WHERE DO WE GO FROM HERE?

MODERN socialism is confronted with an intellectual crisis summed up in the question: "Where do we go from here?"

Socialism was once very sure of itself. Everything was simple and straightforward. There was a world to be won. There were manifest injustices to be eradicated. There were glaring shortcomings in the capitalist system calling for correction. Moreover there was a well-defined programme of action to put everything to rights—the nationalisation of key industries, the planned economy, higher taxes, more social services and government hand-outs.

But most of these things have now been accomplished and the socialists are far from satisfied with the results. What has eventuated is apparently not socialism, but Welfare Capitalism and the true Socialist Commonwealth seems to be almost as far off as ever. People live in a world of semi-socialist externals, but they persist in acting and behaving like capitalists. What can be done now? The old socialist texts have little more to offer. The reservoir of ideas provided by the early
socialists has been drained dry and—to use the words of the socialists themselves—there is a "dangerous hiatus" in socialist thought and action.

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Outstanding among the early socialist thinkers were the Fabians who preached the philosophy of gradualism as opposed to revolution. "The Fabian Essays" which were published sixty years ago and which were edited by Bernard Shaw proved to be one of the epoch-making books of the century. It came to be the inspiration and the intellectual guide-book of the British Labour Party and of other socialist political movements throughout the world. The modern Welfare State can be partly attributed to the ideas of the Fabian thinkers, even if the actual results are not quite as they envisaged.

Some months ago in London the second series of Fabian essays were published.* This book attempts to answer, although hesitatingly and with a notable lack of self-assurance, the question confronting middle-twentieth century socialism: "Where do we go from here?" It is important because it should provide some indication of the direction which practical socialist policy could follow over the next two or three decades.

This collection of essays on different aspects of socialist philosophy is written by individual contributors, with one exception all members of the House of Commons. It is not altogether surprising, therefore, that there are notable variations in emphasis in the different contributions, although one would have thought that some effort would have been made to iron out the stark contradictions in which the book abounds. Yet out of it all emerges a common pattern of thought and a programme of action, the latter only vaguely defined.

What is the central purpose of the New Socialism as defined in this book? The whole emphasis is on equality, not merely equality of opportunity, nor only equality of income and wealth, but on social and psychological equality. The over-riding concern of modern socialism is with the creation of "the classless society," whereas the earlier Fabians were pre-occupied with the technical short-comings of the social and

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economic mechanism and the material hardships suffered by
those with meagre incomes.

As the authors rightly recognise, the sense of class re-
presents a much bigger force in the life of an old country
such as Britain than in that of new countries such as the
United States and Australia. "How deep this goes in Britain
can be seen by a comparison with other countries whose actual
degree of achieved equality is no greater (or is even less) than
our own but whose consciousness of equality and social solid-
arity is infinitely larger . . . The purpose of socialism is quite
simply to eradicate this sense of class and to create in its place
a sense of common interest and equal status."

Few people will deny that Britain would benefit from an
infusion of the social values and social mobility that exist in
the newer countries. The rigidity of the British class struc-
ture and the more or less tacit acceptance of class distinction
by quite a large proportion of the British people is undoubtedly
one of the most powerful influences working against the
achievement of maximum productivity in some industries and
the self-fulfilment of the individual. The drive and dynamic
energy and restless enterprise which characterize the American
economy would be difficult to emulate in an economy where
the barriers of class are so clearly drawn as in Britain.

But how many people would be prepared to go as far as
the Fabians in their demand for a society in which everyone
has the same economic and social status. Is such a society
conceivable? Does not the very fact that human beings are
all different, that they vary profoundly in their qualities,
tastes, aptitudes, abilities, capacity for work, mean that the
resulting society which they comprise will be profoundly un-
equal? Will not inequalities in talents and character inevitably
reflect themselves in inequality of achievement and of econo-
mic and social conditions? And, in any case, do people really
want a society in which all are equal, or do they want one in
which all have a reasonably equal start, a fair chance to make
the most of themselves?
But “equality of opportunity”, according to the modern Fabians, can be dangerous if it is permitted to work out its natural results. One of the dangers is that “the working class would be stripped of its talent”, presumably because the more able would move up the economic and social scale and there would be no one left to lead the socialist movement in its challenge to whatever order of things and whatever distribution of wealth happened to exist. Those gifted with special talents, with enterprise, with the love of hard work, thus, must expect to achieve no special rewards—at least not economic rewards—because of their gifts. Eventually all rewards must be equal—or nearly so. The socialists believe that “while no system of distribution will exactly equate reward with service, a nearly equal one comes much nearer to so doing than does a grossly unequal one”. This seems to be equivalent to saying that since a society which permits the existence of multi-millionaires is “grossly unequal”, the only solution is to make everybody’s reward the same. Surely there must be a large territory worthy of exploration between a “grossly unequal” system of rewards, and one of almost perfect equality of rewards. Is not the real task of social justice that of seeking a close equation between reward and service, and must this task be abandoned because it is impossible to reach an exact equation between reward and service?

One has only to cast his glance around the human scene to realise that an equal, or a nearly equal, system of rewards would be the very antithesis of social justice. Is the man prepared to work twelve hours a day to receive no larger slice of the cake than the man who prefers to work four? Is the young person who “scorns delights to live laborious days” in an effort to improve himself to gain no more than those who prefer the pleasures of self-indulgence? Is the person who prefers to save rather than spend not to be allowed to reap the benefits of his thrift? Has the man who attends night-school to acquire some special technical qualification or skill no more to look forward to than his brother who is content to plod along in an occupation requiring no training or acquired skill? Is the lively, enterprising, striving person to be placed on the same plane as the dull, the cautious, and the uninspired? For the socialists, and so far as economic rewards are concerned, the answer is apparently “yes”.
But this book is certainly right when it says: "Any egalitarian who believes that, in this country, the forces of history are working inexorably toward his goal is living in a fool’s paradise." For such is the nature of man that he would never accept such a travesty of social justice as a society in which everyone takes out of the pool of wealth a nearly equal amount irrespective of what he puts into it. Is the uniquely gifted surgeon, on whose skill hangs the issue of life and death, to receive no more than the orderly who hands him the scalpel? In this respect the New Socialism, as defined in these essays, seems to be closer to Marxism than to the socialism of their predecessors, the earlier Fabians. Bernard Shaw, at least, recognised the need for wide differentiation in incomes. So, incidentally, does Communist Russia!

It is rather strange that this attempt at defining the new Fabian socialism should place so much stress upon the equalisation of economic conditions: First, because so much has been done, especially in Britain, over the last decade in bringing about a more equal system of distribution; and, second, because of the astounding productive achievement of America under a system marked by so great a degree of inequality. In commenting upon, and no doubt deploring, the absence of a strong socialist movement in the United States, one of the essayists notes: "Areas of poverty still exist, but a survey of the whole scene shows a level of real wages which is incomparably the highest in the world and still increasing at a noticeable rate. While this continues to be the case, and while the door to individual promotion remains wide open, it is hard to conceive of the unions turning to bite the hand that feeds them so lavishly... Trade unionists are at one with businessmen in believing that mass production private capitalism offers the world's best answer to poverty and unrest—and believing, too, that it is a progressive and revolutionary system compared with many of the backward class-ridden regimes they find in Europe and elsewhere". Is the purpose of an economic system to make people contented and happy, or discontented so that the socialists will have some chance of being listened to?

How do the new Fabians propose to achieve their ideal of a society of equals, entirely devoid of class feeling?
There are to be three main lines of attack:

(a) The stiffer taxation of property.
(b) More public ownership.
(c) Complete freedom of entry, subject only to the possession of the necessary skill or ability, into all occupations.

