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# The Development and Impact of Nationalisation in Britain

by Hildegard Waschke, Köln \*

**The relationship between Government and economy, the best obtainable pattern of public and private sectors in market economies, is an issue of constant interest for economists and politicians of the Western world. Can nationalisation of industries, i. e. the alteration or termination of control or ownership of private property by the state, improve the economic situation of a country and its workers and consumers? Here is a survey on the more than thirty years' development and impact of nationalisation in Great Britain.**

Mainly five factors led to the mid-twentieth-century political situation which shaped industrial nationalisation in Britain<sup>1</sup>:

□ The rise of *consumers' cooperatives* since the middle of the nineteenth century. However, though the consumers could have small capital holdings, their control over the management of these societies derived entirely from the fact of membership. With the twentieth century the limitations of this approach became apparent. It was predominantly based on retailing. The system could make no impact on the basic industries or on the risky expanding manufacturing business.

□ The *foundation of the Labour Party* by a group of trade unions and socialist societies in 1900 aimed at securing representation of the workers in Parliament. Clause IV (4) of the 1918 party constitution (as last revised in 1974) states as the Party objects "to secure for the workers by hand or brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange and the best obtainable system of popular administration and control of each industry or service". The Labour Party's election programme of 1918, "Labour and the new Social Order", already contained far-reaching proposals for public ownership: land was to be taken into common ownership gradually; coal, railways and electricity were to be nationalised; industrial and life insurance were to be taken over, monopoly industries were to be nationalised when convenient.

□ The *ideas of workers' control* (on the Continent known as syndicalism) were advocated in England in the form of guild socialism, i.e. a system whereby each industry was owned and controlled by a workers' guild. Direction would have been in the hands of elected workers' representatives and of Government nominees charged with protecting the consumers. Although guild socialism as such faded quickly after World War I (due to its impracticable institutional proposals), the ideas of workers' control or participation persisted among some trade unionists.

□ The *need for national economic planning* by central authorities (as distinct from piecemeal Government intervention) was derived from the publication of J. M. Keynes' "General Theory of Employment, Interest and Money" (1936). The Socialists believed that Keynesian planning reinforced their case for public ownership in industry.

□ Even important *Non-Socialists advocated nationalisation* of particular industries or services. Gladstone nationalised telegraphs as early as 1869, Joseph Chamberlain promoted municipal enterprise in Birmingham, and Winston Churchill declared in 1918 the nationalisation of railways as his Government's policy.

Although in 1924 and 1929 the Labour Party succeeded in forming Governments, it could not secure a large majority in the House of Com-

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<sup>1</sup> Leonard Tivey, *Nationalisation in British Industry*, London 1966, pp. 18 ff.

mons and, therefore, at that time, was not in a position to implement its nationalisation plans. The situation changed when after World War II in 1945 a Labour Government took office for the first time with a parliamentary majority. The first branches to be nationalised in 1946 were civil aviation (British European Airways and British Overseas Airways) and the Bank of England. In the industrial sector the most significant step was the nationalisation of the coalmining industry in January, 1947. There had been a long history of bad labour relations, and much of the industry was out-of-date, so that public opinion was in favour of nationalisation. The Labour Party, therefore, regarded coalmining as an experiment for demonstrating the advantages of nationalisation. Between 1946 and 1951 coal output, indeed, increased from 181 million tons to 212 million tons. However, in 1939 the coal output by private owners had been still higher (231 million tons)<sup>2</sup>. Moreover, after ten years of nationalisation the overall deficit of coalmining was just as high as before (23 million £).

In June 1947 Cable and Wireless was taken over, and the Transport Act, 1947 (effective January 1948) nationalised the transport of persons and goods by road, rail and canal. The gigantic British Transport Commission with its six Executives (Railways Executive, Road Haulage Executive, Road Passenger Executive, Docks and Inland Waterways Executive, Hotels Executive and London Transport Executive) launched a vast and novel experiment in trying to bring about the integration of the country's transport by minimising competition between the different forms of transport (particularly between road haulage and the railways) — and by 1950 had already incurred a deficit of 40 million £. In 1951 a reorganisation brought about a balanced financial situation, road haulage had to make up for the losses of obsolete railways.

