

# **Public Enterprise Defended**

**Against the  
Conservative  
Attack on  
Public  
Enterprise**

Michael  
Barratt Brown

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*Michael Barratt Brown*

## INTRODUCTION

In this very important pamphlet in defence of Public Enterprise, Michael Barratt Brown demonstrates that the attacks being launched by the Tory Government on the Public Sector must be of great concern to all British Trades Unionists.

This paper was written as an outcome of the very successful Conference on the Nationalised Industries organised by The Institute for Workers' Control in Nottingham on the weekend of April 17/18th 1971. Some copies of the papers of this Conference are still available from the IWC at 50 pence per set (post free).

## PUBLIC ENTERPRISE DEFENDED

### *A Rebuttal of the Conservative Offensive against Public Enterprise*

#### 1. Introduction on the Public Corporation and the Public Sector

The Conservative attack on public enterprise has been heralded by a call for government "disengagement" from the economy, which is supposedly "what the nation wants". Disengagement and denationalisation are, however, two very different operations. The first is concerned chiefly with reducing the proportion of the national product that passes through the government's hands in taxation and state borrowing. (See Appendix Table 1) This was raised from 30% to about 45% in the Second World War, and almost maintained at that level by the Labour Governments thereafter. It was then sharply cut back by Tory Governments after 1953 to just over 40% in 1955 to be raised again in 1963-64 by the Tory Government to some 48% and then by the subsequent Labour Governments to around 52%. Most of the increase was in extra state purchases of goods and services for health and education and in state payments to extra pensioners and unemployed, but about a third of the increase was in extra state investment by central and local government in schools, hospitals, roads and housing, by the public corporations and by loans and grants to private industry.

By contrast with this growth of the public sector as a whole the increase in the size of operations of the nationalised public corporations was minimal. (See Appendix Table II). The public corporations established mainly just after the war have remained a quite small part of British industry. The addition of the Post Office and the renationalisation of steel in 1965 did no more than replace, as it were, the rundown of the coal industry and the railways. The output of the public corporations in 1969 amounted to 11% of the Gross National Product and public corporation employment to some 8% of the total working population. Ten years earlier the share of employment was rather more but the share of output was only 8.5% including the Post Office. Over the same period of the 1960s the proportion of the nation's net capital stock held by public corporations rose from 13% to 18%, again including the Post Office at each date. This last figure may exaggerate their importance because of the declining prospects for much existing equipment in the coal and steel industries and particularly the railways.

We may conclude that the share of public enterprise in national economic activity is not much more than one tenth of the total.

## 2. The Reasons for Nationalisation

The political and economic forces leading to the creation of Britain's nationalised industries have been many and varied. In each case there were mixed motives in the minds of those who introduced the necessary legislation. It is not, of course, only Labour Governments – with their party commitment to social ownership – which have carried out acts of nationalisation: Conservative and Liberal Governments were responsible for the legislation establishing the Forestry Commission (1919), the Central Electricity Board (1926), the B.B.C. (1927), the London Passenger Transport Board (1933), the Coal Commission – Mining Royalties (1939), and the British Overseas Airways Corporation (1939). In addition certain other public bodies were established like the Mersey Dock and Harbour Board (1857), the Port of London Authority (1908) and the General Post Office for which a finance act was passed in 1933. The main acts establishing the present nationalised industries were, nonetheless, carried by the Labour Governments of 1945-51 and 1964-70.

Since the rationale of these nationalisation acts is now being challenged reasons for them must be examined. They may be listed as follows, although one cannot easily be separated from another:—

- a) Intrinsic local monopoly requiring massive regulation unless brought under public ownership, e.g. gas, electricity, ports, telephone and telegraph, bus services and aviation. This was also the argument for public water supply and sewage disposal;
- b) Economies of Scale being foregone owing to divided ownership – often the split between private and municipal undertakings – e.g. gas, electricity, iron and steel and had they not been nationalised – aviation and postal telecommunications;
- c) Inadequate investment because of the vicious circle of low profits and low investment especially where the time horizon of return is exceptionally long – e.g. canals, railways, coal mining, forestry;
- d) General inefficiency and sleepy management due to protection, nepotism and traditionalism – e.g. coal, railways, gas, iron and steel and shipbuilding;
- e) Poor morale and working conditions where relations between private owners and workers had deteriorated to a position of impasse – e.g. the coal industry between the wars, and one might add this was a major argument for nationalisation of the ports proposed by the Labour Government in 1970;
- f) Risk taking on a very large scale in new developments which re-

quire research and capital investment on a scale which in the words of an F.B.I. pamphlet of 1962 on *Civil Research Policy* "goes beyond what private industry can do unaided" e.g. atomic energy, aerospace;

- g) Integration of ancillary supplies and services into nationalised industries in the interests of efficiency and dependability of operations and marketing flexibility, e.g. Post Office equipment manufacturing, railway workshops, shipping hotels and travel agencies, Coal Board chemicals supply and coal distribution;
- h) Social Costs, and social benefits forgone, where the market fails to maximise benefits and minimise costs, e.g. coal mining, railways and aviation and also broadcasting where the requirements of advertising revenue tend to encourage the neglect of minority tastes unless there is a state financed service.

None of these reasons with the possible exception of the last one can be regarded as subjects of doctrinal difference between the major parties. The overall need for planning the economy and especially the planning of investment was a separate and specifically Labour commitment both to maintain full employment and in the words of Clause IV.4. of the Constitution of the Labour Party, "to secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible . . . and the best obtainable system of popular administration and control of each industry or service". This point will be taken up again in the last section of the paper.

### 3. The Conservative Attitude to Nationalisation

It is clear from the acts of nationalisation by Conservative Governments mentioned above that Conservatives have not in the past shown any doctrinal opposition to nationalisation as such. There have been numerous Conservative statements which, while opposing further nationalisation and promising denationalisation wherever possible, have committed the Party to accepting the necessity of some areas of public enterprise. The presumption of Conservative thinking remains in favour of private enterprise and private capital in a competitive market as the best possible determinants of the allocation and use of the nation's resources.

Thus the election of a Conservative Government in 1951 led to a general reduction of state activity between 1953 and 1958 as we have seen but involved actual de-nationalisation in a number of cases:



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- Private Air Line operators were permitted to compete with the nationalised undertakings in seeking permission to operate scheduled services after 1952.
- The Overseas Food Corporation was dissolved in 1952.
- The iron and steel industry was sold to private owners after 1953 with the exception of Richard Thomas and Baldwins.
- The road haulage industry was sold off to the extent, about a half, that private buyers could be found after 1953.
- Commercial television was introduced in 1955;

Of these the denationalisation of the iron and steel industry was probably the most important and led to widespread complaints that shareholders who had been provided with generous compensation by the Labour Government in 1950, could buy back their assets, greatly improved by public finance in the meantime, at prices which provided spectacular capital gains in the next few years. The denationalisation of steel prevented the iron and steel corporation from rationalising the industry and building up really large plants like those which were being built at the time in Japan and on the continent.

Conservative policy in the 1950s, however, went beyond denationalisation in four major respects:

- (i) It was Conservative policy that those nationalised industries which were not to be sold off would be de-centralised. The railways were affected by this and their regionalisation resulted in the B.T.C. losing any real control over the regions and being thus prevented from pushing through the rationalisation of the railway system which it saw, albeit somewhat dimly, had become necessary.
- (ii) The Conservatives used the nationalised industries to support private (un) enterprises. The classic case of this was the way in which BOAC was bullied into supporting the British Aircraft industry; although it didn't always have to be bullied because it had come to believe that support for the aircraft industry was its mission in life. BOAC's enormous losses during the late 50s and early 60s were mainly explained by the policy of flying British. All the blame for this policy should not perhaps be laid at the Conservative door as it was generally supported by the Labour party.
- (iii) The losses which BOAC and the Railways incurred were also due to certain unfortunate appointments of Chairmen.
- (iv) Although the Conservatives tinkered with the structure of the

nationalised industries etc, they did not, until a comparatively late date, take any steps to see that they were being properly run, or try to formulate the economic rules by which they should be run. There was no careful scrutiny of investment plans, and the Government provided the finance for the railway modernisation plan without any real examination of its contents. Moreover, they provided the railways with an open-ended subsidy while they sank deeper and deeper into the red, when what they ought to have done was to have stepped in. Not until the early 60s was any real thought given to the nationalised industries' financial obligations or to the way in which their methods of investment appraisal could be improved. When at last the Conservatives did turn their attention in this direction the industries like the railways and coal had been so seriously weakened as to make the achievement of competitive efficiency almost impossible.

Conservative policy was restated at the 1970 general election. During the period of the Labour Government iron and steel had been renationalised; public bodies had been established or proposed for the sale and purchase of land (the Land Commission), for co-ordinating the public sector of road and rail goods transport (the National Freight Corporation), for rationalising industry (the Industrial Re-organisation Corporation) and for re-organising the ports (a National Ports Authority); and statutory restrictions had been removed which limited the freedom of publicly owned industries to diversify their activities. The policy of the Conservative Party was to engage in no new nationalisation and, while not committing themselves to any wholesale denationalisation, to re-examine the working of current nationalised industries within a general philosophy of reduced public intervention in industry and in the economy as a whole and increased opportunities for private enterprise. The relevant passages in the Conservative Manifesto for the General Election of 1970 read:

"We are totally opposed to further nationalisation of British industry. We will repeal the so-called Industrial Expansion Act which gives the Government power to use tax-payers money to buy its way into private industry. Specific projects approved by Parliament will continue to be given government support. We will drastically modify the Industrial Re-organisation Corporation Act."

"We will progressively reduce the involvement of the State in the nationalised industries, for example in the steel industry, so as to improve their competitiveness. An increasing use of private capital will reduce the burden of the tax-pay, get better investment decisions, and ensure more effective use of total resources."

"The railways have a vital part to play in the modernisation of the transport system. They need to provide new passenger facilities, interchange with the car and bus, and freight depots outside the urban areas shipping lines, hotels, parking facilities, catering services, vacant land, can all be developed more effectively in partnership with private enterprise. This will give better service to the public."

"We will prevent the waste of £76 million on the nationalisation of the ports. We will end the uncertainty hanging over both large and small parts by giving them the freedom to build, in competition with each other but co-ordinated through a strong central authority."