The writers recognise that the weapon of income tax as a means of improving the conditions of the lower incomes has been almost exhausted. The amount now to be obtained by taxing further the incomes of the better-off is quantitatively insignificant. Moreover, "the working class is already paying for a large part of the social services which it enjoys and this will be still more the case with any further extension that takes place". These are interesting admissions. They do not mean, however, that socialist policy will not be directed toward a further evening-up of incomes. But this objective will now be pursued mainly through the taxation of capital by means of capital levies, capital gains taxes and higher estate duties aimed at the destruction of the source of property income. It is suggested that a limit should be placed on the size of fortunes that can be passed on after death, and, with almost complete arbitrariness, a figure of £25,000 is suggested—"the figure could not be much below £25,000 without giving rise to all sorts of complications with widows and others unable to support themselves, and not much above, if all are to work, at some stage in their lives, for their main support".

The need for more public ownership follows logically from the elimination of large fortunes "for it is idle to postulate an economy in which 70-80% of the enterprises remain under private ownership unless it is proposed to leave in existence the private aggregations of wealth which alone make such ownership possible". This, surely, entirely disregards the vast spread of company ownership under modern conditions, where the overwhelming preponderance of investors consist of people of comparatively modest means. It also ignores the increasing trend toward the mobilisation of small savings for industrial purposes through life insurance companies, pension funds and investment trusts.
But there is another important reason for more public ownership: that is, to promote greater equality in the scale of incomes earned before tax. At present the nationalised undertakings are compelled to pay very high salaries to top men in order to compete for their services with private industry. The public sector of industry must therefore be large enough to set the standard for the whole of industry, but the 20% of industry at present under public ownership cannot hope to do this. How large, then, must the public sector be? “No precise answer can be given, although . . . monopolistic concerns are generally assumed to be able to exercise price leadership when they control 40% of the market. But whatever may be the answer, whether it be 40% or 60% or 80%, socialist aims in this field cannot possibly be regarded as fulfilled until the figure has been reached.” Thus, no matter what the technical, administrative, or political drawbacks of public ownership, no matter what losses in efficiency may eventuate, no matter what inconvenience may be caused to the consuming public, all these sacrifices must, if necessary, be incurred to appease the great Socialist God of Equality.*

The third weapon of equality, full freedom of entry into all occupations has two main facets. The first is equality of educational opportunity, an aim with which few will disagree and one which is being strenuously pursued in all the major democratic countries including the capitalist United States where, incidentally, educational opportunities are more equal than anywhere else. The second is, to end, so far as possible, the curse of nepotism. This seems to be mere wishful thinking, an expression of a hopeless ideal, rather than a practical policy. The distribution of favours follows the distribution of power, and in the socialist society it may be the commissar’s son who gets the breaks instead of the boss’s nephew. According to this book the capitalists have already surrendered a large part of their power to the state, to their own managers and to the trade unions. “The President of the National Union of Mineworkers is already more powerful than any six capitalists”—a striking admission.

* Here it should be noted that the socialists have shifted their ground on the reasons for public ownership. Nationalisation has previously been proposed as a means of promoting greater efficiency and improving industrial relations, although its record in these fields is not promising. (See the article by Oscar Hobson on page 23). Now it is to be chiefly an instrument for achieving an egalitarian society.
The authors of this book are much exercised by what has been called the "managerial revolution" and the new alignment of power in the hands of a small managerial elite in industry and the public service. The capitalist has had his wings clipped, but other birds have taken his place on the heights he has been forced to vacate. Perfect equality cannot be achieved while such a concentration of power remains. "The main task of socialism today is to distribute responsibility and so enlarge freedom of choice."

How is this to be achieved? "... there must exist some process by which all those employed in an industry are able to participate in policy decisions, either through directly elected representatives on the board or through a system of joint consultation with considerable powers." If everyone in an organisation is to have some say in policy decisions the question arises whether it would be possible to reach a decision at all. Would anything ever be done? In any case can it be seriously suggested that matters of policy involving complex technical, commercial and financial problems can be properly decided by a system which approaches the principle of a popular vote? Or do these decisions require special knowledge and experience which the great majority cannot expect to possess? Certainly the mere election of employee representatives on the board, whatever advantages it might have, would not satisfy the requirement of popular participation. Do, for instance, electors really feel that they "participate" in the decisions made by governments after they have elected them to power? In these days even back-bench politicians constantly complain that they exert little influence on Cabinet decisions. And how much influence has the rank-and-file trade unionist on the policy followed by his union?

The weakness with this book—as indeed it has always been the weakness of the socialist philosophy—lies in the idea that some more or less cut-and-dried form of society can be evolved where everyone will accept the same set of values—the socialist set—where everyone will think more or less alike—at least on economic questions—where human beings will be prepared to perform economic tasks for non-economic returns, and where people will sink self entirely and accept the impossible requirements of perfect co-operation. Such a
society would demand a complete transformation in the nature of man. But is there anything at all in the whole of human history to warrant belief that men can be made to act in the way the socialist would have him act? How stupid, for instance, to imagine that human beings will never desire to bestow favours on those of their own blood or on those for whom they conceive a special liking! Or that those who run the fastest will not feel themselves entitled to the largest prizes? Or that men will incur the risks inseparable from progress unless they can see some gain for themselves by so doing? Under the socialist scheme, the oil would still be lying undiscovered beneath the ground at Exmouth Gulf and the manufacture of the all-Australian car would probably never have been attempted.

In any case is it desirable that human beings should be compressed into a common mould where everyone thinks alike, accepts the same standards and values, and lives in much the same kind of house, on the same sized plot of land, with much the same furniture? Yet this is what the socialism of the new Fabians comes perilously close to meaning.

The anti-Socialists can at least take comfort in the assurance that such a society will never come into being simply because it is totally out of harmony with the fundamental nature and constitution of man. "No means will ever be found to induce human beings finally to surrender themselves, either body or soul, to a dictated felicity, to satisfactions chosen for them, whatever vulgar Caesars rule the world. And upon this rock all forms of regimentation, of standardised existence, will eventually shipwreck."

* MacNelle Dixon, "The Human Situation".
IF THERE WERE AN AMERICAN RECESSION!*

WHAT would be the effect on the sterling area countries, and more particularly on Australia, of an economic slump in the United States?

The asking of this question does not imply a prediction. On a matter upon which such wide differences of view exist among authorities in the United States itself, the I.P.A. would be foolish to express an opinion which, from this distance, could at best be only partly informed. There is already a mild business downturn. Unemployment has increased over recent months to a figure of around 3,700,000 or 6% of total employment; industrial production has also fallen slightly. It is impossible to say how far this downturn will go. It may not go very far. On the other hand it could conceivably develop into a real economic recession. This possibility is being so extensively canvassed throughout the world that some discussion—broad though it must be—of the impact of an American recession on the sterling area and on the Australian economy should be of interest, and may be of some educational value.

In the event of an American recession, would the Australian economy be seriously affected, and, if so, how?

We should be clear in our minds about the word “recession.” The distinction which the economist draws between “recession” and “depression” is not mere professional affectation, a distinction made with the perverse intention of confusing the uninitiated. It is of very real scientific importance and practical utility and must be understood before any intelligent discussion of the subject is possible.

“Depression” means economic collapse—large-scale unemployment, widespread business losses and bankruptcies, unsaleable surpluses, idle plants, a general loss of confidence in the future. This was what happened in the Great Depression of 1929-33. But few people imagine that a recurrence of these conditions in the America of today is at all likely.

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* Some will already claim that there is a recession in the U.S.A. In the precise meaning of the word “recession” that is true. However, we prefer to reserve the term “recession” for a decline in economic activity of reasonably substantial proportions—say where unemployment is of the order of 8% to 10%. It is in that sense that the term is used in this article.
If depression, then, can be taken to mean a critical economic illness, recession is no more than a temporary indisposition. It can be as mild and as short-lived as a bilious attack or as uncomfortable and prolonged as a persistent winter cold. It is a recession that is feared in America today. *Hardly anyone expects the abundantly robust economy of the United States to become, all of a sudden, dangerously ill.* Those who have been predicting a recession in the U.S. almost invariably mean a more or less moderate decline from a level of economic activity which, for the past two or three years, has been approaching boom proportions. There would be some unemployment, although in total it should stop far short of being disastrous; some businesses and some industries would experience difficulties; adjustments would be necessary in various parts of the economy; but in general business would continue to be reasonably active. On the whole, the United States, judged by pre-war standards, would continue to enjoy a state of more than ordinary prosperity.