After denationalisation of long-distance road haulage by the Conservatives in 1953/54, the average annual deficit of the British Transport Commission in the next four years amounted to about 100 million £. The Conservatives, therefore, (though retaining public ownership except for a part of road haulage) by the Transport Act 1962, reintroduced the idea of competition and abolished the central British Transport Commission.

Labour nationalised electricity in April 1948 and gas in May 1949 on technical and organisational grounds. Nationalisation here proved successful and economic.

In February 1951, by the end of the first Labour Government the iron and steel industry was nationalised for clearly ideological reasons, for this

industry had been progressive and efficient, its labour relations were good, and there had been no official inquiry (as in coalmining) recommending reorganisation. The main argument by the Labour Government in this case was that public ownership was necessary to compel the industry to follow a policy in the national interest<sup>3</sup>.

In 1953 the Conservatives passed an Iron and Steel Act providing for the denationalisation of the iron and steel industry. But after it had returned to office in 1964, the Labour Party prepared new nationalisation which was carried through by the Iron and Steel Act, 1967. When in 1970 the Conservatives again formed the Government, this time only parts of the industry (stainless steel, steel construction, some smaller steel works) were denationalised, the steel producing industry remained under public ownership.

### Organisational Structure

The nationalisation of industries raises questions of legal status and organisational structure. In postwar-Britain nationalisation of an industry usually did not mean its takeover by a government department and its civil servants. Rather a single general organisation was set up for each industry. The special form given to most of the British nationalised industries was that of a public corporation. Such a corporation has no shares and no shareholders, either public or private. It is normally created by a special law defining its powers, prescribing its form of management and specifying its relationships with governmental authorities. The public corporation is responsible to the relevant Minister who as administrative body in charge of affairs appoints a Board, sometimes called Commission, Council or Authority. The appointment of their members by the Minister on the advice of the Government indicates the political foundations of the boards' authority and provides important means of government control. The chairmen and deputy-chairmen, too, are appointed by the Minister and not by their fellow-members on the boards. There are some statutory qualifications for membership, which, however, normally are very wide. For the National Coal Board, for instance, the Minister may appoint "persons appearing to him to be qualified as having had experience of, and having shown capacity in, industrial, commercial or financial matters, applied science, administration or the organisation of workers"<sup>4</sup>. Similar formulas are

<sup>2</sup> Ernest Davies, *Problems of Public Ownership*, London 1952, p. 35.

<sup>3</sup> R. Kelf-Cohen, *Nationalisation in Britain*, Second Edition, London 1961, p. 145.

<sup>4</sup> Coal Industry Nationalisation Act, 1946, 9 and 10 Gew. 6 Chap. 59, Selection 2 (3).

applied to the other nationalised industries. The term "organisation of workers" emphasises the right of trade unionists to serve on the boards (although the unions as such cannot claim to have particular persons put on the boards). Appointments are made for a limited period (usually 5 years). Although reappointments are possible, the insecurity of board posts (especially in the case of disagreement with the Minister) was often criticized. The relevant Minister can often exercise an informal influence on the board's decisions that exceeds the scope of his formal powers.

The question of the proper salaries for board members was fairly difficult, too, because the corporations are both public services and industrial concerns and because there is usually considerable disparity of salaries between these two activities. Although a Labour Party publication in 1957<sup>5</sup> stated that "the salaries paid should not be markedly less than those for similar jobs in private business", they clearly were not of this order in general, and it was consequently often difficult to recruit high-quality persons especially for the boards' chairmen.