"We believe that people are as entitled to an alternative radio service as to an alternative television service. We will permit local private enterprise radio under the general supervision of an independent broadcasting authority. Local institutions, particularly local newspapers, will have the opportunity of a stake in local radio which we want to see closely associated with the local community."

Thus the Conservatives had given warning of introducing private capital, specifically into steel, of developing a partnership of public and private enterprise, specifically in the case of British Rail, and of permitting local private enterprise radio. Neither in their Election Manifesto nor in their election speeches did they give any forewarning of a policy of hiving off parts of the nationalised industries.

They can claim no mandate from the electorate for such a policy.

Nevertheless, Conservative proposals for the nationalised industries were taken quite a little further at the Conservative Party conference at Blackpool in October 1970. The following extract is taken from the report of a speech by Mr. John Davies, the new Minister of Technology (later to become Minister of Trade and Industry).

"Finally, I should like to say a word about the nationalised industries. That word is a watch-word — disengagement. Disengagement in the sense, first, that these vast undertakings need to shed peripheral activities that are in no sense in the mainstream of their work, that distract scarce management talent and financial resources. Disengagement next in the sense that, as circumstances permit, private capital must be brought back to play its questioning role in the development and management of these businesses. I am bound to say that at the moment the financial state of most of them is really not such that private capital would find it easy to take a hand in them. Disengagement, finally, in the sense that, to the extent possible, Government must withdraw from its perpetual scrutiny and commentary upon the managements concerned — a process which undermines authority, constitutes a permanent alibi for inadequate performance and represents a serious inhibition to recruitment and the development of efficient management from within."

Mr. Davies subsequently denied in a speech at the Business Man of

the Year luncheon in London in December, reported in *Steel News* for 17th December 1970, that the Government's policy was "ruthlessly and violently to dismantle the public sector" or to sell off certain part of these businesses just because they could be sold.

"The concern we have," he declared, "is that the nationalised industries do not have to meet the challenge of private businesses in two important respects.

"In most cases they do not face direct competition across the whole field of their activities, and they do not have to compete for the funds they invest.

"I am certainly not saying that as a result they are either indifferent to economy in costs or negligent in reviewing most critically the investment programmes for which they are responsible.

"What I do say is that the absence of these disciplines is a cause of excessive public scrutiny of their activities with consequent and troublesome limitations upon their business initiative.

"My hope is," continued Mr. Davies, "that by careful appreciation of their special problems and structure it may prove possible to introduce these disciplines wholly or partly into their affairs.

"Some people," he said, "would have you believe that one formula available to us for attaining this end is to find out what parts of these businesses are, or could be, profitable and to dispose of them in short order for the best price attainable.

"That is nonsense.

"There are many ways of bringing the disciplines of which I have spoken to bear upon the public sector without resorting to such violent remedies, and an infinite variety of methods for interinvolvement between public and private sector.

"The government by no means intends to clip its own wings by settling for such a crude and ill thought-out liquidation of national assets.

"Instead, the government would scrutinise carefully the constituents of which the nationalised industries are made up: to clarify the basis upon which those constituents are currently trading and the true results arising therefrom; to consider with all the interested parties the best way of ensuring that these activities are carried out with a view to the maximum success, whether wholly and nationally owned enterprises, or wholly and privately-owned, or by some one of the many joint venture systems between the two extremes, and finally to move towards these optimum arrangements as quickly as circumstances allow."

The denials were not entirely reassuring since the public sector could presumably be dismantled without ruthlessness or violence and parts could be hived off for other reasons than that they could in fact easily be sold. But the speech revealed a certain awareness that there was after all nothing in the Party's Manifesto about denationalisation and only rather general references to private capital participation in steel and transport.

Behind the assurances of Mr. Davies, it appeared that the Govern-

ment's intentions had not been modified. The Minister for Industry, Sir John Eden, made it quite clear in a special interview with the Press Association's City Correspondent on January 3rd 1971 that "the Government propose to start this year on selling off parts of the state owned enterprises. These will not necessarily be only the more profitable elements" (*The Times*, January 4th 1971).

"The nationalised industries," Sir John went on, "have become too closely involved with the machinery of government without any noticeable improvement in the quality of their accountability. Their area of responsibility has become too obscured. It needs to be sharpened up.

"Much better management results might be achieved by reducing the size of the complex or by establishing some form of competitive element. Some industries had developed far from their original functions.

"By and large the public sector should be concerned primarily with these activities which cannot sensibly be done by the private sector."

Depending on the meaning of the word "sensibly" (?profitably) the Conservatives have evidently moved a long way from the cautious approach of their Election Manifesto. The implications need now to be examined.

#### 4. The Conservative Plans for "Hiving Off"

Detailed plans for each of the nationalised industries have not yet been drawn up by mid-1971 but clear indications have already been given of Conservative Government thinking. In some cases the ground has already been prepared; in others speculation has been rife. What follows is a summary of the indications that could be detected up to the middle of 1971. These will be argued in the next section:

a) *The Coal Industry Bill* introduced in to Parliament on November 25th 1970 included clauses giving the Government power to direct the National Coal Board to discontinue or restrict its non-coalmining activities and dispose of them and alter the way in which the non-colliery divisions or their subdivisions are organised. A review is to be required from the Board in the next twelve months of its non-colliery assets.

The Coal Board's accounts for 1969/70 showed that £141 millions of the Board's £625 million net assets in 1970 were not in its collieries and the profit from them and its other interests in 1969-70 was some £23 millions compared with a loss on colliery operations of nearly £12 millions. These non-colliery assets include £14m in coke ovens and chemicals, £18m in processed fuel and £50m worth of housing, estates and farms as well as another £60m in bricks, coal distribution depots, builders merchants, North Sea and Irish Sea Gas exploration, and a computerised hotel reservation service. The Board also has "other interests"

from which the profit was £2.3m in 1969/70. These are mainly joint undertakings in oil and chemicals. The joint investment of the N.C.B. and the United States Conoco Oil Group in putting the North Sea Viking natural gas field into production amounts to £50m. (See *The Times Business News*, 26.11.70).

The 1970 Coal Industry Act also proposed to end the compensation provided to the gas and electricity industries for burning extra coal when other fuels would be cheaper and to withdraw the aid provided to the Coal Board for deferring colliery closures and for redundancy pay.

On January 5th it was announced that Lord Robens had declined an invitation from the Government to continue for another five years as Chairman of the National Coal Board. Lord Robens himself declined to comment on speculation that his refusal was associated with the government's plans to hive off the profitable parts of the Boards activities, but the *Times* reported (6.1.71) "Senior Ministers have no doubt that when Lord Robens received his offer of a further term in November, he did not raise with Mr. John Davies, Secretary of State for Trade and Industry, any issue about the hiving off of N.C.B. interests in trade and chemicals, building and computers, but rather left the impression that he wanted to be free to accept some very good offers in private industry."

b) The Chairman of the *Post Office Corporation*, Lord Hall was dismissed by the Minister of Posts and Telecommunications, Mr. Chataway, on November 25th, 1970 "in the best interests of the Post Office and the public."

The Minister denied that policy differences between himself and Lord Hall were the reason for Lord Hall's dismissal. However, Colin Jones in the *Financial Times* (26.11.70) wrote as follows;

"Fears had been voiced even before yesterday's confrontation in the Commons that Giro was to be closed down, that the Post Office would lose its manufacturing powers, and that the Conservatives were considering hiving off peripheral parts of the business — the sale of private telephone equipment for example to private enterprise."

Mr. Chataway had told the Conservative Party Conference at Blackpool that he had in mind the possibility of letting private enterprise play a larger part at the subscribers end of the telephone system and that there would be a fundamental reappraisal of Post Office objectives including Giro. This announcement had an adverse effect in falling subscriptions for Giro's operations, which are in competition with the clearing banks and their own Giro system.

The most profitable part of the Post Office operations is its telecommunications side and it was reported in the *Observer* (29.11.70) that Lord Hall wanted to extend the Post Office's manufacture of electronic equipment, although he recognised that under the Conservative Government this was a "dead duck".

c) A *Civil Aviation Bill* was given its Second Reading in the House of Commons on November 24th, 1970, by which B.E.A. and B.O.A.C. are to be brought under the control of an Airways Board, and a Civil Aviation Authority will be established with powers to give routes now operated by B.O.A.C. and B.E.A. to the privately owned "Second Force" airline — Caledonia — B.U.A.

The reason for the Government's introduction of the Civil Aviation Bill was reported in the *Financial Times* (25.1.70) to be to ensure that there "can be no legal delays in hiving off about £6m worth of B.O.A.C.'s routes to help the private air line Caledonian — B.U.A.". It appears that the Government's policy is to build up private aviation as represented by Caledonian—B.U.A. at the expense of the two state air corporations. First it was announced (August 1970) that the private second force airline would "be given preference over other operators in the licensing of new scheduled routes", and that existing routes on which the corporations earn about £6m of revenue were to be handed over by the summer of 1971. It seems likely that the rest will be taken from B.E.A. At that time Mr. Noble, the President of the Board of Trade, reported after he had seen a T.U.C. delegation that "This is a once and for all operation . . . I gave a categorical assurance that no further routes would be involved." Then in November 1970 the Government passed a Civil Aviation Act, not only ensuring that there could be no legal delay to the transfer of routes, but also giving power to deprive the air corporations of other services. It is by no means impossible that this power will be exercised and that further transfers will take place. The financial benefit which Caledonian/B.U.A. will derive from the West African routes will be smaller than it seems at first sight because B.O.A.C. gains a large part of its £4½m revenue from passengers who, having travelled from West Africa to London then fly on to other centres. Moreover, Gatwick to which B.U.A./Caledonian is transferring B.O.A.C.'s West African services is poorly served by routes which can feed them with traffic. In view of the highly optimistic statements which B.U.A./Caledonian has been making about the likely growth in its traffic and its profits the question arises of whether it is hoping that it will be awarded other routes which the corporations now fly. Even if this does not happen the fact that they will be discriminated against when new routes come to be allocated represents a serious threat to their future prospects.

d) Reports appeared in the Press on November 28th 1970 suggesting that there were profitable parts of British Rail which might be sold off to private investors. British Rail was in the meantime to put a stop to the use of any outside finance for its peripheral activities. Presumably these were as defined in the Conservative Election Manifesto. These profitable parts were said to include the container forwarding business, British Transport hotels and British Rail's ships especially the Hovercraft services and also some manufacturing activities. British Rail is the major operator on the sea passages between Britain and the Continent. In fact the financing and operation of the Channel Tunnel is likely in the next ten years to be a more important issue than the sale of the Hovercrafts. The private tunnel consortium already set up is in the position of benefitting hugely from what will be likely to be a largely state financed enterprise. Manufacturing of railway equipment was severely limited by the original nationalisation acts but the last labour Government freed the railways among others from restrictions on ancillary activities. It is these restrictions which the Conservatives are reported to be planning to reintroduce or to replace by joint public-private ventures as in the case of the Rail Workshops-Metro-Cammell Joint Exporting Company. Hiving off might appear an attractive solution for British Transport Hotels since they occupy key sites in the middle of most of Britain's major cities and would be extremely interesting to developers for this reason.

g) *Gas and Electricity* — The Government spokesman early in December stated that they were studying the retailing and contracting activities of the gas and electricity industries and especially the limitation of the nationalised undertakings sale of appliances and the Gas Council's distribution of natural gas.