Clearly, then, a recession, if it comes, should not be a very serious thing for the American people—although it could have grave political implications for the administration at Washington. But, if past experience is any guide, what might be quite a small set-back in the United States could have far-reaching effects on the rest of the world and particularly on the sterling area countries.

In 1938 the gross national product of the United States fell by 4%. But this comparatively small drop resulted in a very large reduction in American demand for the products of other countries. The total value of American imports fell by 36%, imports from Britain fell by 41%, and purchases from the overseas sterling area by 50%. Even the "pause" in American expansion in 1949 (it was not much more than that, as production merely steadied and there was even a slight increase in personal consumption) had a startling effect on American demand for sterling area products. Imports from the United Kingdom dropped by over 20% and from the overseas sterling countries by 15%. Admittedly the recession
of 1938 and the pause of 1949 were of comparatively brief duration, but it does not necessarily follow that a rapid recovery can always be expected. As a matter of interest, during the Great Depression of 1929-33, imports from the United Kingdom were cut by 77% and from the overseas sterling area by 81%; in other words the dollar market for the sterling area nearly vanished altogether.

The evidence of the past then all strongly suggests that the sterling countries are dangerously sensitive to any decline in the level of American economic activity.

It seems certain, then, that the sterling area would not remain unaffected by a recession in the United States. It would be affected in two main ways:

First, the dollar earnings of the sterling countries would fall, and if the recession were deep or prolonged, the fall could be considerable. Under these conditions, and in the absence of special measures of financial assistance, countries such as Britain and Australia would have no alternative but to intensify their already severe restrictions on dollar imports. The scarcity of dollar goods would become more pronounced and economic development in Australia and other countries would be slowed down. The slow march toward the goal of sterling convertibility would be put into reverse, and if the American recession were a large one sterling could be confronted with its gravest dollar crisis since World War II.

Secondly, the decline in business in America would be transmitted to other countries. Recession in America would slow down the tempo of world economic activity. On some countries, such as Malaya, whose economy is highly dependent on the American market, the effect could be particularly serious. In other countries, such as the United Kingdom, where dollar exports are a relatively small part of total export trade, the direct effects would be more difficult to assess. The loss of dollar earnings and the consequent restrictions on imports of dollar goods could give rise to shortages of raw materials and to localised unemployment in industries depending on those materials.
But the U.K. would probably be most seriously affected by the loss of income in those countries with whom she trades and on whom she depends for vital exports. These losses of income would arise from the effects of a fall in American demand on the volume of trade and world prices of basic commodities and manufactured goods. World demand and prices over a wide range of internationally traded goods would certainly decline.

The U.S.A. is the major customer for many of the world's raw materials. She consumes 62% of the world's rubber, 20% of the wool, 30% of the cotton, 52% of the tin, 53% of the zinc and 56% of the manganese.

To take an example close to home, let us assume that, as a consequence of American recession, there was a material decline in wool prices. As easily the most important influence on Australia's external trade this would lead to a substantial reduction in Australia's overseas income. Faced with an adverse balance of payments, Australia would be forced to cut its spending abroad. This would react seriously on Australian demand for British exports and for the exports of other countries which have to be paid for in sterling. The American recession would thus be transmitted to Britain by an indirect route, even on the assumption there was no large reduction in the American market for British manufactured goods—which, almost certainly, there would be.

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WHAT of Australia? The loss of export income would tend to set in motion the classical pattern of business recession in Australia. Internal spending would be cut back, overseas reserves would fall, the banking position would become tighter, business would take a more cautious view of its programmes of capital development. If the loss of export income were of large proportions, some unemployment would probably be unavoidable. Undoubtedly modern anti-recession measures in the monetary, fiscal and public works fields would be put in train and it would be hoped that these steps would moderate the secondary consequences of the loss of export
income. But the effectiveness of such measures would certainly be reduced by the high level of internal costs, which, in an environment of falling world prices, might prove to be seriously uneconomic.

It is, perhaps, not well known that of all basic commodities wool has been the most sensitive to changes in business conditions in the United States. This is shown in a massive study of sterling area trade carried out by the Economic Co-operation Administration in 1951. After one year of recession in the three periods from 1929 to 1930, 1937 to 1938, and 1948 to 1949, the average decline in the value of American imports of wool from the overseas sterling area was 54%. This was a greater fall than that shown by any other basic material. Imports of rubber declined by 44%, tin by 26%, jute by 27%, cocoa by 50%. The average for all commodities was 34%. After three years of depression during the Great Depression the value of American imports of wool had dropped by 91%. The sensitivity of wool to American recession is partly explained by the fact that a large proportion of the wool consumed in the United States is produced domestically, and in conditions of declining business the home-grown product tends to displace imported wool. Since wool is a commodity marked by extremely inelastic conditions of supply, the surplus that cannot be placed on the American market is diverted to other markets with a depressing influence on prices. In the 1929 Depression wool prices fell by about 60% and in the recession of 1938 by about 37%.

There are some reasons for thinking that an American recession at present might have a much smaller effect than past recessions on American demand for main sterling area commodities such as wool, rubber and tin. This is possible. Over the last eighteen months American imports of wool have been much below previous levels, despite the existence of near-boom conditions, and prices for sterling commodities, such as rubber and tin, are already very low. For instance, U.S. imports of sterling wool in 1953 were only 50% of those in 1952 and 75% of the boom year 1951. It has been suggested that American imports in quantity would be unlikely to fall much further even in the event of recession.
There is one force on the debit side whose strength cannot be mathematically computed or even vaguely estimated—that is, the psychological effect on the rest of the world of a recession in the United States. If the predominant and by far the most robust economy in the world began to suffer from a mild economic indisposition, other much weaker and more dependent countries would begin to fear that they might soon have to take to their beds. The mental climate would not be conducive to the enterprise and boldness upon which the continuance of a high level of activity depends.

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In conclusion, it needs to be re-emphasised that this article makes no forecast of what will happen in the United States. There has already been a slight contraction of business activity although this is yet some way from being sufficiently great to be called a recession. From this distance it is impossible to say whether this mild downward movement will shortly halt or whether it will continue and business conditions grow worse. One factor should not be overlooked. Both in economic understanding and in international sentiment the America of today is very different from isolationist pre-war America. There is a real awareness in top government and business circles of American responsibilities for under-writing economic stability in the rest of the free world.

*In this regard a view expressed as late as March 16th by Dr. Arthur F. Burns, Chairman of the Presidents' Council of Economic Advisers is of interest.

"Let me say, first of all, that economic activity, taken in the aggregate, has declined since last July, and that unemployment has developed in different localities. The nation, taken as a whole, nevertheless continues to enjoy a high degree of prosperity. The dollar value of the output of all goods and services is only 3% less than in the all-time record quarter of 1953.

"The decline of personal incomes has been even smaller. The volume of purchasing by consumers and by government is close to recent peak levels. So, too, are the expenditures of business firms for new plant, machinery, and equipment. Businessmen, however, are no longer spending substantial sums on adding to their inventories, as they did six or nine months earlier. Indeed, business sales are not outrunning production. In the process, inventories are being brought into better alignment with current sales and a foundation is being laid for a new economic advance.

"Stock prices, which reflect the prevailing state of business sentiment, are appreciably higher today than last July, when business was at its peak. Commodity prices, on the average, have remained virtually unchanged since then. The privately held money supply is larger. Business failures have declined in the last two or three months; while contracts for construction, which have been consistently high, have recently risen further.

"In view of these and related developments it seems reasonable to expect that our economy will weather its present difficulties successfully and that the economic advance of our nation will soon be resumed."
HIRE-PURCHASE

NOT so many years ago time-payment finance was surrounded by an aura of dubious respectability. But the entry of the Commonwealth Bank and of two of Australia's leading trading banks into the field of hire-purchase—a territory they have been studiously careful to avoid—indicates that it has now become an indispensable and respectable part of the modern machinery of credit. The well-publicised activities of several large companies specialising in this form of finance have recently focussed public attention on the vast scale which it has assumed. It has penetrated more deeply into the fabric of the business structure than is generally appreciated and is widely used, not only by ordinary wage and salary earners, but also by farmers and small businessmen for the purchase of capital equipment.

