It is not possible to have a national investment plan for an industry, and leave the districts wholly free to spend capital as they wish.¹

These and other similar changes undoubtedly create discontent among those who feel that their power and freedom has been curtailed. Some able and energetic men are unwilling to fit in to the new hierarchy. And even those who remain and accept change, continue to complain that they are not allowed to decide more on their own. Such complaints are found in every walk of life—the Civil Service, the Army, business—even small-scale business—and too much attention should not be paid to them. Moreover, the hostility of many administrative personnel to the nationalisation of industries has been an aggravating factor. Nevertheless that there is some disadvantage here can really not be denied. And it will, of course, be greater when the industry is one whose success particularly turns on industrial enterprise and initiative.

A Measure of Devolution

But in the long run it is not so much the discontent of a few people of

¹ In fact the National Coal Board gives its division and area managements very considerable discretion over capital expenditure, but the general point is, nevertheless, valid. It should also be noted that the Fleck Report concluded that there was too little rather than too much centralisation in the Coal Board.

relatively high managerial status which constitutes the danger of a large-scale organisation, as apathy and indifference among the staff, a feeling of remoteness from the top among the workers generally, and delays in reaching decisions, together with a tendency to 'pass the buck' higher up. The first two can be countered by good local management, which succeeds in attaching the loyalties of the employees to their own particular unit without also directing their aggressive impulses against the 'high-ups' (a practice in which some local managers have been too inclined to indulge). But this in turn will be impossible unless there is, in practice, a fair measure of devolution. Devolution is of course also the main remedy for the second weakness. When this has been pushed to the limit compatible with securing the economies of large-scale management, the only other course is to ensure that questions which have to be referred upwards should be dealt with quickly, and that no 'bottlenecks' should be allowed.

Incidentally, it must not be forgotten that delays may occur, not because of large-scale management, but because of the attempt to introduce 'industrial democracy.' Even if this be understood as 'consultation' only, it is bound to take time. The time is probably well spent, but it is hardly fair then to complain of the inherent delays.

National or Local Boards?

Some take the view that the dangers of over-centralisation are so great, and the drawbacks of large-scale business so serious, that we should avoid 'national' boards wherever possible and try, whenever an industry is transferred to public ownership, to set up a series of local boards. There seems to me to be no sense in generalising on this issue. A great deal depends on the technical and commercial character of the industry—in other words on how far it is necessary in some fields for national decisions to be taken. It must be recognised, for instance, that even in the private sector, national decisions on wages are almost universal, and that national decisions on development plans, research, marketing, training and welfare are in the nationalised industries often highly necessary. Moreover, Parliamentary control, difficult to exercise in any case, would be infinitely more difficult over a multiplicity of local boards. The early Fabians contemplated a much greater transfer of ownership and control to local authorities. But unfortunately local government boundaries seldom coincide with what are technically the most suitable areas for management—which was, of course, one reason for 'nationalising' gas and electricity. A reform of local government might make a difference.

The existence of a national board is not necessarily dangerous, provided too much power is not concentrated in its hands. The correct policy is to get the right mixture of devolution and technical efficiency. Whether it is done by statute or by administrative action does not really matter.

Finally, I believe that it is much easier to get the right atmosphere, and therefore greater efficiency in large-scale undertakings, if the element of competition or rivalry is somehow retained. This is especially true of the staff and management grades. It may be regrettable, but it seems to be

a fact that people's enthusiasm about almost any groups to which they belong is enhanced by competition. I have already argued that in large firms the direct profit motive does not much affect the managers. But what does influence them is pride in their own company, and the desire to see it expand and to do better than their rivals. In this way they are not so very different from the regiment or the civil service department. Nationalisation should try to harness and not to ignore or suppress these natural characteristics.

Men for the Jobs

Another difficulty of nationalisation is that of finding enough individuals of high calibre who are able and willing to take over the top-level jobs. Not many people realise the importance of this. For it turns on assessments of personal qualities and the difference these make to the way a job is done—both very much matters of judgment. I can only say from my experience, first that the quality of the men in the higher positions in the nationalised industries is just as important as it is in the Civil Service or in politics or in private business; and secondly that there really can be no doubt about the size of the jobs in question.