*The Observer* of 29.11.70 carried a report that "the Government had long term plans to denationalise parts of the gas industry — by giving the oil companies a share in distributing North Sea Gas and by ordering the Gas Council's withdrawal from gas prospecting, in which it has been particularly successful operating in partnership with Amoco in exploiting the Leman/Indefatigable fields in the North Sea and with Home Oil in exploiting the Lockton gas field in Yorkshire.

"The distribution of North Sea Gas is the most profitable aspect of its production and at present the Gas Council has a monopoly. The oil companies who bring the gas ashore are profoundly disappointed with the price per therm fixed by the Labour Government and have been trying to persuade the Conservatives ever since the Election that only a share in the distribution would compensate them for the capital involved in prospecting. The suggestion has been favourably received. It is based on the precedent set in Holland, where the Government and the oil companies prospecting for North Sea Gas have a joint arrangement for its exploitation (and where the price per therm set was much higher than in Britain).



It is emphasised in Whitehall that there is no question of an immediate break up of the Gas Council's monopoly, but the idea commends itself because unlike the railways, there is plenty of private capital anxious to participate in the venture."

The Observer's statement that the Gas Council has a monopoly is not strictly true — it only has a monopoly of the distribution of gas for use as a fuel. It would have been perfectly possible for example for I.C.I. to sign a contract direct with one of the North Sea operators to supply the vast quantities which it is taking for use as a chemical feed-stock (about 1,000 million therms a year), but in fact it signed a contract with the Gas Council. Again B.P., in arranging a new contract to supply gas from West Sole to the Gas Council arranged also for the Council to transmit through its pipelines the gas which B.P. required for its own use.

n) *Iron and Steel* — From the end of 1970 and for some months thereafter there were extended discussions between the Government and the Chairman of the *British Steel Corporation* regarding the future structure of the Corporation.

An *Observer* article of 29.11.70 reported that "The Government is already well advanced with plans to sell three sectors of the British Steel Corporation — although there is disagreement among Ministers about how, and on what terms the private sector should be allowed to buy its way into steel."

*The Times Business News* of 23.11.70 reported that "Corporation officials headed by Lord Melchett, the Chairman, are rigorously opposing the proposal. At the same time, some ministers, including Mr. Davies, are thought to favour allowing private investors to have a stake in B.S.C. — a solution that would be far more acceptable to the Corporation itself.

"Two new factors", the report went on, "in the long and much publicised issue of 'denationalisation' emerged over the weekend. If private investors were permitted to hold stakes in the B.S.C., the opposition, although opposing such moves in Parliament, would be unlikely to renationalise in the event of being returned to power. And if the Government did decide to hive off three of the B.S.C.'s most profitable divisions, B.S.C. officials believe it would require a major piece of legislation to do so in the case of the largest Sheffield based Special Steels Division which has a turnover of £187m. And it is believed that the B.S.C. would strongly oppose any legislation taking away from them the Special Steel Division, although the Constructional Engineering Division with a turnover of £35m — or the Chemicals Division (£40m) are regarded as

Sir John Eden, Minister for Industry, speaking at the annual meeting of the British Independent Steel Producers Association promised full

discussions with all interested parties before any change was made in the structure of the steel industry, "We have made it clear," he said "that we want to encourage competition and to further the participation of private capital in the public sector wherever it is possible and sensible to do so.

"We must also recognise the realities of the growing international challenge which require that the development of major investment projects in the British industry proceed without delay so that it is well placed to increase its share of world markets," said Sir John.

The result of these discussions was a statement issued on June 28th by Mr. John Davies, Secretary of State for Trade and Industry. This was stated by Lord Melchett to provide "a sound logical industrial solution to the problem of the steel industry." New companies were to be set up to control various parts of the corporation, including billet making for rerolling, constructional engineering, chemicals and wire-making. The corporation might have majority or minority holdings in their companies and it was estimated that between 10% and 15% of its £1400m turnover would be involved. Specific proposals were announced in these fields, (i) a swapping arrangement in Sheffield whereby B.S.C. would give up its River Don engineering works to Firth Brown and obtain the Shepcote Lane Stainless Steel Coil and strip and Firth Vickers plate mills from Firth Brown which B.S.C. now owns jointly with Firth Brown, (ii) the sale of the Brymbo Steel Works and possibly also other one-time G.K.N. owned works back to G.K.N., (iii) sale of peripheral interests in bright bar, stamping, tool and tool steel-making, engineering industrialised housing and brick making.

The power used by the Tory Government to exact their concessions from B.S.C. was the withholding of short-term finance and long-term borrowing power. Capital expenditure of £225m and borrowing up to a level of £650m were authorised at the same time that the hiving off arrangements were announced.

i) *Commercial Radio* – When Mr. Chataway was appointed Minister of Posts and Telecommunications the *Financial Times* reported (25.6.70) that "he was expected to pilot a Bill through Parliament in the coming season which would allow *Commercial Radio* to be introduced in Britain. This was in fulfilment of the Conservative's Election Manifesto." In fact the manifesto had only specified Commercial local radio.

*The Observer* (29.11.70) reported further that "Mr. Christopher Chataway, Minister of Posts and Telecommunications, last week astonished a T.U.C. delegation led by Mr. Vic Feather by saying that he thought a combined system of B.B.C. and commercial local stations was

undesirable. (The B.B.C. has indicated that it would welcome competition from commercial radio.) The T.U.C. leaders were not in any doubt after they had seen Mr. Chataway that he was bent on phasing out the present B.B.C. local stations by handing them over to private companies . . . . The Minister asked by the T.U.C. delegation . . . . replied that in the Government's view commercial stations should be given precedence over the B.B.C. on the medium wave also. . . ."

j) *Atomic Energy – The Times Business News* of 12.10.70 reported that "the Conservative Government was making important changes in the plan to set up new companies to take over the Atomic Energy Authority's nuclear fuel and radio-isotopes business to ensure a bigger private shareholding as the companies develop."

"The structure proposed by Labour (in a Bill that was lost in the June election) was for two state controlled companies including the proviso that "at all times" the state or the Atomic Energy Authority should hold shares carrying in the aggregate more than half of the voting rights, exercisable at general meetings . . . . In the Debate in the Lords, Lord Bessborough (now Minister of State at the Ministry of Technology) hinted that there would come a time – and it might not be far distant – when the companies would be appropriate companies in which the public should be entitled to invest."

"Mr. John Davies, Minister of Technology, has already examined the Bill and has apparently asked for a new form of words which would remove the limitation which Labour sought to impose."

"Labour M.P.'s say it would be wrong to hand to a private company (or one which might soon come under private control) the supply of materials for military purposes, as well as the enrichment of uranium and the separation of plutonium."

k) *The National Ports Bill* of the Labour Government has been killed by the Conservatives. This was promised in the Conservative election manifesto, but further than this it was proposed to give all the ports large and small, freedom to build in competition with each other albeit under some central authority. This freedom has already been established in relation to the Mersey Docks and Harbour Board – a statutory trust like the P.L.A. financed through the Stock Exchange with six representatives of shipowners on the Board and four nominees of the Ministry of Transport. The Board was refused a bridging loan originally promised by the Government and a scheme of financial reconstruction under a merchant banker has been introduced with an official receiver to collect debts while capital payments are deferred. The implications for the already nationalised, British Transport Docks Board, ports of

Hull, Southampton, Grimsby, Immingham, Harwich etc., is that they will be exposed to increasing competition from small ports and container terminals throughout the country. Moreover, the decision on Foulness for the site of London's second airport has led to speculation about major developments in privately owned sea cargo handling being included in the overall plan for Foulness development.

l) *Containers* – Closely associated with the encouragement of competition between ports is the growing competition in freight handling between B.R.S., the National Freight Corporation and the Container Base Federation which is owned by two large private companies themselves consortia of shipping companies – Overseas Containers Ltd. (47.5% of the shares) Associated Container Transportation (15%) and several of the shipping lines, with British Rail and the National Freight Corporations having between them 25%. This competition will be increased by the proposal to dispose of Pickfords and Humber lines from the Nationalised Transport Holding Company. These are specialist carriers which were not denationalised under the 1955 denationalisation act, but because of their recent profitability are presumably more at risk this time. It is suggested that denationalisation here, as elsewhere, will increase competition to the benefit of the consumer and this will be argued in the next section.

m) *Shipbuilding* – In October 1970 credit guarantees were cut off from Upper Clyde Shipbuilders by the Department of Trade and Industry. This company had resulted from the merging in 1968 with large government financial assistance of John Brown's and two other shipyards and Fairfields (Glasgow) Ltd., which had itself been established in 1965 with a 50% government equity holding plus 10% trade union holdings and a £1 million advance. The credit guarantees were restored to U.C.S. in February 1971, but despite the Department's assurances in the meantime, the earlier government action, combined with the adverse report on U.C.S. by Nicholas Ridley, created a serious lack of confidence in the company leading several creditors to foreclose. When the company asked for government advances of £6m to ensure their immediate cash flow on an order book worth £90m. the Minister of Trade and Industry refused and announced the fact in the House of Commons on March 8th. The company was declared bankrupt and a liquidator was installed. In the month of July a Committee of four industrialists, set up by the Minister, reported that only one of the yards was viable, the others should be closed (involving two-thirds of the labour force) and a new company formed with support of public funds to run the one yard. The sequel is well known – that the men's representatives in the four yards refused to accept redundancies and established a 'work-in', while the Scottish Trades Union Congress set

up its own independent Committee of Inquiry. The evidence presented to it suggested not only that the proposed closures would have the most disastrous effect on employment in the whole Clydeside area, where the unemployment rate was already 6% (10% for men), but that orders for ships existed and always had existed which could keep the yards going on a profitable basis, subject to the writing off of the inherited debts from the private companies which had been merged with the publicly owned Fairfields. Economies of scale made the operation of the four yards rather than the one yard in fact the most likely viable proposition, subject to reconstruction of plant and to new management and labour relations in the one-time private yards. Once again, the Conservative government actions assumed an identity of private loss and gain with public cost and benefit, which it is the purpose of this article to challenge.