In its broadest sense time-payment may be said to cover all credit extended by financial institutions and retailers under which the purchase price of goods sold (including interest) is repaid in instalments over a period. The predominant form of this type of finance is hire-purchase—indeed, time-payment, in the trade meaning of the term, is now mainly confined to clothing, furniture and drapery.

In the popular mind, hire-purchase is usually associated with the purchase of consumer goods such as motor cars for private use, radios, refrigerators and a wide range of personal and household commodities. But producers' goods are of equal importance—motor trucks and buses, farm implements and tractors, industrial plant, commercial refrigerators and motor cars used for business purposes, all come within the scope of hire-purchase.*

History:

(i) U.S.A.:

The roots of instalment finance go right back to the beginning of the last century to the difficulties experienced by the American furniture trade—one of the first handicraft industries to turn to factory production—in disposing of its output. “Time to pay” was the obvious answer to creating a mass market for furniture among the lower income groups. Later instalment credit spread to such diverse fields as sewing machines and encyclopaedias. Initially financed by the sellers, it was not until 1905 that the now familiar finance corporation made its appearance and assumed responsibility for the financial burden of instalment purchase transactions.

The really big break for hire-purchase came with the cheapening of the motor car before World War I when the manufacturers, like their predecessors in the furniture trade, began to switch from custom-built products for cash patrons to assembly line output for the masses. The selling emphasis changed from the accumulated past savings of the buyer to his future potential income. A great range of electrical appliances and wireless sets was added to hire-purchase facilities in the 1920’s. By

*The purchase of a house on terms is not regarded as instalment credit.
1929, two out of every three cars in U.S.A. were sold on terms, and instalment credit for consumer goods, including cars, had reached 3½ billion dollars, an amount equal to about 4% of the total of all personal incomes.

The trend of instalment credit in U.S.A. follows closely the level of expenditure on durable goods. It fell away sharply during the depression with the collapse of the durable goods market and only regained pre-depression proportions in the early years of the war before Pearl Harbour. After Pearl Harbour factories were diverted to war production and hire-purchase terms were tightened. From a new peak of 6% of personal income in 1941, instalment credit dropped to 1½% by 1945. After the war it took five years to get back to 1941 levels; goods were scarce and people were able to pay cash from pent-up savings. Then came the Korean War and hire-purchase curbs were imposed as a counter to inflation. These restrictions were removed in May, 1952, and a sharp upward burst in spending has taken the level of instalment credit to just short of 8% of personal income. Some down-turn is now anticipated because of a slackening in sales of motor cars and durable goods.

(ii) United Kingdom:

Little data is available on the extent of hire-purchase in the United Kingdom. Before World War II the British Hire-Purchase Traders’ Association estimated that 4 million agreements were being entered into annually and that instalment agreements accounted for half of all sales of cars and furniture. The war was even more severe on hire-purchase activities in United Kingdom than in U.S.A. But it has staged a remarkable recovery in the last three or four years; 75-80% of all furniture sales in United Kingdom are now financed by instalment credit and about half of all radio sales and a third of sales of television sets. However, the absence of any great volume of motor car sales on the domestic market has severely restricted the extent of hire-purchase finance in Britain as compared with U.S.A. Also manufacturers and bankers, unlike their American counterparts, appear to have been slower to cultivate the mass market, and this in itself has narrowed the influence of hire-purchase in the United Kingdom.

(iii) Australia:

Hire-purchase credit facilities have been long-established features of retail trade in Australia, particularly in furniture and pianos. The subsequent trend followed the American pattern—rapid expansion during the motor car and electrical appliances boom of the '20's; stagnation in the '30's; a short-lived recovery followed by war-time frustration. However, after the war, as goods became available, hire-purchase finance was rapidly extended to the limits set by controls over bank advances and capital issues. In Australia today about 30% of cars, 50% of furniture and 60% of refrigerators are sold on terms. With the complete removal of capital issues controls, and modifications in bank advance policy, ample funds are becoming available to meet hire-purchase demands.
The Structure of Hire-Purchase Finance in Australia

Following the American pattern, responsibility for the financing of instalment purchase in Australia has largely passed from the trader selling the goods to an intermediary known as a finance, discount, acceptance or credit house. This organisation finances the transaction principally by either discounting the note signed by the purchaser or by paying off the seller and directly contracting with the purchaser for repayment. According to a survey conducted in 1950/51 by Professor Arndt, of Canberra University College, and his colleague, Mr. Shrapnel, the Commonwealth Bank and nine large finance companies accounted for 51% of all hire-purchase and time-payment transactions; 27% went to a number of smaller finance concerns; and 18% to department stores, car dealers and other retailers conducting their own instalment credit business. The remaining 4% largely consisted of instalment terms extended by gas and electricity undertakings on sales of stoves, refrigerators and other appliances.

The Commonwealth Bank, which has been financing hire-purchase by industrial users since 1945, wrote business during 1952/53 amounting to £15 million to 23,000 hirers covering a broad range of industry. A large proportion of hirers were primary producers buying tractors and farm machinery. So far only two trading banks have interested themselves directly in hire-purchase. One bank has established a special department whilst the other has acquired a substantial shareholding in a recently floated finance company with the object of facilitating provision of hire-purchase at its branches throughout Australia. This contrasts with U.S.A. where over 40% of all instalment credit is handled by the commercial banks. Interest charges on hire-purchase agreements vary widely according to the status of the lender or the nature of the article. Lowest rates are on new cars and trucks—4½% on the initial debt by the Commonwealth Bank and 6½% by the larger finance companies. As the debt is reduced, the interest is still payable on the original amount and consequently the actual rate rises progressively.

Instalment Credit in U.S.A. and Australia:

Some conception of the magnitude of instalment credit in Australia may be gained by comparing it with the birth-place and largest user of hire-purchase, the U.S.A. However, because of the lack of comprehensive statistical information on hire-purchase in Australia, any comparisons must necessarily be of the crude variety.

U.S. data is available for instalment debt outstanding on consumer goods, but no statistics can be found for producer goods. Similar estimates for Australia, excluding producer goods, have been compiled from a variety of sources. The comparison is set out on the opposite page.

For obvious reasons the magnitude of instalment credit extended on motor cars is very much greater in the United States than in Australia (3.6% of personal income in the U.S.A. as against 0.8% in Australia). However, with other consumer goods the discrepancy is not nearly so marked (figures for 1953—U.S.A. 2.0%, Australia 1.4%) and indeed,
## HIRE PURCHASE DEBT OUTSTANDING ON CARS AND OTHER GOODS PURCHASED FOR PERSONAL USE IN U.S.A. AND AUSTRALIA

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>30th June 1945</th>
<th>1951</th>
<th>31st December 1953</th>
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</thead>
<tbody>
<tr>
<td><strong>U.S.A.—Billion Dollars</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cars</td>
<td>1.5</td>
<td>0.5</td>
<td>6.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>1.6</td>
<td>0.8</td>
<td>4.3</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3.1</td>
<td>1.3</td>
<td>10.6</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Australia—Million Pounds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cars</td>
<td>4.1</td>
<td>0.1</td>
<td>20.8</td>
<td>30</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>8.0</td>
<td>3.7</td>
<td>33.7</td>
<td>50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>12.1</td>
<td>3.8</td>
<td>54.5</td>
<td>80</td>
</tr>
<tr>
<td><strong>U.S.A.—Percentage Personal Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cars</td>
<td>2.1</td>
<td>0.3</td>
<td>2.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>2.2</td>
<td>0.5</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4.3</td>
<td>0.8</td>
<td>4.2</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Australia—Percentage Personal Income</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cars</td>
<td>0.6</td>
<td>—</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Other Consumer Goods</td>
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<td>0.3</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1.7</td>
<td>0.3</td>
<td>1.9</td>
<td>2.2</td>
</tr>
</tbody>
</table>

**Sources**—U.S.A.: Federal Reserve Bulletin. The figures are not comparable with earlier data quoted in this article since repair and modernization loans and personal loans are excluded. The data on cars may be slightly overstated relative to Australia because of the inclusion of personal loans on the security of cars under this heading in the U.S. figures. It is not possible to ascertain to what extent Australian banks find money for this purpose.