After all, if we can measure by numbers employed, by turnover or by capital invested, the responsibilities of the Chairman of an Area or Divisional Board, let alone a National Board, are far greater than those of the top executives in a very large business. Yet the pecuniary advantages lie wholly with the private sector. Salaries in private industry are higher—rising in the most important cases to £10,000, £15,000 and over £20,000 a year; 'expenses' are less strictly controlled, and more generous pension arrangements are made. It must be remembered that in larger companies the control rests with a small body of self-appointed directors, who fix their own remuneration, and have a degree of freedom in such matters which does not exist in the public sector. The top-level men in the nationalised industries are not only worse paid than those in comparable positions in private industry, but they have to face more limelight and more criticism, and in practice they have less security.

Bearing all this in mind, and the fact that the majority of business men are usually opposed to nationalisation, it is hardly surprising that it is not easy to persuade capable men from private industry to take posts in the nationalised industries.

No More Civil Servants

Nor is there any solution to be found by drawing on the Civil Service or the Trade Union movement. In most cases—quite rightly—at least one senior Civil Servant has been appointed to each National Board. But it would be a mistake to have more; and it would be wrong to weaken the Civil Service by taking away too many of its best men, and still worse to be satisfied with its less successful, representatives who have retired rather early. As for the Trade Union movement, a number of excellent appointments of leading Trade Union officials have been made to the Boards. But it is no use denying that this has meant the removal from the Unions of

some of their best men. Any Minister who sought to solve his appointments problem by a substantial increase in the numbers drawn in from the Unions would find himself up against unwillingness on the part of some men to change over, and increasing resentment from the Unions themselves.¹

These difficulties are not confined to appointments to the Boards by the Minister. They have also been experienced by the Boards themselves in filling their high managerial posts. For it is an inevitable feature of amalgamation, that people who are used to smaller jobs have to take on larger ones, not because they themselves have suddenly changed, but because of the change in the structure of the industry.

Transitional Difficulties ?

These drawbacks to nationalisation should not continue to be so serious indefinitely. In part they arise from the sudden creation of a number of new, large, vitally important jobs of which nobody has had previous experience. Some men grow with the job and have already done so; in the course of time people can and will be trained by the nature of their work at lower levels. It would be nonsense, in the light of history, to suggest that there is some clearly defined absolute limit to the scale of responsible government in any field. With every decade that has passed for the last

two hundred years that scale has changed—at least if it be measured in terms of capital or manpower employed. But granting this, the difficulty in finding enough good men for the responsible jobs in the nationalised industries is still a serious transition problem.

The Place of the Individualist

There is a third disadvantage to nationalisation which I put forward with more doubt and diffidence—and again it is a disadvantage of large-scale management rather than of public ownership. I believe we must set on the debit side the loss of what can be described as ‘the odd man out.’ By this I mean two things. First there is not much room in a nationalised industry for the man who cannot fit into a large organisation, the man who is temperamentally unfitted just to occupy a position in a hierarchy, or even play in a team—except when he is the captain. We all know people like this. They are usually aggressive, egotistical and restless; but they are also sometimes shrewd, hard-working and dynamic. They are most of them unattractive types and from certain points of view their disappearance is no loss. Yet it must be admitted that from such persons have been drawn some of the most enterprising industrialists in our history, the men who built their businesses from nothing and made their fortunes in the process, the *entrepreneurs par excellence*. Secondly, the danger in a large-scale

¹ The average age of Board members is high, though there are conspicuous exceptions. This is partly due to the timidity of Ministers, who do not like risking the appointment of younger, less well-known people, and partly to the difficulty of extracting first-class younger men from their jobs. organisation is that the majority view will always be accepted, and that there

is no outlet for the minority. It is the great merit of relatively small-scale industry—given competitive conditions—that there is no majority decision, and that what might have been a minority view can be backed by somebody. That somebody has often been just the man who could not fit in, but had to be on his own.

I must again emphasise that this loss—if loss it be—is caused by large-scale organisation, and not by nationalisation as such. Indeed, to some extent these extreme individualists have already disappeared from the private sector in Britain, driven out by the growth of monopoly. The nationalisation of the railways, of electricity, gas and steel did not crush them out. They had gone before. In coal it may be said that they had caused more trouble than they were worth, and in road haulage anything their temperament might have contributed was easily outweighed by the great technical advantages of large-scale operation. Nor am I saying that even in other industries, still under private management, their eclipse would be wholly bad—not balanced by other gains. But since we are now concerned with the weaknesses of nationalisation, we must recognise at least a potential drawback.