### 5. Why are the Conservatives Doing It?

Enough evidence has been presented in the last two sections of the Conservative Government's words and deeds to indicate a steady escalation of the conservative attack on the public sector, and public enterprise in particular, right through from the cautious phrases of the Manifesto to the urgent demands of Sir John Eden. One is inevitably reminded of Mr. Enoch Powell's outburst in 1968: "there is nothing impracticable about denationalising industries. All of them" (*The Times* 13.9.68) and his insistent speeches warning against "the present rush into state ownership" during the election. The phrase was in Mr. Powell's election manifesto. Behind the politicians' language there are serious arguments which must be faced.

(a) *The first argument* is a general one concerning the need for government to disengage from the economy. This might be no more than a doctrinal faith, as with Mr. Powell, in the blessings of *laissez-faire*; but it goes with an argument that public enterprise inevitably means constant ministerial intervention, that "excessive public scrutiny" in Mr. Davies words, for which the only solution is the discipline of a share of private capital investment in the nationalised undertakings. This argument must be faced head on. It is nothing more nor less than a poorly concealed proposal for denationalisation. The so called "B.P. solution" at one stage being advocated for the steel industry, if the experience of B.P. itself is to be examined, means virtually no public control. Even when the state share in the equity of B.P. was just over 50% and not as today just under 50%, Mr. Wilson as Prime Minister in 1965 made it clear that it was not the Government's practise to intervene in B.P.'s decisions or to do more than receive oral reports from the two Government nominees on the B.P. board.

The fact is, however, that while at one time ministerial intervention in the nationalised industries was both uncertain and troublesome, the Conservative Government introduced a White Paper on financial and economic obligations in 1961 which were improved upon by the Labour Government in 1965 and set very clear financial targets for the public corporations based on realistic assessments of assets and of the subsidies required for non commercial activities. It is precisely the aim of nationalisation that certain areas of economic life should be brought under public control. So that this should not be the arbitrary whim of ministers or civil servants, the Select Committee on the Nationalised Industries has been carrying out general reviews of the use of public funds by these corporations, and the Prices and Incomes Board of their pricing policies. Indeed the main criticism of these bodies would be that they too slavishly accepted the capitalist criteria of return to capital and considered too little the general interest of the public.

Frequently the public corporations have borne the brunt of Government pressure to restrain prices and wage increases; and this was often unreasonable, but Conservatives who since June 1970 have singled out the public sector for such pressure have no cause to complain about this. Socialists, as we shall argue later, would wish to see an extension of public control over the whole economy and an extension of public enterprise, partly so as to avoid making a few public corporations in a mixed economy bear the whole burden of control measures.

How in any case would the Conservative proposal to bring private capital into the public enterprises reduce the need for ministerial control? It is not proposed to split the nationalised enterprises in half so as to have one public and one private enterprise in competition. The nearest to this solution is the case of the Air Corporations: The logic of this suggestion would in any case be presumably unacceptable to the Conservatives, for it could be applied equally well, or even better, to private monopolies where a state owned competitor could be established with some of the more profitable plants hived off from the offending monopoly. Machine tools provides an admirable case in point. The fact is that public control over public monopoly power can be, and has been, effectively exercised. The idea that "decision by the whim of Committee", in Sir John Eden's words, describes the alternative to "the power of competition" is absurd — and comes ill from a Cabinet (Committee) Minister who was previously a director of Chesham Amalgamation and Investments — a kind of company marriage broker.

(b) *The second argument* is based on a general belief in competition, in the efficiency of competitive private enterprise and in the idea that the nationalised industries are badly run because they are monopolies.

Hiving off is supposed to correct such monopoly positions. We shall consider later whether they are poorly run. Here it must be said first that the Conservatives seem less concerned with the absence of competition in large areas of private industry than they are with monopoly positions in public enterprise. The nationalised industries are in any case, not quite the monopolies they are often portrayed as being. There is competition inside the home market between gas and electricity and coal, between coal and oil, between road and rail; and there is fierce foreign competition in steel and in air transport. The most important position, however, which large enterprises hold today – whether they are public or private – is the monopoly of access to capital. This is frequently criticised in relation to the nationalised industries' access to Treasury finance. But the giant concerns of private industry are no less privileged. They are not only able to set their prices at levels which allow reserves to be built up for new investment but the larger companies in fact today obtain nearly all the new capital that is issued on the Stock Exchange. The top 110 companies in fact obtained 90% of new capital issued between 1958 and 1963.

Nationalisation has often been recommended precisely as a way of controlling monopoly; and it must immediately be said that government control over the pricing policies of the nationalised industries, however wrongheaded it may sometimes have been, has certainly been firmly exercised. No such control over the pricing policies of large private companies with monopolistic positions has ever been exercised through either the Monopolies Commission, Restrictive Practices Court or the Prices and Incomes Board. It is particularly worth noting that, whereas the creation of the British Steel Corporation and before it of other nationalised industries, has had the effect of making possible the industry's rationalisation, this has neither been the motive nor the result of most of the recent mergers of private companies. Most of these private mergers have been carried out for financial reasons as has been clearly demonstrated by Rose and Newbould (*Moorgate and Wall Street*, Autumn 1967) and by others. Where the purpose was rationalisation this was carried out at the instigation of the Industrial Re-organisation Corporation which the Conservatives have abolished. Monopoly positions are not, of course, in all cases socially harmful. The scale of operation required by modern technology often demands a single supplier in a country the size of Britain. Nor in any case are they so easily maintained. New substitutes are always appearing and world wide competition replaces that within national boundaries as tariff barriers are lowered and cuts of transport reduced.

Where then are the Conservative Government to find their competition from? How would hiving off improve the situation even if compe-

tion were more effective than monopoly. The peripheral activities are those in which the public corporations have least monopoly.

It is worth while examining some of the specific proposals in this respect. Who for example would buy the so-called peripheral activities of the Steel Corporation or of British Rail. The answer is that they are likely to be bought up either by the private firms with which they are at present in competition, or by private firms who are in a different line of business but have decided to diversify. If they are purchased by their private rivals, competition is reduced. The only way in which hiving off might stimulate competition would be for the subsidiary activities to be broken up and sold off bit by bit. But even if the bits were not subsequently put together such a method would have grave disadvantages in loss of scale economies which will be considered in a moment. Constructional engineering and the manufacture of special steels or of telecommunications equipment might very easily become a monopoly indeed if the share of public enterprise in these fields were eliminated.

The general argument against the belief that hiving off would stimulate competition is reinforced when one examines the position over the production and distribution of North Sea Gas. At first sight it appears that the abolition of the gas industry's monopoly position so far as the distribution of North Sea Gas is concerned would stimulate competition. However, if the oil companies were allowed to move into distribution, this would place them in a much more powerful position vis-a-vis the gas industry in bargaining over the price of North Sea Gas. It is probably significant that the Dutch gas undertakings had to accept a far higher price for natural gas, where the oil companies in Holland are partly responsible for distribution as well as wholly responsible for prospective and production. The consumer benefits in the U.K. from the Gas Council's prospecting and production activities, not only because the profits on the production side are available to reduce consumer prices; but because the Council can thus bargain from a position of strength with the oil companies.

A transfer of the North Sea Gas operation to the oil companies monopoly, would be a transfer from a public to a private monopoly. Monopoly in this case creates major advantages, in avoiding wasteful duplication of pipelines etc. and in economies of scale.

To quote from the Public Enterprise Group pamphlet *Stop Messing them About* "The Gas Council's contracts with the North Sea producers are based on a high load factor of take of 60% (i.e. the average daily take is at least 60% of the peak day take) — contracts at a lower load factor would have been at a higher price; moreover, purchases which raise the load factor above 60% (called valley gas) are at a lower price.



Likewise the pipelines cost less per therm of gas if they are used at a high load factor. Yet the average load factor of domestic sales is only about 40%. The Gas Council is able to achieve high load factors and keep down its average costs by selling large quantities of gas to industry at high load factors or under "interruptible contracts" (i.e. where the consumer switches to a reserve supply of another fuel when the load on the system is at its peak). Both industry and the domestic consumers benefit from the minimisation of purchase and transmission costs achieved by an integrated system."

There is the further suggestion that competition would be encouraged by depriving the Gas and Electricity Boards of their appliance show-rooms. The sale of gas appliances and of electrical equipment is not at present a monopoly. Without the public sector it could easily become one. The producers of course sold appliances long before nationalisation, and the sale of appliances is an essential part of selling the fuel. More than this, it is an essential protection for the consumer. While the Gas Boards do not have a monopoly of the sale of appliances, their predominant position does enable them to promote safety in the design of the appliances and in their installation. The record of installation by private contractors with inadequate ventilation leading to a number of unfortunate accidents (described in the recent Report of the Inquiry into the Safety of Natural Gas) is hardly one to encourage less control by the Gas Boards. The following passage from the Herbert Committee into the Electricity Supply Industry (1956) provides strong support to this argument "the incursion of the Electricity Boards into the retail field is in the best interests of electricity consumers who undoubtedly benefit from competition between the Electricity Boards and private traders and contractors." (Cmd 9672 page 125).

Two other cases reveal that it is not really competition that is being sought by the Conservatives proposals. First the belief that handing over BOAC routes and the creation of the "Second Force" airline will promote competition is groundless. The routes are simply being transferred from BOAC to BUA/Caledonian.

Secondly in the case of local radio stations it appears that it is not competition that is being sought but the sell-up of the B.B.C. local stations to commercial ownership. The case of the atomic energy by-products and the Carlisle state brewery are similar.

c) *The third argument* put forward is that the absence of "the discipline of the profit motive" removes the incentive to good management and also prevents the best allocation of the nation's resources.