As the table shows, has been greatly narrowed since before the war.

A great deal of caution is necessary in interpreting these figures. It should not, for instance, be assumed that because the U.S. proportion is substantially greater than Australia there is considerable scope for the extension of hire-purchase in this country. The fact that in America per capita incomes (in real purchasing power) are over twice as high as in Australia, means that the average American is able to apply a higher proportion of his income to purchases on time-payment without crossing the line of financial prudence. For example, if we take the average income of the ordinary American worker as $30 a week (after tax) and he applies 10% to time-payment purchases, he still has $27 to use for his other needs. On the other hand, if an Australian with an average income of say $15 were to apply 10% to time-payment purchases, the balance remaining for his other needs would be only £13/10/-.

In short, a country with a high standard of living can afford to devote a greater proportion of its income to hire-purchase transactions than can one with a lower standard. U.S.A. has 59 radio sets and 28 motor cars per 100 people as against 29 radio sets and 12 motor cars for every...
100 people in Australia. So long as this discrepancy in living standards persists, Australia can never be as fertile a field as the United States for hire-purchase transactions.

Hire-Purchase Finance and the General Credit Structure:

Hire-purchase companies obtain their funds from mortgage and short-run debenture loans, capital subscribed by shareholders and ploughed-back profits, and bank overdrafts. In the post-war period the banks provided about 50% to 60% of the lending resources of the larger finance companies. But recently, as capital issues controls have been relaxed, some effort has been made to shift more of the burden on to the shareholders and the investment market. 3% secured notes, redeemable at three-monthly intervals, have become a popular method of raising finance.

In common with British banks, Australian trading banks have, in the past, been most cautious about entering directly into the hire-purchase field. This is in contrast to the United States. The interest of U.S. commercial banks in hire-purchase transactions was initially confined to lenders such as Giannini's Bank of America—now the world's largest bank—and the multitude of small local banks in American cities and towns. However, since the war, much of the hostility in traditional banking circles has waned and commercial banks today account directly for over 40% of all hire-purchase finance, compared with only 20% in 1939.

It is, of course, unavoidable that some bank credit will eventually find its way into the hire-purchase field. During the post-war period Australian banks, while not lending directly for hire-purchase, were, in fact, devoting a considerable volume of funds to this form of finance through advances to finance companies and retailers. With the easing of controls over bank lending it was more or less inevitable that the banks should consider more direct participation in the hire-purchase sphere.

Advantages and Disadvantages:

Hire-purchase obviously leads to expanded business turnovers and thus to greater employment opportunities. By widening the range and class of buyers, instalment credit facilitates volume production of costly articles and hence may mean lower costs and improvements in quality. During their visits to America the British Productivity Teams discovered that instalment purchase tends to promote harder work by employees. American workers realise that with a little extra effort the dazzling appliances in the shops can be brought within the reach of the weekly pay envelope. The high standard of living of the average American is undoubtedly promoted by the fact that instalment buying enables and encourages him to buy the things he wants. Hire-purchase has also a special value for the smaller businessman as he is able to obtain capital for his business that would not be possible under ordinary overdraft conditions.

All forms of credit, however, should be used with circumspection, both by lender and borrower. In prosperous times hire-purchase could conceivably encourage the expansion of retailers' sales and of manufacturers' output to a boom level which
could prove a serious embarrassment should economic conditions change for the worse. It is in the interests of lenders—and it is also their responsibility—to keep an eye on the future and not to encourage unwise borrowing. Difficulties would clearly arise if consumers committed too great a proportion of their incomes to purchases on credit. By mortgaging their future earnings they run the risk of financial embarrassment in the event of illness, cessation of overtime earnings or loss of employment. Hire-purchase will continue to enjoy a good repute only so long as these principles are observed.

The spectacular growth in hire-purchase and time-payment in Australia over the last two years needs careful watching. While the proportion of instalment credit sales to total sales in department stores in the United States has fallen since 1950, in Australia it has grown rapidly. Before the war, Australia was a long way behind the United States, but we have now caught up, and, if the present trend continues, it appears that we may even shoot ahead. Greatly increased costs, combined with price control and sluggish stock turnovers have, it is true, forced the hand of Australian retailers. Various time-payment devices have been installed in order to boost sales. But with the sharpening of competition a few firms are breaking the golden rule that the first or deposit payment should be sufficiently substantial to make the hirer feel that the article is in fact his—even though it may not be legally. Firms indulging in this kind of business will, of course, have only themselves to blame if they incur subsequent losses.

Hire-purchase credit is a natural response to modern economic processes and, if rightly administered, contributes to the national good. But its inherent dangers should not be overlooked. It thrives on a rising level of incomes and its accompaniment, a low rate of repossession. Whether or not present trends in hire-purchase are to be regarded as healthy depends on one's estimate of the future level of incomes in Australia. If incomes do not continue to rise then sooner or later the upward trend in hire-purchase and time-payment facilities must come to an abrupt halt.
Documentary Films...

Over the past year, the Institute's 16 m.m. films were lent to close on 200 organisations throughout Australia—schools, universities, business concerns, church groups, associations and government departments. Thousands of people in all walks of life have seen our I.P.A. films and we feel that they are making an important contribution towards better economic understanding.

The following films have been widely screened:

"CAN WE BE RICH?"—an excellent British productivity film.
"PRODUCTIVITY—KEY TO PLENTY"—an American film with a world reputation.
"OVER TO YOU"—the British Hosiery Industry team's visit to U.S.A.
"MONEY AT WORK"—from the New York Stock Exchange.
"WHAT MAKES US TICK?"—from the New York Stock Exchange.
"THE ETERNAL FOREST"—from Australian Paper Manufacturers Limited.
"THE TREE OF LIFE"—from Lever Associated Enterprises Pty. Ltd.

We have recently added the following films to our library:

"PRODUCING FOR DEFENCE"—an Encyclopaedia Britannica film discussion on the all-important subject of productivity, between four famous personalities, including Paul Hoffman.
"IN BALANCE"—a film on the function of profits, by Burroughs Corporation, U.S.A.
"BUILDING FRIENDS FOR BUSINESS"—by Swift & Co., U.S.A.
"JOB FOR JOHNNY"—a British Iron and Steel Federation film dealing with apprenticeships.
"THERE'S MORE TO IT THAN THAT"—from The Goodyear Tyre and Rubber Company (Australia) Limited.
"POINT OF NO RETURN"—from Aims of Industry Ltd., London.

The Institute will be very pleased to make available any of these films free of charge to interested organisations desirous of screening them.

The services of Moviesound, 43 Hardware Street, Melbourne (MU 1100), are available to firms and organisations which need an operator and projection equipment.
The Nationalised Industries in Britain
by
Oscar Hobson
Financial Editor
"News Chronicle", London

The author of this article is regarded as the doyen of British financial writers. He has given outstanding service to economic journalism in Britain through his gift for picking promising newcomers to this sphere and by subjecting them to a rigorous, exacting, but highly successful apprenticeship. There is scarcely a leading financial journalist in Britain today who does not come from the Hobson stable.

As a commentator on economic affairs no man in Britain cuts through cant more decisively or exposes "woolly economics" with greater verve. A member of a renowned Cambridge family, Mr. Oscar Hobson has succeeded admirably in the difficult task of marrying sound, pure economics to daily journalism.

In this article, written for "Review" at our request, he gives a learned and significant appraisal of the working of the nationalised industries in Britain, clearly a subject of the greatest importance.