### Financial Problems

As to the financial affairs of the nationalised industries, it should be borne in mind, that there are special rules about financial behaviours. Although the public corporation is financed by treasury appropriations, treasury loans or treasury-guaranteed fixed interest securities (as distinct from the shares in private industry) it meets its current costs from the sale of its goods and services, makes normal commercial provision for depreciation and reserves, and may be authorized to reinvest its profits. Its budget, however, is separate from the state budget.

When the surpluses or losses of nationalised industries are considered, the method of calculation should be taken into consideration. Compensation stocks are a statutory charge on the corporations, and the cost of capital borrowing is a regular fixed charge on earnings (whereas in private industry dividends are usually distributed from profits, i.e. are a residual reward and not considered as costs).

The sums required for compensation payments were considerable: transport £ 1,217 mn, electricity £ 540 mn, coal £ 388 mn, gas £ 265 mn, iron and steel £ 244 mn<sup>6</sup>. Moreover, the balancing of the revenue account in a nationalised industry is not simply a problem of equating revenue with costs. The normal commercial con-

siderations involved in making prices cover costs (or of keeping costs of production within the limits set by prices) may be overlaid by political and social considerations or by the more complicated problems of "fitting industry to the strait-jacket of economic planning"<sup>7</sup>.

Political, not economic aspects are decisive for investment priorities and pricing policy. Large investment programmes and borrowings for financing investment as well as changes in price levels require approval by the Government. The inability of the nationalised industries to finance themselves, i.e. the frequently incurred deficits, are a major problem of government finance. "Whether the money is raised by taxation or by borrowing", an expert stated, "it has to be funded from the private sector which has to provide a sufficient surplus from which the taxes can be raised or a surplus of savings from which the loans can be made"<sup>8</sup>.

### New Approach to Nationalisation

As the failure to win elections in 1951, 1955 and 1959 was largely due to voters' disappointment concerning the nationalisation experiments<sup>9</sup> (in view of their organisational and financial problems and their insufficient consideration of consumer interests) the Labour Party in opposition periods published a series of programmatic papers concerning nationalisation aspects and procedures. The left wing of the Party, in the fifties inspired by Aneurin Bevan, was pressing for radical politics, i.e. extended nationalisation of entire industries, whereas the right, revisionist wing around Hugh Gaitskell advocated a mixed economy with public ownership only when necessary in the interest of the general public. Gradually, instead of nationalising further entire industries, the takeover (into public ownership) of individual firms and public shareholding in private companies was advocated.

In 1957 Labour's policy statement "Industry and Society" stressed the need for a variety of forms of public ownership. It required (p. 57) that public ownership might be extended "in any industry or part of industry which, after thorough enquiry, is found to be seriously failing the nation. This will not necessarily mean taking over an entire industry; it may be that the solution will lie in the acquisition for the community of one or a number of firms". The State should also participate in expansion and development by providing equity

<sup>6</sup> R. Kelf-Cohen, *Twenty years of Nationalisation. The British Experience*, London 1969, p. 197.

<sup>7</sup> W. Thornhill, *The Nationalised Industries*, London 1968, p. 116.

<sup>8</sup> R. Kelf-Cohen, *op. cit.*, p. 214.

<sup>9</sup> cf. Mark Abrams, *Why Labour Lost Elections. Public Ownership. Socialist Commentary and Forward*, London, June 1960, pp. 8 ff.

<sup>5</sup> *Public Enterprise, Labour's Review of the Nationalised Industries*, London, July 1957, p. 27.

capital, i.e. by making investments that receive a share of profits (instead of only providing fixed-interest loans) for new or existing enterprises. "In this way", this policy statement said (p.58), "the fruits of any enterprise would be shared by the community through an extension of public ownership."

In 1960 (after the election defeat of 1959) the Labour Party stated that "it is convinced that its social and economic objectives can be achieved only through an expansion of common ownership substantial enough to give the community power over the commanding heights of the economy. Common ownership takes varying forms, including state-owned industries and firms, producer and consumer cooperation, municipal ownership and public participation in private concerns. Recognising that both public and private enterprise have a place in the economy it believes that further extension of common ownership should be decided from time to time in the light of these objectives and according to circumstances, with due regard for the views of the workers and consumers concerned"<sup>10</sup>.