The Balance Sheet

We can now take stock; and we can do it best by setting out the pros and cons of extending the nationalised sector, industry by industry as has been done hitherto. Such extension would bring with it certain long term gains in keeping with Socialist ideals. In addition to these general advantages, there are no doubt some industries for the nationalisation of which there is also a strong technical case. Such industries include both those where monopoly flourishes, and those where competition clearly involves serious waste, and a grouping together will bring with it economies in production or marketing through greater standardisation, specialisation of production on different units, elimination of competitive selling, etc.

But we also have to recognise that those very structural changes, which are expected to lead to higher productivity, may also involve the difficulties associated with the sudden introduction of large-scale management. We have to weigh the gains from eliminating the wastes of competition against the disadvantages of destroying the competitive spirit. And in making up our minds, we must ask whether there are in the particular industry under consideration ways and means of getting the best of both worlds—of eliminating the wastes but preserving the benefits of competition.

This problem does not arise to the same extent where the transfer to public ownership takes place without any important structural changes—as with steel. But in such instances the case for nationalisation must rest on the need to prevent private monopoly (where this exists), or on the more general arguments discussed earlier, and will probably appear to the general public less strong than in industries where ‘radical reconstruction’ is called for.

Negative Conclusions

Some negative conclusions can also be drawn. The case for nationalisation is weakest where there are a very large number of small

firms competing with each other, where there is a strong speculative element in the business, where personal contacts and knowledge count for a lot, and where there are no very obvious advantages of large-scale production. Two other considerations must be allowed to influence our judgment.

First, we must beware of illusions. For these have been the major cause of disappointment. This means in particular that the workers in the industries concerned must understand the essentially long-run case for nationalisation, as well as the kind of difficulties which are likely to be encountered; it means the abandonment of syndicalist ideas (which are totally inappropriate in a democratic society), of ideas that the purpose of nationalisation is simply the immediate gain of the workers in the industry, regardless of the interest of the rest of the community.

Making a Clear Case

Secondly, we must remember that the British electorate will not be impressed with proposals to extend nationalisation into new and unknown fields unless there is a simple and clear-cut case for them. We now have the great advantage that nationalisation in some industries is seen to be working and is there to stay; on that account there is less fear of the unknown, and the silly nonsense once talked about it is seen to be nonsense. But we must put on the other side the fact that almost all the industries taken over between 1945 and 1950 had been the subject of elaborate public enquiries over a long period, and that the need for a change in structure was something to which the public were quite accustomed. The same cannot yet be said of many of the new candidates for nationalisation.

It is a great deal easier to persuade people that a big change in industrial structure has to be made, when they know there is something seriously wrong with the industry, and they are satisfied that the particular plans for nationalisation are based on experience elsewhere, and calculated to ease rather than aggravate the trials of transition.

6. THE FUTURE OF NATIONALISATION

WE have now examined both the traditional case for public ownership and control generally and the specific arguments put forward in favour of nationalising individual industries. We have seen that experience confirms the validity of these arguments but also reveals certain difficulties and weaknesses. There remains one other major question which is highly relevant to any discussion of the place of nationalisation in Socialist policy, and to which reference must be made. How far can the ideals of Socialism be achieved by means other than nationalisation? Or, to put it in slightly different words—how far can we advance towards these ideals without an extension of public ownership and nationalisation?

To answer these questions in full would take me beyond the subject of this particular pamphlet and involve a detailed and intricate discussion

of fiscal policy, monetary policy, industrial relations, the use and abuse of physical controls, and much else beside. I must, therefore, content myself here with an 'outline' reply only.

Applying Socialist Ideals

Let us take the Socialist ideals one by one.

First, as has already been pointed out, the experience of the last fifteen years suggests that it may be possible to maintain full employment in a mixed economy without having to extend the scope of the nationalised sector. Although such an extension would be of value in any attempt at better economic planning, it cannot be said to provide either an automatic or a unique solution. The real problem is how to maintain a very high degree of employment without inflation; and the answer in a democracy where free Trade Unions flourish, must be a combination of controls and voluntary restraints, which are not easy to maintain unless there is already a fair distribution of wealth and income.