SIX major British industries were nationalised by the Labour Governments of 1945 and 1950. They were coal mining (vested 1st January, 1946), railways and long distance road haulage (1st January, 1948), electricity supply and distribution (1st April, 1948), gas (1st May, 1949), and iron and steel (15th February, 1951). In addition, the first Labour Government transferred the Bank of England to State ownership on 1st March, 1946, and the international telecommunication system of Cable and Wireless on 1st January, 1947. The two air transport organisations of British Overseas Airways and British European
Airways are also State-owned, but the former corporation was established by a Conservative Government in 1940 (being a lineal descendant of two companies in which the State had a share interest) while the British European Airways, for which the 1945 Labour Government was responsible, was in effect an offshoot of British Overseas Airways. The pre-war Conservative Government also compulsorily acquired for the State the ownership of the country's coal—it nationalised the coal "royalties".

Thus both the two major political parties have had a hand in the nationalisation of industry in Britain. The difference in standpoint between them is that the Conservative party has resorted to nationalisation only when more or less driven to it while the Labour Party has pursued it as a deliberate policy, though it would be difficult to define the precise content of the policy. If they had been returned to office in 1945 the Conservatives might well have nationalised coal mining. They would probably not have nationalised any of the others, not even the railways. On the other hand, since returning to office, they have made no attempt to undo their predecessors' work in respect of any of these industries, except steel and road transport. By the Transport Act (1953) they have broken the monopoly of long-distance transport, by selling back to private enterprise part of the haulage undertakings previously expropriated and by rescinding the distance restriction on private road haulage. By the Iron and Steel Act they have provided for the restoration to private ownership of the steel firms whose capital the Labour Government had transferred to a State-owned corporation. The Iron and Steel Corporation had, however, been prevented by the Labour defeat in the General Election of 1951, from proceeding to unify the industry or break down the autonomy of the separate companies, so that steel nationalisation never became functionally effective.

So much for the pattern and political background of nationalisation in Britain. It will be seen that only one manufacturing industry—iron and steel—has been involved, and in this case experience of nationalised working was so short and incomplete that no lessons can be drawn from it. The other industries concerned are public services of a semi-monopoly character—the purist might demur to the inclusion of coal mining, an extractive industry, in that classification but that is hardly more than an academic point.

What we have to consider, therefore, is the performance of State-owned corporations of the public service type, working under conditions of near monopoly and certainly not of free competition. It is convenient to follow historic precedent and divide the subject into three parts. These present themselves as (1) finance, (2) organisation and technical efficiency, and (3) the human factor.

Finance.

I begin, therefore, with the financial achievements of the nationalised corporations, which will be found to be pretty sombre. But before getting to grips with the subject there are two things which ought to be said by way of prelude. The first is that practically the whole of the period covered by the financial ac-
counts so far available has been a period of inflation and rising costs and prices. In the seven years mid-1946 to mid-1953, wholesale prices rose by about 88 per cent. and retail prices by about 52 per cent. Such periods are notoriously difficult for enterprises of the public service type, which find it hard or indeed impossible to adjust their charges promptly to the rising scale of their costs. To this extent the transport, electricity and gas undertakings, at least, have had the financial scales weighted against them since they were nationalised. The second thing to be said is this, that though the Acts of Parliament establishing them have all laid on the corporations the duty of earning revenue to balance expenditure over a period (“taking one year with another” is the phrase used), the general climate of opinion prevailing when they started was rather sceptical of the conventional financial tests of private business. Railways, gas and electricity services, coal supplies, it was widely said and more widely believed, are essential public services, are the handmaids of industry, and it does not matter all that much whether they make a profit or not.

In point of fact, the only nationalised board which has consistently made a satisfactory surplus has been the strictly non-industrial one, the Bank of England. All the others have either made losses or have shown surpluses of somewhat doubtful validity and tending to decline in amount. Even the industries—electricity, gas, road transport—for whose products there is an expanding demand, have not in State ownership proved genuinely “profitable”. The evidence for these conclusions will be found in the tabular statements of results from vesting data on the seven nationalised undertakings other than the Bank and the now defunct Iron and Steel Corporation, which appear on pages 31-32.

It will be seen that the National Coal Board, the British Transport Commission and the two Airways Corporations have made losses in most years and all of them have large cumulative deficits against them. The Electricity and Gas Councils have surpluses to their credit as has also the Cable and Wireless undertaking. In relation to the capital employed the surpluses are, however, not large. In 1952/53, the B.E.A. had a surplus of only £7 millions on a capital account of around £1,000 millions and a turnover of £290 millions. The Gas Council had a surplus of only £5 millions on a capital account of £450 millions and a turnover of £160 millions. Moreover, these and the other nationalised industries have all come off lightly by comparison with private industry in the matter of taxation, as will be seen from the fact that with the exception of the N.C.B. (which in three of its six years suffered profits tax, to an aggregate of £8 millions) and a few of the Gas areas, the boards have virtually escaped profits tax. Private industry would, in like case, have been liable to much larger imposts, if only because it could not have set off the losses made by the unsuccessful companies against the profits made by the successful ones—which is what the nationalised boards have in effect been able to do.

Taken together, the seven public corporations show a cumulative loss for the three to seven years of State ownership of just on £60 millions. This loss would have been very much
greater had the corporations followed a stricter policy as regards depreciation allowances. All of them have been content with the "historical cost" basis, which though universally practised by private industry before the war and still adopted by the Inland Revenue for tax relief purposes, is now generally recognised to be quite inadequate under the conditions of rising replacement costs in which we have lived since 1939.

Several of the boards acknowledge this in effect. The British Transport Commission stated in its 1951 Annual Report that it intended as and when earnings became available to make allocations to a Replacement Reserve towards meeting the amount by which the current cost of replacement exceeds the gross book values upon which depreciation provision has been calculated. And it went on to say that for the year 1951, £16 millions would have been the appropriate sum to be set aside for that purpose. In fact, the commission provided in 1951 £2,800,000 as its annual provision under the Transport Act 1947 for "redemption of capital". This sum can be regarded as a contribution towards the replacement provision referred to by the Commission, but it is, of course, only a small one.

The British Electricity Authority and the Gas Council have also made references to depreciation policy in recent reports. The B.E.A. says that it and its constituent Area Boards propose to continue to provide depreciation on the historical cost system but to apply revenue surpluses to the creation of reserves which will be available to help in the financing of replacement of assets. This procedure — which, roughly speaking, is that pursued by private industry— involves of course the establishment of adequate revenue surpluses and that the B.E.A. has so far failed to achieve.

The British Gas Council for its part appointed a special committee to consider the problem. This committee failed to reach agreement but the Council admitted that the fixed assets have to be replaced "at a cost several times their present book values" and that the increased cost can come only "by charging customers higher prices for gas or by raising fresh capital".

This remark goes to the root of the whole problem. There may be, and are, differences of opinion among accountants on the principles of providing for depreciation of wasting assets but economically the matter is plain enough. If an undertaking does not provide year by year out of profits proper allocations for meeting the cost of replacement it has to come upon the community for fresh capital when the replacements need to be made. If it does not charge its customers higher prices, so in effect compelling them to save for the replacement of its assets, it must later dip into the savings of the community for that purpose.

In post-war Britain savings have been notoriously insufficient for the modernisation and extension of industry and it is, therefore, quite a serious matter that these great nationalised industries (comprising together not a great deal short of 10 per cent. of the whole of British industry) should be making these annual drafts on the free savings of the community. This they are enabled to do in virtue of their ease of access to the gilt-edged market.
of the Stock Exchange, where their loans have the hallmark of an unconditional Exchequer guarantee.

The Electricity Authority and (in somewhat less degree) the Gas Council have been particularly favoured in this respect, the railways on the other hand being treated as the Cinderella to their two sisters of the public utility service. Thus the latest National Income Blue Book tells us that in 1952 “gross capital formation” by the electricity industry amounted to £162 millions, by gas to £47 millions and by the railways to £42 millions and by road transport to around £38 millions. To many people it must seem a curiosity of “planning” that electricity should be able to claim twice as much new capital as road and rail transport together, and gas to have been allocated more than railways. It is hardly surprising in the circumstances that these corporations should not treat the establishment of a strong financial position as a matter of urgent need and that some gas area boards should actually be reducing their selling prices in face of still rising costs.