Labour's programme for the 1964 election (in which the party gained a majority of 4 seats in the House of Commons), "The New Britain", did not contain the concepts of nationalisation or socialisation. It only mentioned that the public sector would make a vital contribution to the national plan. Apart from the renationalisation of steel, additional full public ownership was only claimed for the water supply industry. Labour's election manifesto 1966, "Time for Decision" (which resulted in a majority of 97 seats in the House of Commons), again did not proclaim further nationalisations. Thus, during the Labour Government period 1964-1970 only steel was renationalised.

### Future Aims

In June 1973 (when Labour after its election defeat of 1970 was in opposition) the Labour Party published a comprehensive long-term policy document called "Labour's Programme for Britain" which aims at a fundamental shift in the balance of power and wealth in an attempt to establish "a new social order". According to this document Labour's "prime candidates for nationalisation" are (apart from renationalisation of road haulage) the docks, North Sea gas and oil, the aircraft industry, ship building and ship repairing, pharmaceuticals, banks and insurance companies. An Industry Act should entitle a future Labour Government to form a state-owned National Enterprise Board<sup>11</sup> with a base in existing state share-

holdings such as BP, Rolls-Royce, and Short Brothers and a substantial addition of companies from the private sector.

The February 1974<sup>12</sup> Labour Party manifesto "Let Us Work Together, Labour's Way out of the Crisis" on the whole repeated the nationalisation aims stated in the long-term programme, however stated the decision in the field of banking, insurance and building societies as "still under consideration". When Labour surprisingly won a majority but not an absolute one, Harold Wilson's minority government refrained from directly proclaiming nationalisation aims. The August 1974 White Paper "The Regeneration of British Industry" stressed the necessity of both an efficient public sector and a vigorous, alert, responsible and profitable private sector of industry. Nationalisation was proposed for docks, aircraft and shipbuilding, an extension of public ownership for road haulage and building. For important enterprises in key sectors of the metal working industries planning agreements and a National Enterprise Board with power to inject cash into private industry in exchange for a share in the equity and thus a say in the management. Eventual compulsory nationalisation should require a decision by Parliament, the criteria for compulsory nationalisations being the impending danger of a foreign control, the necessity of stimulating competition or the necessary reorganisation of a company in regions of a high degree of unemployment.

After the Labour Party had gained an absolute majority in the October 1974 elections, the planned Industry Act was passed in November 1975. It established a system of voluntary "planning agreements", by which companies which submit to a degree of Government direction will receive guarantees about future levels of regional aid. Moreover, the proposed National Enterprise Board was set up to buy its way into some of the profitable and expanding areas of private enterprise. Thus Labour is beginning a new road to the "commanding heights" of British industry.

In 1975 the Labour Government also passed a Community Land Act under which the authorities are empowered to acquire land for "relevant" development by agreement or by compulsion.

### The 1976/77 Situation

In March 1976 the National Enterprise Board (NEB) was put on par with private industry when the Department of Industry published guidelines<sup>13</sup> for this state holding company. These

<sup>10</sup> Labour's Aims, London, March 1960, section j.

<sup>11</sup> An idea already contained in the 1957 "Industry and Society" and the 1961 "Signposts for the Sixties" Labour publications.

<sup>12</sup> The Conservative Prime Minister, Edward Heath, aspiring a majority for his anti-inflation policy, had called for premature elections.