It is frequently stated by Conservative spokesmen that public enter-

prise provides the perfect example of featherbedded inefficiency. The facts, however, do not bear out such statements. Increased productivity would generally be accepted as one measure of efficiency. In this respect Richard Pryke has shown that far from lagging behind the private sector public enterprise is in the van; and lest it might be supposed that increased productivity was in some way easier in the nationalised industries than in other industries he has shown that the British nationalised undertakings are amongst the leaders in productivity gains when compared with foreign producers. Table II in the Appendix gives the figures where these are available in comparable measurements for the years 1958-68.

It can readily be seen that whereas in manufacturing productivity the U.K. is near the bottom of "the league", in the four areas of public enterprise shown the U.K.'s productivity levels put her near the top of "the league". We shall return to the argument about efficiency.

The effectiveness of management in the public enterprise sector is thus well established in terms of their successful increases in productivity compared with the private enterprise sector. This could, however, have been achieved through wasteful additions of scarce capital resources which public funds have made possible. This is the argument of Christopher Tugendhat M.P. for example. When giant companies in the private sector are able to build up their own reserves of capital and get the lion's share of the capital market, the discipline of the return to capital is to say the least somewhat reduced. In fact the discipline of the financial obligations of the nationalised industries is a much more stringent one. It is simply no longer true that the investment decisions of the giant companies in the private sector are subject to any effective discipline from the capital market. The discipline of the profit motive may in fact lead firms to raising prices or to inefficiency where they have monopoly positions, especially in the capital market, and are in effect subject to no public control.

The financial obligations of the nationalised industries set out in a White Paper of November 1967 (Cmnd 3437) are by contrast quite rigorous. A DCF return to capital of 8% was required, later revised upwards to 10% which was fixed after a study of private firms' requirements at that time. In view of the inadequate level of investment in manufacturing industry in Britain, it was difficult to justify a rate which would make investment even less adequate. What was achieved in fact fell very little if at all below the actual performance of private industry. Moreover, the efficiency audits of the Prices and Incomes Board which have been applied to the nationalised industries have been much more ruthless than any applied to private enterprise. The reports

on the Coal Industry for example, while they reveal failures to estimate markets and productivity increases correctly do not fault the criteria on which investment decisions were made. (See for example N.B.P.I. Report No. 12 pp.15-16 and Report No. 53 pp.35-36). There are plenty of large private companies that have come unstuck recently in their market estimates — Rolls Royce is only one of many.

Attempts to show that the ease or cheapness of finance for the public sector led to waste of resources have been unsuccessful when rigorous analysis was applied. The best study in this field is W.G. Shepherd's *Economic Performance under Public Ownership*, Yale 1965, which concludes that there was little or no evidence of misuse of resources or of uneconomic decisions having been taken even in the gas industry or the coal industry, to which criticism is usually most heavily directed. Even on the vexed question of cross-subsidisation, particularly within divisions of the coal industry, Shepherd was able to show that not only was this nothing unknown to private firms (in fuel oil, for example) but that taking into account the immobility of men and resources at declining pits and the social costs, including transport costs, involved, the Coal Board could be exonerated. Indeed we now know that the recent attempt to hasten closures was economically disastrous. The country is having to import coal.

A particularly important point for our present argument which is emphasised by Mr. Shepherd is the deleterious effect on nationalised industries of limitations placed on their ability, compared with private enterprise, to diversify into locally and technically related activities to their main product. His conclusions are vital for the present Government. "A preoccupation with internal efficiency for public corporations, especially from the viewpoint of commercial criteria, lends itself to superficiality, sterile controversy and misemphasis among policies. Research into external effects in certain regions is needed in connection with the formulation of policies towards regional growth" (p.145).

This reminds us that the proper allocation of national resources is not something which can be left to be determined simply or solely by return of capital. It is enough to recall the many and varied attempts by all governments to correct the concentration of resources in the South East of England. We shall return to this point in the last section. What must be repeated here is that private capital is attracted to monopoly positions. It is no use, therefore, attempting to introduce private capital into areas of public enterprise if the object is to prevent monopoly or to promote efficiency. The nationalised industries have in fact been successful in achieving efficiency in terms of productivity advances

ahead of private industry; and effective public control exists to ensure that monopoly positions are used to meet the public interest.

d) *The fourth argument* is that the hiving off of peripheral activities is necessary because those in charge of the public corporations have enough on their plate without having their attention diverted by subsidiary questions. This argument boils down to the contention that the main activities within the public enterprise sector would be run better in the absence of the subsidiary interests. This would only be plausible if the main body of their activities were being run badly. The evidence already given about productivity increases suggests rather the reverse. In so far as the argument about diversion of attention has any relevance it applies rather to the private than the public sector. For it is here that the great increase of diversification has taken place as a result of mergers and takeovers in recent years.

What is indeed clear is that the greatest dissipation of energy will follow from the process of dismantling and reorganising, particularly since as we have shown earlier the so-called peripheral activities are in the main the growing points of the organisation and in most cases an integral part of it. The result of the denationalisation of road haulage after 1953 was to reduce productivity, increase overheads and cause serious demoralisation and confusion.

It is enough here to take a few examples to show that the so-called peripheral activities are integral parts of the nationalised industries' operations or necessary forms of diversification to take advantage of scale and other economies. The argument will be extended in the next section. Even what may seem a "way-out" activity in the case of the Coal Board — a computerised hotel reservation service — is simply a way of using the Board's computer when it is not in use for wage calculation etc. The most extreme example is the suggestion of "hiving off" the Special Steels Division or Constructional and Chemical Divisions of the B.S.C. which accounts for nearly a third of the Corporation's total turnover. The arguments for vertical as well as horizontal integration in iron and steel manufacture have been accepted in every other country. One is bound simply to ask why if the old United Steel Company was an integrated company operating iron ore mines, iron making, crude steel making and rolling, special steels, engineering construction and chemicals, such integration is no longer required in B.S.C. What was wrong with United Steel and the other steel companies before nationalisation was not that they were integrated but that the scale of operations of each of them alone was inadequate in comparison with their American, Japanese and Continental competitors. The British Railways Board in announcing its first Corporate five year plan published on

January 12th 1970, forecast significant increases in the profitability of its non-railway businesses and warned against any structural changes. "They are closely interwoven with the rail business and with each other, and the board as a corporate body derives significant strength from this in terms of finance, marketing and production."

It is important to consider why the so-called 'peripheral activities' — Special Steels in B.S.C., chemicals in the coal industry, telecommunications in the Post Office, containers and hovercraft in Transport, the sale of fissile material from nuclear power stations — are more profitable. The answer is that they are the areas of development into which these industries are naturally moving on technological grounds. They are more profitable because their products are still scarce since they are still being developed. To hive these off is to cut the growing point of the whole operation.

Behind these arguments against public enterprise which we have seen fail to stand up to any kind of rigorous examination, there might, of course, be either a cynical desire to reward friends or more generally the defence of vested interests. Among the lists of subscribers to Conservative Party funds — now revealed by the new Companies Act for all to see — there are many large and small companies which might expect to benefit from a hiving off of profitable parts of the public corporations. One might instance G.K.N., which is now to be rewarded with the denationalisation of Brymbo, or Plessey, S. Pearson, Steetley, Burmah Oil, Samuel Osborn, Capital and Countries Property, all with contributions to Party funds in excess of £5,000. A fuller list appears in the Appendix Table IV, in which it will be noted how many firms with steel interests are represented. Even if these contributions are not designed to call the tune of the Party they support, there might be a presumption against public enterprise implied if not explicit in the subscriptions. British United Industrialists, to which some of the largest contributions are made, is specifically concerned to support the anti-nationalisation cause, as indeed are the Economic League and Aims of Industry. A too successful public sector would certainly seem to be a real threat to the doctrinaire advocate of private enterprise. There might be short-term electoral advantages for the Conservatives in public corporation bashing, as there may have been in Union bashing, but the long-term advantages for a Party of patriotism and prudent compromise are less clear.

Supposing that the Conservatives were to succeed in hiving off all the more profitable parts of the nationalised industries, what would be the result? There are two possibilities. The first is that an increasingly inefficient service would be offered by the rump of the industry that survived. The financial losses would become more and more serious

requiring presumably further doses of aid from the taxpayer. The following statement comes from Peter Emery who is vice-chairman of the Conservative's backbench industry committee: "There is little benefit in depriving them of all their best assets so that all that is left is an unprofitable rump which the taxpayer will have to subsidize in a few years time." (*Sunday Telegraph* 10.1.71). This might be acceptable in the short run to private industry so long as it got a cheap service, but the taxpayer would be subsidising private industry. This might be politically acceptable to the Conservatives because the poor and backward state of the nationalised industries would seem to justify their doctrinal criticism of them. But what of the consequences to the community? The second and more likely outcome is that coal at least, and crude steel too in all probability, would cease to be produced in Britain and foreign suppliers would replace national supplies in other fields also. There are, of course, advantages to be derived from the international division of labour and this may include phasing out coal and crude steel production. There may, however, be serious implications for national security and the balance of payments in such a development — a point we shall take up later.

#### 6. Why Public Enterprise should be defended

In what has gone before the attempt has been made to establish against Conservative attack, six main propositions;

- a) that control of monopoly in the public interest can be achieved by Parliamentary intervention better than by attempts to create artificial competition;
- b) that much of the so-called creation of competition by hiving-off would mean a transfer from regulated public monopoly to unregulated private monopoly;
- c) that private enterprise is no more efficient than public enterprise; indeed in terms of productivity increases over the last decade its performance has been inferior;
- d) that a more efficient use of the nation's resources would not result from the submission of the Public Corporations in whole or in part, to the so-called discipline of the profit motive;
- e) that the hiving-off of so-called peripheral parts of the public corporations, far from increasing their efficiency, would be likely to weaken them severely;
- f) that the conclusion must be that a great part of the attack has its source not in any serious economic argument but in a doctrinaire

faith in private capitalist enterprise and perhaps even in some deference to vested capitalist interests.

So much for the negative case. There are, however, strong positive arguments for defending and extending public enterprise in the economy. Some of these are but the obverse of those we have just examined; others carry the whole matter rather further.

a) *Arguments of Efficiency*

(i) If the public corporations are not either operating inefficiently or wasting public resources then these are major arguments for leaving them alone within the framework of public control already established. Whether the proposal is for hiving off parts or for introducing private capital the whole exercise will involve an enormous *waste of time* and energy. This will be particularly unfortunate in the case of the Steel Corporation which desperately needs time to settle down after its second major reorganisation in three years. What would be valuable would be for the Corporation to increase its stock holding and milling capacity by taking over one or more of the private steel stockists and rolling mills while it is still establishing its new structure. The same is the case with the Post Office which has gone through a major reorganisation in the last few years and needs time to improve its efficiency rather than engage in political battles.