Technical Efficiency and Organisation.

It is impossible in these circumstances to pass a favourable judgment on the financial conduct of the nationalised industries up to date. But what about their technical achievements and the benefits of consolidation and integration? One would certainly not wish to deny that both the achievements and the benefits have been considerable. The executives have striven, zealously and devotedly, to increase the functional efficiency of their undertakings. Coal, transport, electricity and gas boards can all report substantial improvements in their key operating statistics. The Coal Board has raised its output per man-year from 266 to 299 tons since it started operations—albeit that the improvement, achieved with the assistance of heavy expenditure on mechanisation, still leaves output per man no better than in the best pre-war years. The Transport Commission can claim to have saved £15 millions by standardisation of rolling stock, track and materials and to have increased by 30 per cent. above pre-war its key operational test “net ton-miles per total engine hour in service”. The Electricity Authority and the Gas Council can each of them point to improvements in thermal efficiency—though, here, too, with the aid of extensive new generating plant.

The fact, of course, is that divorced from the financial plane of reference, tests of functional efficiency mean very little. Given adequate capital there is no great difficulty about increasing output per man-hour or the mechanical efficiency of equipment. There would indeed be room for despair if the great outpouring of new capital in the mines and gas and electricity undertakings had brought no improvement in technical efficiency. The railways, it is true, have, as I have said, been much less favoured in the matter of new capital. From that point of view their operational performance may be judged particularly meritorious, though they have had a special advantage in the abolition during the war of the traditional but incredibly inefficient system under which millions of railway goods wagons were owned by private traders to whom they had always to
be returned irrespective of the convenience of the service as a whole or the interest of the general railway-using public.

In achieving such improvements of efficiency as they have achieved, the nationalised industries, it may be said, have also had the advantages of large-scale operation and unified administration. It is a question—one of the two or three crucial questions posed by our experience of State-owned industry—how much these much-vaunted assets have been really worth. Obviously they have been worth something. Central buying, central selling, standardisation of materials and methods have yielded substantial economies. What is not certain is whether these economies have not been bought at too high a price. In launching the early nationalisations the Labour Government was dominated by a capitalist and an anti-capitalist idea—the strength of monopoly and the viciousness of competition. Private monopoly was anathema but public monopoly could do no wrong. Competition was wasteful and a survival from the ethics of the jungle. Therefore, there must be complete unification and complete centralisation of administration in the nationalised industries.

It is now almost universally agreed that unification and centralisation were carried to quite extravagant lengths in the early nationalisations. With coal and transport not only was excessive power focussed in the central boards in London but a paralysing form of "functional" control was adopted. Full-time members of the National Coal Board were each charged with responsibility for a particular "function" (e.g., production, labour, finance) of the undertaking. Members of the divisional boards had the same functional responsibilities laid on them. The officers lower down in the organisation in charge of the particular function reported to the divisional functional member and through him to the N.C.B. functional member. A similar system prevailed in the Railway Executive. The officer in charge of "operations" in each Region, for example, was responsible both to his Chief Regional Officer (and through him to the Railway Executive in its corporate capacity) and to the "operations" member of the Executive. The result was a confusion and conflict of authority which created endless friction and frustration. In the case of the railways there was an added source of trouble. The Labour Government in its anxiety to produce an "integrated" system of transport embracing railways, roads, canals and harbours, devised the plan of a two-tier supreme command. At the very top was the British Transport Commission charged with this "integration" duty and with the responsibilities (e.g., finance, charges) which subserved it directly. Below it, but not appointed by it, were Executives, which were not mere management committees but corporate bodies with corporate responsibilities for the conduct of their branch of the whole transport system.

Attempts have been and are now being made to overcome the grievous damage caused by this initial over-centralisation. The "functional" set-up of the Coal Board was abandoned after resignations by the members concerned. The transport organisation, and in particular the
Railway administration, is in process of being remodelled under the Transport Act 1953.

It still remains to be seen whether a workable system can be evolved. The complete monopoly of transport enacted by the Labour Government has been destroyed by the prospective partial return of road haulage to private enterprise while, on the other hand, the railways are being given greater freedom for adjustment of charges. A partial return to competitive conditions is thus in prospect.

One is not inclined to indulge in excessive hopes of the outcome. The weaknesses which have disclosed themselves in at least the larger nationalised boards are not confined to mere faults in the blue-prints of administrative and departmental arrangement. They go deeper than that.

There is, it would seem, a lack of the right spirit needed to produce really successful organisations. There is too much of the Civil Service attitude and too little of the business mentality. In saying this I am quite aware that I enter a domain of bitter controversy. No one in his senses would deny that the administrators of the nationalised industries are animated by motives of service, industry, loyalty and disinterestedness. **Those are high qualities but without the overriding and compelling urge to attain financial balance — genuine balance — of income and outgo they are not enough.**

For lack of that urge the boards have developed into overgrown “empires” of officials anxious indeed to serve the public but, nevertheless, indisposed to take even justifiable risks and playing for their own safety—if only because in most cases their members would find it hard to secure comparable alternative employment. This is one of the less publicised troubles of monopoly.

**Labour Relations.**

But it is not merely on the administrative side that the State-owned industries have shown weaknesses. Even greater weaknesses have developed on the labour side. Experience on that side has caused great disappointment to Left-wing idealists who had found the most cogent reason for supporting State ownership in their belief that it would both confer on the workers benefits which they could not get from private industry and evoke from them in return a spirit of cooperation and responsibility which they could not be expected to show to employers working for their private profit. From being a “wage slave” the worker would become a partner, a joint owner, in nationalised industry. He would “have a say” in its management. He would draw better wages since the industries would not need to earn profits but merely a low rate of interest on their capital. In return he would render better service and this again would inure to his material advantage.

It has not worked out that way. That has been candidly admitted by many leading Labour politicians. The average worker in the nationalised industries does not feel that his status has in any way changed. He does not work any better, but probably not as well. He is not more contented but less. One prominent Trade Union leader has gone so far as to say that nationalisation has
brought the workers nothing but "frustration and bitterness". That may be an exaggeration but there is little evidence to show that it is. There have almost certainly been more labour disputes and unrest in nationalised than in unnationalised industry. In the eight years of State ownership of the collieries there has been no single week in which output has not been lost through disputes and restrictions. Absenteeism in the mines is double what it was before the war. The fact that the railwaymen are co-owners of the railways with the rest of the public did not prevent them from threatening to strike in Christmas week, 1953, if the Transport Commission did not grant them a bigger increase in wages than the legally constituted Arbitration Tribunal had awarded them.

But has nationalisation then brought the workers higher standards of living than they would have enjoyed had their industries remained in private ownership? Even that is not certain. It is true that the pistol held by the railwaymen at the nation's head last Christmas had the desired effect. Under pressure by the politicians the railway authorities yielded, just as three years previously they had yielded under similar pressure from the opposite party. And it is true that the miners have won back their lead in the wage list which they held before the First World War but lost between the two wars.

Nevertheless, it is not clear that either miners or railwaymen have fared appreciably better than they would have done under private ownership. The miners have done well because the demand for coal has been consistently keen; the railwaymen, who are still among the relatively low wage workers, have done indifferently because rail transport is in slack demand and because there is an over-supply of railway workers. In both cases the paramount factor has been economics.

Nationalisation of industry in Britain has, by and large, been a failure. It has revealed all the defects forecast by its opponents. It has not yielded the benefits hoped for by its supporters. Labour opinion is now veering against further nationalisations and in favour of alternative methods of State control of industry. Nevertheless, there is no effective public opinion in favour of denationalising the coal mines or rail, gas and electricity services. What has to be done with these undertakings, therefore, is to correct so far as possible the initial defects of organisation and to counter so far as possible the bad inherent tendencies which have revealed themselves. There must be decentralisation, devolution of authority, increased scope for enterprise and initiative at the lower levels. But, more important and much more difficult, something must be done to stiffen the financial fibre of the nationalised undertakings. There must be an infusion of the commercial spirit. The financial tests must be made stricter. There should be no insuperable political difficulties about reform in these directions. Some Labour students of these affairs, at any rate, have shown that they agree on its necessity. There still remains the greatest difficulty
of all, the inability of Governments to refrain from interfering with the nationalised boards when votes are involved. In the case of the railways it has happened constantly under both parties. There has been "intervention" to prevent charges from being increased and to compel wages to be increased—with a consequent widening of the deficit. Until in the fulness of time Parliament can be brought to see that nationalised industry deficits have the same effect for the community as budget deficits and that its real responsibility is the same in both cases, it is not easy to see what can be done about this.