Secondly, while a better framework may be constructed under nationalisation for the development of democracy in industry, its progress can certainly be carried very much further even within the private sector than now. Both the differences between different firms in Britain and more democratic practices in certain other countries suggest that this must be so.

Thirdly, as regards the closely associated question of economic power there can be no doubt that nationalisation does involve a significant transfer and diffusion of power; but we have seen that this is not such a simple issue as it is sometimes supposed, and that the gain to society of the transfer, though real, is not always obvious to all. Here again a more even distribution of wealth would make a big difference to the whole question.

Equality the Touchstone

One is, therefore, driven to the conclusion that the most vital question is how far greater social and economic equality can be achieved without more nationalisation and public ownership. So far, as has been pointed out earlier in this pamphlet, greater equality has been brought about in Britain not so much by nationalisation as by the growth of social services, severe taxation on high incomes partly resulting from war, and an increase in the share of the national income enjoyed by wage and salary earners, resulting from the power of the Trade Unions exercised during a period of mild inflation. Can we expect a further advance on these same lines? And is such a further advance compatible with rising production if the greater part of the economy is still owned and controlled by private individuals? No doubt financial, monetary and physical controls will be available to the Government. But will these be enough, in circumstances where fiscal policy and the power of the Trade Unions are both used to redistribute wealth and income more evenly, to secure a steady increase in the national income, a mastery of the foreign trade problem and generally prosperous conditions?

The answers to these questions clearly depend upon which lines of policy it is proposed to adopt in order to produce social and economic equality and upon the repercussions on the economy which will follow from this adoption. Two such lines are of special importance. One is educational reform. I do not propose to discuss it here. But this at least can be said—that apart from the extra public expenditure involved in providing better schools, better teaching, etc., there is no reason why advance on this particular front should lead to major economic difficulties.

The Dangers of Fiscal Methods

The second line of policy is a fairer distribution of wealth; it is this which presents by far the greater problem. I cannot describe in detail the various steps which will have to be taken to bring this about.¹ But whatever fiscal or other measures are used, the dangers which they might involve in a still predominantly private enterprise economy (which is assumed here) really all converge at the same point. They all amount to the same danger of too little saving and too little investment. By too little saving I mean a disposition for the community as a whole to spend too much on consumption. In the short run and with a given level of spending on investment, this leads to inflation and balance of payments troubles; in the long run, if it persists, a shortage of saving must keep investment down as well.

By too little investment I mean not the consequences of too little saving to which I have just referred, but an unwillingness on the part of the business community to invest, i.e. to instal new equipment, machinery and plant, to spend money in research, to do those very things which are in a large part the basis of rising productivity in the future. In the long run too little investment means a slower rate of economic advance; for one country in a competitive world this can have serious economic and political consequences.

Nationalisation and Saving

But how far can these two dangers which lie in the path of the advance to equality be averted by more nationalisation and public ownership? We must distinguish between them. First as to saving, it can be said that the larger the public sector the easier it would be for the government to insist upon a high rate of saving. It would simply direct the nationalised boards to fix their prices at such a level that they would make very large profits, all of which would be saved. There are good grounds for saying that up to now the nationalised industries have, if anything, been encouraged to do the opposite, and the policy should be deliberately changed so that they may finance more of their investment themselves. This would extend public ownership more rapidly as well as increasing saving.

¹ See the Labour Party's pamphlet 'Towards Equality' for further discussion of this subject.

But it is no use pretending that this would be very easy. The fact that since 1945 the public sector of industry, far from financing its development out of its own profits, has been borrowing extensively from private sources was not just accidental. While one reason for this is that the nationalised industries happened for the most part to be in a weak financial and physical condition when they were taken over, even more important are the economic and political obstacles in the way of higher prices and profits in these industries. One must be exceedingly careful not to ascribe to public ownership as such possibilities which really spring from a different *political* system which we have no intention of adopting. In a democracy it is not so easy for the nationalised undertakings to charge high prices in order to provide a larger volume of saving. It is as difficult as it is for the Government to impose taxes, earn a budget surplus and thus reach the same objective—namely a rise in public saving—by a slightly different path.