(ii) If it is true that some of the so-called peripheral activities are crucial *growing points* of the public corporations, chemicals from coal and telecommunications in the Post Office or special steels for example, it is their development which will retain first class management and will maintain morale throughout the corporation. This is particularly important in the case of declining industries whose continued life is still of great, even though of reduced, importance for the country. Cases in point are the Coal Industry and the steel industry, the latter at least as far as crude steel is concerned. It must be enormously dispiriting moreover, for B.O.A.C. employees, having built up the most profitable international air line in the world to see some of its best routes being hived off and to know that the second force will be given preference in allocations of new routes.

(iii) Far from being peripheral activities many of the parts being considered for hiving off from the public corporations as we have seen, have close and even *integral links* with the main body of the corporations activities. Both the subsidiary and the main interests will thus be damaged by hiving off. In the case of B.O.A.C. for example the corporation's scale economies will be reduced, feeder traffic will be lost and it will no longer be able to offer a comprehensive service. The loss of the West

African routes will cost B.O.A.C. about £1.3m in profits. In addition there may be a capital loss because B.O.A.C. have valuable ground installations, office accommodation and staff housing in West Africa. (*Times*, 17.12.70). Despite its advocacy of a second Force airline even the Edwards Committee on aviation stated clearly that "there are significant advantages in a large-scale marketing effort in main line international operations . . . marketing effectiveness demands a widespread geographical coverage of routes and sales outlets."

Gas and Electricity showrooms as we saw earlier, not only sell appliances but are also a means by which bills can be paid. They are also an important part of the industries' marketing efforts. To quote once more from the Public Enterprise Group Pamphlet "About two-thirds of all credit accounts are paid personally by consumers at service centres. Gas and electricity showrooms are a valuable point of contact between the industries and their consumers. An investigation by the Gallup Poll for the Consumer Council showed that the great bulk of complaints about service are received at showrooms. (*Consumer Consultative Machinery in the Nationalised Industries*. A Consumer Council study, pp98, 103). In the case of gas, it is particularly important for the industry to have somewhere at which consumers can report gas leaks and low pressure, both of which can be dangerous. Over the weekend when showrooms are not open the number of complaints about leaking gas falls off. In other countries the electricity and gas industries do comparatively little retailing work but nevertheless maintain showrooms for the purpose of demonstrating appliances and encouraging gas and electricity sales. Such advertising is obviously costly and in Britain its cost is covered in the process of selling appliances."

Another example is afforded by British Rail Hotels. We may quote the Public Enterprise Pamphlet once more, "The railways catering services, which are almost certainly not being considered for hiving off are linked to their hotels. They are under joint management and, it is understood, that both services are able to secure lower prices by buying in bulk. Moreover, a high proportion of the railway hotels form part of railway stations. While it would not be impossible to charge the hotels a rent for the premises which they occupy this might complicate the redevelopment of stations. The hiving off of the hotels was considered when the B.T.C. was broken up but was rejected. The rail shipping services again mesh in with boat trains and while the co-ordination of the two activities would not be impossible if they were under separate ownership it would surely be more difficult. Moreover, at present British Rail is able to pursue a joint marketing strategy."

(iv) Arguments of efficiency would in many cases indicate not a re-



duction but an extension of public enterprise. This is most evident in the case of the British Steel Corporation. It is interesting to note here the thinking of the remaining private sector of the steel industry as represented by Mr. J.H. Shelmerdine retiring chairman of B.I.S.P.A. at the Association's latest meeting, when he referred to "recent speculation about the future of the B.S.C.'s Special Steels Division. This does not stem from proposals made by B.I.S.P.A.," he said, "The subject is nevertheless an important one to us and is in danger of becoming oversimplified.

"In the first place, this Division, like the B.S.C. as a whole, embraces by administrative accident some units which bear very little relation to each other, and in many cases do not qualify as Special Steel products in the accepted sense of the word.

"If, therefore, it is the intention of the Government to facilitate the injection of private capital into this sector it is important that it should be done in such a way so as to bring about sensible restructuring at the same time.

"As to the subject of "hiving off", B.I.S.P.A. saw this as "the Corporation relinquishing those activities quite unrelated to steel, and ceasing its marginal involvement in those products predominantly produced by the private sector, such as high-speed steel, bright bars and wire."

There are two points of interest here, firstly it is true that the largest group in the Special Steels Division is the Rotherham Group, whose main product is crude steel rolled into strips and rods and other light rolled products. Secondly, it is the General Steels Division, not Special Steels which includes the wire and wire products group incorporating Bright Steel products. The implication to be drawn from Mr. Shelmerdine's words is that the private sector had its eye not only on parts of the Special Steels Division — the alloy and high speed steels — but also on part of the General Steels Division. These parts are certainly the most profitable parts but to restructure them outside the Corporation would be to lose many of the advantages of vertical integration. What is needed is an extension of the Corporation's holdings into the whole field of steel products.

The same argument applies to the British Steel Corporation Structural Division. Some engineering firms are certainly interested in this Division — once again, however, the case for vertical integration is overwhelming. The Division not only enables the Corporation to widen and develop markets for its products; it enables the output of the rolling mills to be rationalised to produce long runs of standardised sizes and qualities with substantial reduction in cost; and it enables

production and research to be geared to the quality requirements of the consumer. Indeed, there is a strong case for expansion by the B.S.C. into a wider field of construction and also into steel stock holding (which is owned to a substantial extent by the steel producers in about every major steel producing country except the U.K.). This would make possible further rationalisation of the mills rolling programme, and the transfer of breaking bulk and supplying small quantities ex stock from the mills to large service centres near the peak of consumption.

(v) The performance in fact of the subsidiaries of the public corporations is recognised as being of a particularly high standard by commercial criteria. British Rail for example claims a higher rate of return to capital on its shipping services than its rivals.

The high level of efficiency with which the nationalised industries run their ancillary undertakings constitutes a powerful argument against the Government's policy of selling them off. That these subsidiary activities are in general well managed is shown by their technical performance, competitive edge and financial results. These were fully documented in the Public Enterprise Group's Pamphlet *Stop Messing Them About*. pp 18–19.

#### (b) *Arguments of Income Distribution*

The hiving off of the more profitable parts of the nationalised industries and the other proposals of the Conservative Government for those industries are referred to quite openly as the provision of opportunities for the private investor. The distribution of wealth in Britain today is such that only about ten per cent of the adult population own property from which they derive an income. (James Meade, *Efficiency, Equality and the Ownership of Property* Table 1.) It has never been claimed that more than about 15% of families have shares in quoted companies equity. These opportunities are therefore to be provided for a very small and wealthy section of the population. The distributive effects of these measures are, therefore, likely to be in the direction of increasing inequality.

It is, of course, true that the nationalised industries have been financed by borrowing money through the Government from private persons and companies. In this way, as was suggested earlier, this method of finance has involved the transferring of wealth from the public to the private sector. Nonetheless, even the high recent rates of interest on government guaranteed borrowing have been less than would have had to be paid on equity shares. To increase the share of privately owned equity in the current nationalised industries would be

to increase the inequalities of income distribution. This is as much an argument against the proposals being aired for a B.P. solution for some nationalised industries such as steel as it is against proposals for hiving off profitable parts. The private stake in publicly owned industries must inevitably benefit from the state's under pinning of a part of the equity. In the twelve years from 1957 B.P. shareholders received capital issues of 1:1 in 1958, 1:5 in 1961 and 1:5 in 1964 and a rights issue of 1:13 in 1966, so that their capital holding more than tripled in the period, while the stock Exchange price of each share roughly doubled. Dividends paid on B.P.'s equity over this period, moreover, rose from about 9% to 20%.

The highly profitable bargain for steel shareholders both in the 1954 denationalisation and 1966 renationalisation acts have already been referred to but the details may be summarised here for the three periods — first nationalisation, denationalisation and renationalisation.

- a) After the first Nationalisation of Steel, shares were sold to the public in 1954-57 at much below their real value in the following respects:-
  - (i) five of the top companies had built up reserves which on average doubled the value of shares on denationalisation;
  - (ii) share prices were based on estimates of profits which proved to be on average half of what was actually earned in the next three years (i.e. to 1960);
  - (iii) Government loans of £150m i.e. more than the shareholders had paid for the companies were made to the top 10 companies.
- b) During the period of private ownership 1957-67 rights issues of shares by the top nine companies doubled the value of the shares on top of a fourfold increase in dividends. In ten years the shareholders received dividends greater than the value they paid for their original shares.
- c) The Labour Government renationalised the top steel companies in 1967 on the basis of average share prices in 1959-64 or 1965 prices, whichever were the higher. The result for equity and preference capital was as follows for 13 companies:-

	Equity	Preference	Total
Nominal Value (£)	295	163	460
Actual Price paid	529	137	666
Mid 1965 Share Price	427	130	557

But, if the denationalisation price had been taken plus capital issues and

a percentage added for inflation a "historic price" could only have amounted to:-

Historic Price	290	144	434
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The selling off of profitable parts of the public corporations may equally well result in losses to the exchequer and capital gains for the private sector. It has been made evident that private investors will only be interested in those parts of the nationalised industries that they think they can pick up on the cheap. Moreover, there will be goodwill involved for which no charge will be made. Thus, the goodwill which has been built up in the case of BOAC's South African routes or in the case of the B.B.C.'s local radio stations will be handed over for nothing. Moreover, if the threat of renationalisation by a subsequent Labour Government should depress the price which shareholders are prepared to offer they will obtain public assets on particularly favourable terms.