## OPERATING RESULTS

of Nationalised Industries in Britain

### NATIONAL COAL BOARD

<table>
<thead>
<tr>
<th></th>
<th>1947</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from sales, etc.</td>
<td>371.0</td>
<td>457.2</td>
<td>478.4</td>
<td>481.0</td>
<td>541.1</td>
<td>635.7</td>
</tr>
<tr>
<td>Colliery Profits (or Losses)</td>
<td>-9.2</td>
<td>16.2</td>
<td>29.4</td>
<td>24.2</td>
<td>21.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Total Profit—before tax and interest</td>
<td>-8.2</td>
<td>17.3</td>
<td>26.2</td>
<td>25.3</td>
<td>14.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Profits tax</td>
<td>—</td>
<td>—</td>
<td>3.5</td>
<td>2.5</td>
<td>2.0</td>
<td>—</td>
</tr>
<tr>
<td>Interest and interim income payable to Minister of Fuel and Power</td>
<td>15.1</td>
<td>15.6</td>
<td>13.2</td>
<td>14.5</td>
<td>14.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Surplus or deficiency</td>
<td>-23.3</td>
<td>1.7</td>
<td>9.5</td>
<td>8.3</td>
<td>-1.8*</td>
<td>-8.2†</td>
</tr>
<tr>
<td>Cumulative deficiency‡</td>
<td>-23.5</td>
<td>-21.8</td>
<td>-12.3</td>
<td>-4.0</td>
<td>-5.8</td>
<td>-14.0</td>
</tr>
</tbody>
</table>

* Deficiency includes £5.5 m. loss on imported coal.
† Including £1.2 m. loss on imported coal.
‡ Including £0.2 m. from 1946.

### BRITISH TRANSPORT COMMISSION WORKING RESULTS

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Surplus</td>
<td>45.2</td>
<td>31.3</td>
<td>40.0</td>
<td>49.1</td>
<td>55.7</td>
<td>221.3</td>
</tr>
<tr>
<td>Central Charge (interest and administration etc.)</td>
<td>46.9</td>
<td>48.6</td>
<td>49.8</td>
<td>46.2</td>
<td>47.3</td>
<td>238.8</td>
</tr>
<tr>
<td>Deficit or surplus</td>
<td>-1.7</td>
<td>-17.3</td>
<td>-9.8</td>
<td>+2.9</td>
<td>+8.4</td>
<td>-17.5</td>
</tr>
<tr>
<td>Capital redemption and special items</td>
<td>3.0</td>
<td>3.5</td>
<td>4.3</td>
<td>2.8</td>
<td>3.9</td>
<td>17.5</td>
</tr>
<tr>
<td>Balance on net Revenue Account</td>
<td>-4.7</td>
<td>-20.8</td>
<td>-14.1</td>
<td>+0.1</td>
<td>+4.5</td>
<td>-35.0</td>
</tr>
</tbody>
</table>
The Nationalised Industries in Britain (continued)

<table>
<thead>
<tr>
<th>BRITISH ELECTRICITY AUTHORITY</th>
<th>1947/9</th>
<th>1949/50</th>
<th>1950/1</th>
<th>1951/2</th>
<th>1952/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading surplus, etc.</td>
<td>21.4</td>
<td>25.7</td>
<td>28.0</td>
<td>27.0</td>
<td>37.2</td>
</tr>
<tr>
<td>Interest, etc.</td>
<td>17.0</td>
<td>18.5</td>
<td>21.4</td>
<td>24.1</td>
<td>29.9</td>
</tr>
<tr>
<td>Profits Tax</td>
<td>—</td>
<td>—</td>
<td>.25</td>
<td>—</td>
<td>.25</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>4.4</td>
<td>7.2</td>
<td>6.3</td>
<td>2.9</td>
<td>7.3</td>
</tr>
<tr>
<td>Cumulative Surplus</td>
<td>4.4</td>
<td>11.6</td>
<td>17.9</td>
<td>20.8</td>
<td>28.1</td>
</tr>
</tbody>
</table>

* Credit.

<table>
<thead>
<tr>
<th>GAS COUNCIL AND AREA BOARDS</th>
<th>1949/50*</th>
<th>1950/1</th>
<th>1951/2</th>
<th>1952/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas sales</td>
<td>111.4</td>
<td>133.3</td>
<td>147.6</td>
<td>164.0</td>
</tr>
<tr>
<td>Surplus before tax and interest</td>
<td>8.6</td>
<td>11.8</td>
<td>13.9</td>
<td>17.7</td>
</tr>
<tr>
<td>Interest, etc.</td>
<td>7.9</td>
<td>8.9</td>
<td>10.5</td>
<td>12.4</td>
</tr>
<tr>
<td>Tax</td>
<td>.5</td>
<td>1.1</td>
<td>1.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Central Guarantee Fund</td>
<td>.2</td>
<td>.3</td>
<td>.5</td>
<td>.5</td>
</tr>
<tr>
<td>Net Surplus</td>
<td>—</td>
<td>1.9†</td>
<td>1.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Cumulative surplus</td>
<td>—</td>
<td>1.9</td>
<td>3.3</td>
<td>5.6</td>
</tr>
</tbody>
</table>

* 11 months to March 31, 1950.
† Including £400,000 attributable to 1949/50.

<table>
<thead>
<tr>
<th>BRITISH OVERSEAS AIRWAYS</th>
<th>1947</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or loss</td>
<td>-7.3</td>
<td>-6.4</td>
<td>-7.3</td>
<td>-6.9</td>
<td>-3.6</td>
<td>+1.2</td>
</tr>
<tr>
<td>Interest charges</td>
<td>.3</td>
<td>.5</td>
<td>.5</td>
<td>.9</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Net surplus or deficit</td>
<td>-8.1</td>
<td>-7.1</td>
<td>-7.8</td>
<td>-7.8</td>
<td>-4.6</td>
<td>+.3</td>
</tr>
<tr>
<td>Cumulative loss</td>
<td>8.1</td>
<td>15.2</td>
<td>23.0</td>
<td>30.8</td>
<td>35.4</td>
<td>35.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BRITISH EUROPEAN AIRWAYS CORPORATION</th>
<th>1947*</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Loss</td>
<td>2.1</td>
<td>3.3</td>
<td>2.5</td>
<td>1.2</td>
<td>.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Net interest charges</td>
<td>—</td>
<td>—</td>
<td>.1</td>
<td>.2</td>
<td>.2</td>
<td>.2</td>
</tr>
<tr>
<td>Net loss</td>
<td>2.2</td>
<td>3.6</td>
<td>2.8</td>
<td>1.4</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Cumulative loss</td>
<td>2.2</td>
<td>5.8</td>
<td>8.6</td>
<td>10.0</td>
<td>11.0</td>
<td>12.4</td>
</tr>
</tbody>
</table>

* 8 months only.

<table>
<thead>
<tr>
<th>CABLE AND WIRELESS</th>
<th>1947</th>
<th>1948</th>
<th>1949-50*</th>
<th>1951</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Taxation</td>
<td>.9</td>
<td>.9</td>
<td>.8</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Net Profit</td>
<td>.8</td>
<td>.8</td>
<td>1.1</td>
<td>.3</td>
<td>.5</td>
</tr>
<tr>
<td>Cumulative Profit</td>
<td>.8</td>
<td>1.6</td>
<td>2.7</td>
<td>3.5</td>
<td>4.0</td>
</tr>
</tbody>
</table>

* 15 months.