Indeed of the two methods of increasing saving—by taxation and a budget surplus or by high prices, profits and reserves in the nationalised industries, the first is rather to be preferred. It is more certain—for the high profits in the nationalised industries will very probably invite higher wage claims. It is fairer—because the Government does not have to concentrate on the products of the nationalised industries only, or even on commodity taxation in raising the extra revenue; and it is less disturbing, because the wider choice available to the Government makes it possible to avoid increases in the prices of particular products which might cause demand to fall off too sharply, and create local unemployment.

We cannot therefore be sure that more nationalisation in itself will contribute very much to the problem of combining egalitarian policies with a high rate of saving, though undoubtedly it could, provided the appropriate policies were followed. Other devices will certainly also be important; they might include dividend limitation so as to ensure a high rate of company saving, and they will almost certainly have to involve fiscal measures of one kind or another.

The Rate of Investment

On the other hand if the danger to be expected arises more from unwillingness to invest, then the case for nationalisation as a counter-measure is certainly much stronger. For though the Nationalised Boards may not always see eye to eye with a government proposal for higher investment expenditure and may take a more cautious or pessimistic view of a particular project, nevertheless the government does have much more prospect of speeding up investment in the public than in the private sector. In the last resort the government can insist and ride out any political storm that may arise through disagreement with the Board. This is simply not open to them in dealing with private firms.

The problem here is likely to be administrative and technical rather than political—the difficulty of the government having sufficiently experienced and expert advice to match the technical knowledge and judgment of the nationalised boards. But with a strong planning machine this is not an insuperable obstacle.

But which is likely to be the greater difficulty? Unwillingness to save or failure to invest sufficiently? A few years ago more stress would have been laid on the failure to invest. But recent experience suggests on the whole that partly because of the divorce between ownership and control in industry, partly because of fiscal incentives it may not be so difficult to ensure a continued readiness to invest by business executives even if the government is pursuing egalitarian policies. At the same time the problem of keeping down consumption so as to finance a high rate of investment is obviously not yet solved—as the experience of the last eighteen months clearly shows.

Altering the Distribution of Wealth

Can we then really envisage a continued further advance towards a more even distribution of wealth without a simultaneous sweeping extension of nationalisation and public ownership?

Here I believe we must draw a distinction to which I referred earlier between public ownership—the ownership by the community of assets and property of any kind—and the nationalisation of particular industries as this has been carried out in recent years. If it is nationalisation of which we speak, no definite answer can yet be given; but if it is the extension of public ownership then it seems to me that this is almost certainly necessary if we are to have a much more equal distribution of wealth.

The argument which leads up to this conclusion is simple enough. The distribution of privately owned wealth today is still very uneven—about three per cent of the population own two-thirds of it. Although distribution was even more unfair in the past, the effect of high death duties and income and surtax is slow in its operation chiefly because of a rise in the value of equity capital—a form of property which tends to be concentrated in the hands of wealthier people. If wealth is to be more fairly shared there are only two ways of doing it—either to arrange for the redistribution of the existing privately owned wealth among more people or to increase the proportion of wealth owned by the community, the income from which is also available for the use of the community.

Some steps towards the first could be taken by a change in the incidence of death duties, whereby the size of the tax was dependent on the wealth of the beneficiary instead of the value of the estate as a whole. But in practice the only effect of this would be to spread wealth a little more evenly among people who are already comfortably off. More drastic measures could, of course, be adopted to share out existing wealth. In theory there could be a capital levy with the proceeds distributed evenly among the whole population. From a Socialist angle such policies have two drawbacks. First, in the early stages at least, simple redistribution after a capital levy—quite apart from the political objections—would almost certainly increase consumption and reduce saving. Secondly, although for the time being such a move would profoundly affect the class structure, if the economy continued to be conducted on the lines of private ownership and inheritance a new class structure based on property ownership would before long emerge.

While, therefore, there is much to be said for privately owned property being widely spread, it is certainly not along this path alone that we can proceed. The second course, a high proportion of publicly owned property—must also be adopted.