All such increases in the proportion of the mixed economy that is open to private profit making must tend to increase the unequal distribution of income. This is an important welfare argument in its own right but it also involves the growth of the whole economy which we shall examine in a moment.

c) *Arguments concerning the Quality of Life and Work in the Nationalised Industries.*

It is a striking fact that in all pronouncements of the Conservatives about the public sector, while there have been many references to the efficiency of management and the returns to capital, there has not been a word to suggest that what is at stake is the future of several tens of thousands of working people. Whatever dubious electoral mandate there may be for hiving off assets from public to private ownership, one certain fact is that none of the working people involved have been consulted or are likely to be consulted about their preferences. Those who work in the public corporations will not pretend that their wages and conditions of work are perfect and that there are not many things that should be improved. Yet a free vote among them would undoubtedly find few who would choose to return to private enterprise if they had the choice. This was the source of the enthusiastic demonstration of postmen in favour of Lord Hall when he was dismissed by a Government that gave every appearance of launching an attack on public enterprise. It is not simply a value judgement about abstract justice or equality that leads workers in the nationalised industries to prefer to see that the surplus from their efforts goes back into new plant and equipment, or into the whole community itself, rather than a part goes into the hands of a few rich private shareholders. It is a sense that their work is not socially devalued. When the quantity and quality of work depends increasingly

on self discipline rather than on the threat of unemployment or lost wages, this is not a small matter.

The nationalised industries have set the pace since the war in wages and conditions of work, in the development of conciliation and consultation, especially in safety matters and in the provision of education. The apprenticeship schemes with day release to technical colleges, the further educational opportunities thereafter, the career open to talents free from nepotism and family favour are unrivalled. To take but one particular example, the nationalised industries pioneered the release of shop stewards for courses of training long before this was made possible elsewhere. Only the nationalised industries today provide the opportunity for all their active trade unionists to follow three year University courses to train them for fuller participation in their industries and for further development of their capacities.

It is perhaps the most tragic aspect of the Conservative attack on the public sector that the high morale and sense of social purpose in the nationalised industries is being undermined. It was a particular injustice that the public sector should have been singled out by the Conservatives for a discriminatory attempt to hold down prices and wages in this sector because here the government had power to act. It is one thing for a Government to use its control over the timing of public sector investment policy for general economic planning purposes, quite another to discriminate against the public corporation's wages and prices, even if this were a proper solution to cut inflation during a period of under-capacity working in industry. The result has been that workers in these industries which had above average productivity gains found themselves singled out for restrictions in the general movement of wages. It cannot be a matter for surprise that recent strikes have been precisely among such workers — council dustmen, coal miners, electricity workers. If further attacks are made including the hiving off of profitable operations for private investment the only result must be outright resistance or a serious collapse of morale.

The Coal Board with all its difficulties has succeeded in ten years in running down a manpower of over 600,000 to less than half that number. It has been an extraordinarily difficult operation with demand for coal steadily declining all the time. The difficulties that occurred were the result as we have seen of too little, not too much, government intervention to halt the pace of run down. Yet the job was done and productivity raised by an average annual rate of 6% compared with the average of 4% in private manufacturing industry. No-one supposes for one moment that the job could have been done by the ruthless methods of private enterprise which the coal industry knew between the wars. Yet

this is what the hiving off of the more profitable parts of the Coal Board must mean. It is hard to believe that the Government has seriously considered the implications of taking on the miners; for the secretary of the National Union of Mineworkers has already announced that they will fight back against denationalisation moves. If the Government is recalling 1926 it should remember that there was mass unemployment then and very low levels of public assistance. If it reckons it can do without home produced coal it may please the oil companies but it will be involving the country in a stupendous increase in our dependence on imports. It is to the arguments concerning national security and planning that we now turn.

d) *Arguments concerning National Security and Independence and the Balance of Payments.*

Hiving off certain parts of the nationalised industries may seem in itself to involve only domestic considerations of efficiency, income distribution and the working conditions and morale of these industries. But we have already noted that in their shrunken form the public corporations after hiving off might well be left in a gravely weakened condition. This seemed possible in the case of coal and steel and rail, and probably of the Airways Corporations. It has already been suggested in some quarters that the E.E.C. does not want such a large single national steel producer inside the Common Market as the British Steel Corporation presents. In fact the sales of West Germany's August Thyssen Hutte including its foreign subsidiaries were valued in 1969 at about the same level as those of B.S.C., although they were well ahead of all other European steel combines. Both achieved only a little more than half the value of the sales of the United Steel Corporation. It is true that August Thyssen Hutte's sales include those of the foreign subsidiaries and were more diversified than B.S.C.'s. Thyssen's Steel output was only about half that of B.S.C. But this would suggest the need for B.S.C. to retain its chemical and engineering interests, for it is such interests that make up a large part of Thyssen's sales.

In both 1969 and 1970 U.K. imports of steel were running at over 2½ million tons a year. The cost to the balance of payments was of the order of £160 million each year. Although it is true that exports were twice as large as imports, the particular balance on trade with the E.E.C. was negative (£59m. imports; £34m exports) and the balance with Japan was also negative (over £4m imports and less than £1m exports). Any steps which may tend to weaken the British Steel Corporation's competitive position in foreign markets could be very damaging. Britain's steel output fell far behind other countries' steel production especially in the world market in the years before nationalisation; and this was

one of the main reasons for nationalisation. In 1953 U.K. steel output was 8% of world output. By 1967 the proportion had fallen to 5%.

In 1969 imports of fuels — nearly all petroleum and petroleum products — exceeded £910m in value; exports, again mostly petroleum products, were valued at £170m. The net figure had much more than doubled in the decade. If coal sales were reduced to half the present annual level of 160m. tons, even assuming that natural gas could quickly be stepped up to meet a half of the 80m. tons required, and another 10m. tons (coal equivalent) comes from nuclear power, oil imports would have to be increased by 30m tons a year and this is not allowing for the natural growth of national demand and particularly of demand for oil on the roads and in the air. An extra 30m. tons (coal equivalent) is 17½m. tons of oil which imported refined would cost another £200m. on the balance of payments, or if imported crude for refining here — £120m. These are large figures to add to an only just convalescent foreign payments account.

In 1969 there was a net balance on the civil aviation account of some £40m. — £287m. earned by British aircraft from foreigners, £246m. paid to foreigners for use of their flights. The net balance was of the same order in 1970. Once again these are large figures and any weakening of Britain's competitive position could be serious. It might be especially serious if the Second Force airline were to be taken over by an American or other foreign operator, which is always quite possible. There were similar fears both on balance of payments grounds and grounds of national security in the case of the first Government decision to guarantee the loan to Rolls Royce. What had to be answered in that case was why Rolls Royce should not be allowed to go to the wall if competitiveness has to be the sole test for private industry; and if it was to be treated as a national strategic asset dependent on public funds why it should not be nationalised. In the event it was nationalised only after bankruptcy

Questions of national security were raised also in relation to the Atomic Energy Authority's hiving off of fissile material sales to private ownership. But the Rolls Royce analogy may be applied to other industries where the maintenance of technological progress is involved. Obvious examples are the aid given by the Labour Government to the rationalisation of electrical machinery manufacture, to computer production and to the hovercraft development by the Industrial Reconstruction Corporation and the Ministry of Technology. But this involves arguments concerning national planning which would favour an extension rather than a reduction of public enterprise.

e) *Arguments on Grounds of Public Accountability and Economic Planning.*

It has been argued earlier that the tests of the market including the capital market simply do not any longer alone assure the best use of national resources. The giant company of today can create demand for its products by advertising, can influence income distribution through its massive resources, can fix prices directly and through cartels and price leadership, can set prices therefore, at a level that allows it to build up its own capital reserves, can obtain the lion's share of all new capital issues, can indeed dictate the investment decisions and growth path of a sizeable part of the nation's resources without necessarily paying any attention to social costs and benefits. Government fiscal policies, differential subsidies, investment grants and tax rates, can influence the giant company's decisions to a fairly limited extent. In the last resort the main influence of the Government on the economy is through the public sector. Any diminution of this sector, will inevitably mean, as the Conservatives have made clear, a disengagement of the Government from the economy. The result must be a loss of public accountability in industry and a weakened base for economic planning both of growth itself and of its constituents.

About a half of all capital formation now takes place in the public sector and government grants and loans make up a sizeable proportion of the private sector investment (see Table I in the Appendix). If these proportions are to be maintained, and even if they are somewhat reduced by the Conservatives, the question of public accountability remains, on the old principle of "no taxation without representation". It must be frankly faced that accountability means accountability with all the irritants for management of public scrutiny and public policy guidelines. The fact is that the self-perpetuating oligarchies which make up the boards of modern industry do not have a monopoly of wisdom, although they may have a near monopoly of capital. Their decisions are probably saved from disaster by the interlocking of directors and by the special role of the merchant bankers with their wide contacts throughout industry and with government policy. But this of course is not the old style competition for which the Conservatives seem to yearn; and in relation to the public it is entirely irresponsible.

The financial and economic obligations laid upon the public corporations and the subsidies provided, to ensure social benefits where private costs do not include social costs, have already been referred to. Within these obligations the general requirement of the best product and the lowest price provides a much clearer incentive than private industry's talisman of profit maximisation. Amongst the cases for nationalisation



issues at the beginning of this paper were several — those concerned with social costs and benefits, with long time horizon for capital return and with large scale risk taking — where private ownership has simply failed. Others required monopoly for an efficient service; and denationalisation we have argued would in many cases simply mean exchanging public for private monopoly. What can, of course, be argued, as A.H. Hanson and others have argued, is that public control over government needs to be improved. The fact is that Select Committees of Parliament, the Prices and Incomes Board and the Users Councils attached to nationalised industries have increasingly provided the detailed knowledge of policy alternatives which an informed public needs in order to obtain the public services it wants. Of course, all this can be improved but not by winding up the Consumer Council and handing public monopolies back to private monopoly.

Planning for increased economic growth has engaged both political parties over the last decade as being crucial to such growth. Mr. Angus Maddison of O.E.C.D., for example has concluded from studies of West European growth rates since the war that "The countries where government has saved most are those with the highest investment rates" — an important element in economic growth, (see Angus Maddison "Facts and Observations on Labour Productivity in Western Europe, North America and Japan" in E.A.G. Robinson (ed) *Problems in Economic Development*, 1965, p. 234.

A strong public sector has always been regarded by the Labour Party as the essential basis for economic planning and particularly for the maintenance of full employment. The use of monetary measures to manage aggregate demand has had increasingly to be supplemented by Government expenditure and particularly by public sector investment in the 'go' periods of 'Stop Go'. This was as true of the Conservative Government in 1963/64 as it was of Labour in the following years.