<sup>13</sup> Full text in the Financial Times, London, March 2, 1976, pp. 21 ff.

guidelines insist that the NEB companies be run on purely commercial lines, i.e. will have the same opportunities and obligations as private sector companies and fairly compete with them. The NEB can be directed to help a company in financial difficulties for reasons of employment or industrial Government policy. It will then be reimbursed by the Government which means that in the end the taxpayer has to bear the burden. Thus several ailing firms were taken over by the NEB at high costs (e.g. British Leyland £ 1.4 bn, Ferranti £ 15 mn, Alfred Herbert £ 26 mn, International Computers £ 9 mn). Moreover, according to the guidelines deriving its main strength from the extension of public ownership into *profitable* manufacturing industry, the NEB is entitled to take a holding in any company – even without the agreement of that company's directors. Before acquiring more than 10 p.c. of a publicly quoted company's shares, the NEB must inform the Secretary of State what size of holding it ultimately requires. Moreover, ministerial approval is required for each purchasing transaction of more than £ 10 mn or where the acquisition would give the NEB 30 p.c. or more of the voting rights of a company. However, the NEB will be empowered by a statutory general authority to be issued by the Secretary of State for Industry to take over more than 30 p.c. of a company's share capital as long as the company agrees and the cost of the total shareholding does not exceed £ 500,000.

The NEB chief, Lord Ryder, mentioned foundries and process engineering as sectors of British industry where there should be NEB intervention. Finally, the Secretary of State for Industry can prohibit the acquisition of a British firm by foreigners and may order its takeover if he deems it necessary in the national interest.

There are at present nine large nationalised industries in Britain: British Airways, British Gas, British Railways Board, British Steel Corporation, Electricity (England and Wales), National Coal Board, Post Office, National Bus Company, National Freight Corporation. More than a dozen smaller boards run airports, state hotels, road haulage, waterways, hydro-electricity in Scotland, etc. The newest recruit to the nationalised sector is the British National Oil Corporation, which is busy negotiating for state participation in the holdings of the North Sea oil exploration companies. Moreover, there are Bills for the nationalisation of aircraft and shipbuilding (Parliament decided to remove ship repairing from the nationalisation Bill). At the 1976 Labour Party Conference a resolution was passed calling for the

nationalisation of the biggest banks and insurance companies.

Since nationalisation each industry has had its own special problems. In some these were created by strongly increasing demand, while in others – e.g. coal and the railways – the problem was falling demand<sup>14</sup>. But, as mentioned before, there were also common problems associated with the role of the industries in the economy and their relations with the Government and Parliament. Dissatisfaction with the conduct of the industries caused investigations by a Select Committee in the 1950s and several White Papers – and following reorganisations – in the 1960s. The financial performance of the industries improved somewhat during the late sixties, but conflicts with national economic policy led to a deterioration at the end of the decade. In mid-1974 the Government tried to reduce the losses of the nationalised industries by permitting some large increases in prices. Consequently (though at the expense of the public), in 1976 the large nationalised industries (with the exception of steel which incurred a deficit of £ 246 mn) were suddenly beginning to make a profit.

### Conclusion

In November 1976 the National Economic Development Office published a study of the UK nationalised industries (not including the state holding company NEB)<sup>15</sup>. It stated that the net output of the nationalised industries in 1975 made up 11 p.c. of the gross domestic product. They were responsible for 19 p.c. of all fixed investment and 24 p.c. of industrial investment and they employ 8 p.c. of the workforce. In the 1970s (unlike the 1960s and except for the Conservative Government period 1972–1974) wages in these industries have risen faster than in the private sector. Increased militancy in the public sector caused numerous strikes in the coal and steel industries, but except for these two, the industrial relations record of the nationalised industries is somewhat better than the average for manufacturing.

On the whole the British experiments show that the nationalisation of industries is no means for solving financial, economic or social problems nor can it guarantee jobs. It does not alter the conflict of interest between labour, management and consumers in spite of consumer councils and some labour representatives in some of the Boards. The conflict between economic requirements and social obligations again and again creates new problems which paralyse the decision making process. However, national economic difficulties have brought a sense of realism and moderation in dealing with and planning extension of nationalisation in Britain.

<sup>14</sup> The United Kingdom Economy, published by the National Institute of Economic and Social Research, Second Edition, London 1976, pp. 72 ff.

<sup>15</sup> Summarized in The Economist, November 27, 1976, pp. 15 ff.