The Nationalised Industries in Britain

by

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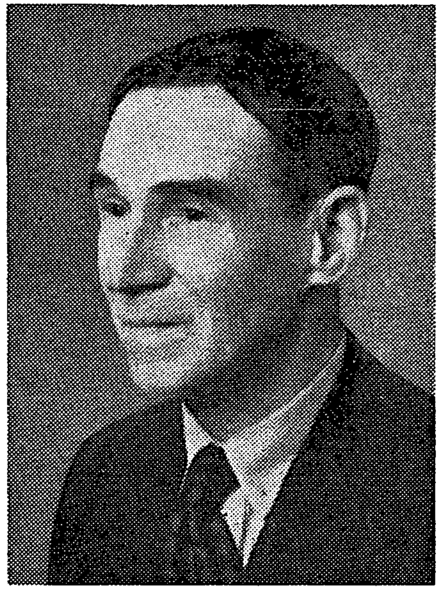

The author of this article is regarded as the doyen of British financial writers. He has given outstanding service to economic journalism in Britain through his gift for picking promising newcomers to this sphere and by subjecting them to a rigorous, exacting, but highly successful apprenticeship. There 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 accounts 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 hall-mark 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, zealousy 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 administrational 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 co-operation 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

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

* 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

	1948	1949	1950	1951	1952	Total
				(£ Millions)		
Working Surplus	45.2	31.3	40.0	49.1	55.7	221.3
Central Charge (interest and administration etc.).	46.9	48.6	49.8	46.2	47.3	238.8
Deficit or surplus	—1.7	—17.3	—9.8	+2.9	+8.4	—17.5
Capital redemption and special items	3.0	3.5	4.3	2.8	3.9	17.5
Balance on net Revenue Account	—4.7	—20.8	—14.1	+0.1	+4.5	—35.0

BRITISH ELECTRICITY AUTHORITY

	1947/9	1949/50	1950/1	1951/2	1952/3
			(£ Millions)		
Trading surplus, etc.	21.4	25.7	28.0	27.0	37.2
Interest, etc.	17.0	18.5	21.4	24.1	29.9
Profits Tax	—	—	.25	—	.25*
Net Surplus	4.4	7.2	6.3	2.9	7.3
Cumulative Surplus	4.4	11.6	17.9	20.8	28.1

* Credit.

GAS COUNCIL AND AREA BOARDS

	1949/50*	1950/1	1951/2	1952/3
		(£ Millions)		
Gas sales	111.4	133.3	147.6	164.0
Surplus before tax and interest	8.6	11.8	13.9	17.7
Interest, etc.	7.9	8.9	10.5	12.4
Tax	.5	1.1	1.4	2.5
Central Guarantee Fund	.2	.3	.5	.5
Net Surplus	—	1.9†	1.4	2.3
Cumulative surplus	—	1.9	3.3	5.6

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

BRITISH OVERSEAS AIRWAYS

	1947	1948	1949	1950	1951	1952
			(£ Millions)			
Profit or loss	—7.3	—6.4	—7.3	—6.9	—3.6	+1.2
Interest charges	.3	.5	.5	.9	1.0	1.0
Net surplus or deficit	—8.1	—7.1	—7.8	—7.8	—4.6	+.3
Cumulative loss	8.1	15.2	23.0	30.8	35.4	35.1

BRITISH EUROPEAN AIRWAYS CORPORATION

	1947*	1948	1949	1950	1951	1952
				(£ Millions)		
Operating Loss	2.1	3.3	2.5	1.2	.8	1.2
Net interest charges	—	—	.1	.2	.2	.2
Net loss	2.2	3.6	2.8	1.4	1.0	1.4
Cumulative loss	2.2	5.8	8.6	10.0	11.0	12.4

* 8 months only.

CABLE AND WIRELESS

	1947	1948	1949-50*	1951	1952
			(£ Millions)		
Profit before tax	1.7	1.7	1.9	2.2	1.5
Taxation	.9	.9	.8	1.4	1.0
Net Profit	.8	.8	1.1	.8	.5
Cumulative Profit	.8	1.6	2.7	3.5	4.0

* 15 months.