Governments of both parties over the last two decades have increasingly used variation in public sector capital formation — both of public authorities and public corporations — to stimulate and to deflate aggregate demand. This has not generally been countercyclical and has tended to be unfortunately characterised by "stop and go"; but the stimulation effect of such spending has been regarded as necessary after a period of deflation (and before an election). Table IV gives the picture. It is evident that the role of public corporation investment in stimulating the economy has been of increasing importance. The public sector borrowing requirement varied over the years after 1959 between around £500m. and £1800m. Such borrowing made it possible for the Government to influence directly the level of public investment

both by public authorities and by public corporations. This may not appear to be entirely desirable for the public corporations but some such countercyclical control of public investment is very much preferable for all concerned than the current 'overkill' of long periods of total national economic 'stop' between short bursts of 'go'. Any major diminution of the scale of the public sector would certainly reduce the power of Government to manage the economy in this way.

One of the main advantages of economic planning, even of an indicative sort, is the external economies that can be obtained from the integrated planning of investment. A large public sector is of great importance here since government can ensure the conjuncture of plans for related investment. The failures of government fuel policies can indeed be attributed to the absence of public control over the oil industry which made policy decisions for the rest of the fuel and power industry into largely academic exercises. Such decisions must be a matter of long term social and economic judgement. It is surely clear, however, from the current coal shortage requiring coal imports and even more from the growing anxiety about the conservation of the world's carbon deposits that a rate of rundown of the coal industry, dictated solely by short term commercial considerations, would have been a national disaster. On the contrary the country could be expected to have benefitted from a rather slower phasing of the industry's rundown which would have better maintained the morale of the miners.

The need for co-ordinated public enterprise is nowhere more clearly shown than in the long standing demands for planned re-organisation of the ports; and the failure of the old competitive system in the financial crisis which came to a head in the case of the Mersey Docks and Harbour Board and the development of a container base outside its authority. The result of the vicious circle of high prices and low investment in the big ports is that leading importers, exporters and shipping companies will increasingly boycott these ports and develop their own arrangements in the smaller estuaries and harbours in order to avoid the congestion, delays and high charges of the main ports. This in turn will mean a very considerable increase in social costs. Existing facilities will be underused, new facilities will be built on a scale that is inadequate for realising either internal or external economies and the country's transport system will become even less rational than it is. Those who hope by these means to escape from the militancy of the London or Liverpool or Hull dockers should realise that the fear of unplanned closure and redundancy is precisely the source of the militancy.

Regional policy has been particularly dependent on the public sector. Apart from tax concessions and grants to the development areas, the

building of advance factories, the direction of government offices to these areas, the fuel policies pursued at government direction have been key factors in reducing unemployment, or at least checking the growth of unemployment where high unemployment levels existed or were threatened. It has been unfortunate that the nationalised industries have often borne an unfair share of the burden of social policies despite the subsidies paid to them for the purpose. But their existence and their scale of operations have provided governments with important weapons for maintaining something near full employment. Again any diminution of the scale of their operations would reduce the power of government to offset anti-social forces in the market. In view of the inevitable continued rundown in the coal industry and in the railways and the concentration of the steel industry, the argument of this section indicates the necessity for an expansion, not a contraction, in the area of public enterprise.

The possible effects of such regional depression combined with the more unequal income distribution that we have argued would follow from a policy of denationalisation are not limited to the immediate inequalitarian results in resource allocation. They could seriously destabilise the whole economy. The marginal propensity to save typical of share holders and of private companies is such that a rising savings proportion, particularly in periods of boom, could in the absence of government measures to the contrary quite easily recreate the conditions for another 1929, although the speculative element would probably be kept under control. The warnings of J.M. Keynes are in danger of being forgotten in the current enthusiasm of the Conservatives for "setting the (rich) people free".

### Conclusion

In this paper we have not only attempted to answer the major arguments that have been put forward for hiving off parts of the nationalised industries. These we summarised earlier as follows:

- 1) Denationalisation would only rarely make for competition; more often it would replace public monopoly by private monopoly;
- 2) Public monopolies far from proving themselves inefficient had a better record in improved productivity than private enterprise and were subject to more effective control in the public interest than the capital market assured for private monopolies;
- 3) Hiving off so-called peripheral activities far from learning the main body more efficient would reduce the effectiveness of both subsidiaries and main undertakings since they were in most cases integrally connected.

We have now examined four major arguments in favour of maintaining and indeed extending the area of public enterprise in this country.

- 1) The efficiency of the new and ancillary activities of the nationalised industries is particularly evident and is in part due to their close integration with the parent body; an extension rather than a reduction of these activities is indicated;
- 2) The income distribution effect of denationalisation would undoubtedly be towards greater inequality and quite unfair gains to share-holders at the public expense;
- 3) The conditions of work and of training etc. in the nationalised industries have set the pace for private industry and this means that denationalisation will be strongly resisted by those now working in these industries;
- 4) The power of the Government to control both the rate and path of growth of the economy has depended very greatly on the public sector and particularly on public enterprise. To reduce this sector is to raise serious problems for the balance of payments and for economic stability as well as reducing public accountability. If anything, the argument suggests an expansion not a reduction of public enterprise.

And if the Conservatives do what they say they will all this would be done for what are in the last analysis doctrinaire considerations. Private capitalist enterprise is the foundation of the Conservative Party, its leaders, its funds, its most active members. What was progressive and appropriate to the technology of the early Nineteenth Century, however ruthless and inhuman its by-products, is no longer appropriate today. The huge scale of production, the enormous power of the giant concentrations of capital, the need for planned integration of separate plants and separate industries, the social consequences in overlapping, in misuse of resources, in pollution of the earth and its atmosphere, all call out for more and not less social control. The attack on public enterprise is an attempt to put the clock back. In the long run it cannot succeed but in the short run it can do great damage.

**Table I Public Expenditure as % of Gross National Product**

Type of Expenditure	1938	1948	1953	1958	1963	1968
Current Goods & Services						
– Military	3.8	7.1	11.5	7.6	6.9	6.5
– Civil	9.9	10.2	9.1	10.8	12.3	14.7
Current Payments to Persons						
– Debt Interest	5.5	5.5	4.6	5.0	4.8	5.2
– Pensions, Subsidies, Benefits etc.	6.8	12.5	8.5	8.8	9.9	12.4
Gross Capital Formation						
– Government	4.0	4.8	4.0	3.8	4.1	6.0
– Public Corporation	–	2.3	3.2	3.3	3.7	4.5
– Loans, Grants etc.	–	2.3	2.6	1.5	1.4	2.9
TOTAL of above	30.0	44.7	43.5	40.8	43.1	52.2

Source: *National Income and Expenditure*, Blue Books

**Table II Productivity Performances**

Annual Average % Increases 1958-68

Country	Manufacturing O.M.H.	Railway Traffic per man hour	Air Passenger Miles per man hour	Electricity Sales per man hour	Coal Tons O.M.H.
Japan	9.3	–	7.6	–	–
Italy	7.8	2.8	10.5	5.1 (1)	–
Sweden	6.9	5.9	7.9	–	–
Holland	6.8	–	10.5	–	4.7
W. Germany	5.9	4.7	10.7	7.6 (1)	7.1
Austria	5.7	1.7	–	–	–
Belgium	5.4	4.1	4.2	10.4	5.9
Norway	5.4	–	–	5.4 (2)	–
France	5.2	3.3 (1)	7.6 (1)	7.3 (1)	3.1
Czechoslovakia	4.8 (1)	–	–	–	3.0
Switzerland	4.6 (2)	4.2	6.3	–	–
Poland	4.5 (1)	–	–	–	5.0
U.K.	4.0	4.6	9.8	7.7	5.9
U.S.A.	3.6	–	8.8	7.1	–
Australia	3.0 (2)	–	9.0	–	–
U.K. position	13/15	3/8	4/11	2/7	2/7

Notes: (1) 1958-67 (2) per man year

Source: R.S.W. Pryke, *British Steel*, November 1970.

Table III

**Increases in Public Sector Fixed Capital Formation in  
Certain Years 1949-1969 (% Increase over Previous Year  
in Real Terms in 1959 Prices).**

Years	Public Authorities	Public Corporation
Average 1949-51	3	8
1952	9	5
1953	11	17
Average 1954-58	-3.5	4.5
1959	6	9
Average 1960-62	4	4
1963	10	7
1964	22	16
Average 1965 and 66	5	6.5
1967	15	12
Average 1968 and 69	2.5	-9
Actual Figures in 1949 (£m)	498	264
1969 (£m)	2206	1482

Source: *National Income and Expenditure*, Blue Book 1970

Table IV

**Political Contributions of Large Companies with an  
Interest in Nationalised Industries**

Company	Annual Sum (£)	Company Contribution to	Company's Interest in
G.K.N.	33,431	Tory Party	Steel
Dowty Group	3,780	Economic League	Coal mining
	300	Economic League	
Plessey Co.	10,750	Tory Party	Tele-commu- nications
	10,000	B.U.I. (2)	
Tube Investments	850	Economic League	Steel
Brightside Eng.	54	Tory Party	Steel
	500	B.U.I. (2)	
	100	Economic League	

Table IV continued

Cementation	2,500	Tory Party	Coal
Cammel Laird	250	Economic League	Railways
Capital & Countries Property (1)	15,000	Tory Party	Hotels
Central & District Properties	1,000	Tory Party	
City of London Real Property	2,500	Tory Party	
Powell Duffryn	1,160	Tory Party	Coal
	300	Economic League	
Thos. Firth & J. Brown	2,000	S.Yorks I.C. (3)	Steel
Samuel Osborn (1)	5,000	"	Steel
Arthur Lee	1,000	Tory Party	Steel
Newton Chambers	1,500	Tory Party	Steel
Steeley Co.	5,000	B.U.I. (2)	Steel/Bricks
Yorkshire Post Newspaper (1)	1,500	Tory Party	Commercial Radio
George Cohen 600	1,600	Tory Party	Steel
	420	Economic League	
British Commonwealth Shipping	400	Tory Party	Shipping
	5,000	B.U.I. (2)	
	750	Economic League	
Burmah Oil	5,000	B.U.I. (2)	Gas
Portsmouth & Sunderland News	1,050	Tory Party	Commercial Radio
Ocean Steam Ship	500	Tory Party	Shipping
	250	B.U.I. (2)	
S. Pearson	5,000	Tory Party	Commercial Radio
Scaffolding G.B.	724	Tory Party	Steel

Notes (1) Conservative M.P.'s on the board.

(2) B.U.I. — British United Industrialists distributes funds to anti-nationalisation bodies including the Tory Party.

(3) South Yorkshire Industrial Council is a Tory Party support organisation

Source: Labour Research Department

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