Alternative Forms of Public Ownership

As I have said this is not necessarily the same as nationalisation. There are several differences between them. Industries can be taken over and run by local authorities as well as by the nation through its central government, even if there are strict limits to the possibilities—especially with the existing structure of local government. But there is another and far more important distinction, which is especially important when the transfer to public ownership is gradual. The State may become the owner of industrial, commercial or agricultural property without necessarily exercising detailed control even over an individual firm—much less a whole industry. This can be done either by taking in death duties—not cash or bonds but equity shares and real estate—or, by using the proceeds of a budget surplus to purchase equity shares—or if political conditions allowed, by a capital levy which again could either be paid in shares or land and buildings, or if paid in cash could be used to purchase these assets.

One can envisage in this way a gradual extension of the public ownership of property, the income from which would be available for the community and which might itself for a time be set aside for further purchases. This could undoubtedly be carried through without a great extension of the list of nationalised industries. It would no doubt be necessary to set up one or two new public Corporations which would in effect be large investment trusts—not so different in their operation from the insurance companies or some other financial institution. But they would be owned by the whole community to which their profits would accrue, and their operation would be ultimately subject to ministerial control. How far they would exercise control over the companies in which they held shares is not a matter on which it would be wise to be dogmatic now. Although as the process continued the possibilities of control in this way would become greater, this would be—as it were—a by-product of the operation, the fundamental purpose of which would be to produce more social justice. Another incidental advantage of developing institutions of this kind would be to make available a plentiful supply of risk capital and to make it easier to stimulate more investment.

Mixed Enterprises?

Here, I must add, more direct action might be necessary, different from either the complete nationalisation of a whole industry or the mere acquisition of equity shares. Such action might include either the establishment of 100 per cent. State enterprises to carry out a project where private firms would not undertake the risk, or of some form of mixed enterprise involving a partnership between the State and private firms. There are other possibilities. One is the purchase by the State of certain selected firms and their

grouping together under a holding company to form a single efficient unit within an industry; another is the extension of the activities of the existing nationalised industries into other fields. For example, the Coal Board might follow the example of the Dutch State Mines and operate chemical plants.

There is no need to elaborate further. The differences between these various forms of State ownership and control are matters of degree only. The point is that we need not conceive of public ownership as always a matter of taking over a whole industry, making a structural change within that one industry and setting up a single large organisation, but as embracing also many other types of change: in some of these the State will be a passive and in others an active participant; in some, completely new public or semi-public enterprises will be launched; in others, existing firms may come into public ownership and management.

In this way over the years, while more industries may be nationalised as circumstances require—the decision depending on the kind of consideration put forward earlier in this pamphlet—we can envisage simultaneously the community becoming the owner, not of whole industries, but of many different shareholdings and other forms of property. It is already the owner of millions of houses, large forest areas, thousands of acres of land, valuable atomic energy plants, defence factories and dockyards and much besides, in addition to the nationalised industries. The Labour Party have proposed that it should also become the owner of some six million older rent-controlled tenanted houses. There is no reason why it should not become the owner of more and more industrial and commercial capital, replacing the passive shareholder, receiving dividends, and reaping the capital gains.

A New Alliance of Policies

The process of transition, during which the public ownership of property is thus gradually extended, will bring with it many difficulties, especially of fiscal policy. But as far as the working of the economy is concerned, the divorce of control from ownership in the private sector, and the change in the character of management will greatly facilitate progress on those lines. The fact that shareholders nowadays are purely passive and virtually without function, and that managements can manage without them so easily, means that the transfer of shares to public ownership will bring with it no serious administrative or economic problems comparable to those presented by the full nationalisation of a complete industry. If, as I believe, the major weaknesses of nationalisation be not the elimination of the profit incentive, but the creation of units which are too large to get the best response from those employed in them, and in the weakening of competitive attitudes in management, that is another argument for being careful about 'structural' changes which do just this. It is another argument for distinguishing between the transfer of land and capital to public ownership on the one hand, and the public control of management, industry by industry, on the other. Thus is the next phase, public ownership achieved by an alliance with fiscal policy, and not just nationalisation as conceived in these last twenty years, may well become a major instrument of Socialist policy.

*You have dis proved yourself in your own
Sweet "roundabout" over intellectual way,
the case E.G. M. J. L. J. J.*

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