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## CHAPTER 7

### The Nationalized Industries

THE public corporations as a whole differ from other public collective services in important respects. They make charges for their services, related broadly to the costs of provision, and preserve other characteristics of private trading. Notably, they retain control over the use of their reserves and have usually the power to issue stock; they may even be subjected to profits taxes, or be required to pay local rates, or both. On the other hand, the nationalized industries differ from private enterprises in being subjected to certain general (and often extremely vague) directives, laid down in the individual nationalization Acts. One such directive is ubiquitous: that the industries shall perform their functions so as to "secure that the combined revenues . . . are not less than sufficient to meet their combined outgoings properly chargeable to revenue account taking one year with another."<sup>1</sup> Most Acts also include a general exhortation to provide the services concerned "efficiently and cheaply," whatever that might mean. There is evidence that the enterprises have not always found these directives easy to fulfill or mutually compatible; the further general and vague requirement to act "in the public interest" has accordingly been used to interpret the other directives as the corporations might wish.<sup>2</sup>

It is not easy to provide statistics of nationalized industries' income and expenditure payments of a kind that will illuminate the evolution of these enterprises as a part of the public sector. There is, for example, no simple way to deal with the fact that some enterprises now nationalized were earlier in the hands of local authorities (and hence already in the public sector), while others were privately operated. The statistics we give are those directly available from official sources, and begin only in 1938. They nevertheless provide valuable information, since the post-1938 period is that of the great expansion of British public enterprise.

At first sight, it would appear that the nationalized industries cannot be fitted into our story of the operation of the displacement effect and the concentration process. This, indeed, was our own first impression. But even with inadequate statistical information it is still possible to see the traces of these effects in operation.

Our procedure is intended to show how this contention can be justified. This requires us to refer briefly to the history of nationalization and to

<sup>1</sup> The quotation is from Section 36 (1) of the Electricity Act, 1947. Similar phrases are to be found in other Acts. For a fuller discussion of the implications of these directives for price policy, see D. N. Chester, *The Nationalized Industries: an Analysis of the Statutory Provisions*, London, 1951, pp. 66-73.

<sup>2</sup> See, for example, the comments on this topic in the Annual Reports of the Raw Cotton Commission.

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define the scope of the nationalized industries for purposes of statistical comparison over time. We then present the statistics of the income and expenditure payments of public corporations in order to demonstrate their considerable growth since 1938. Finally, we examine the change in the size and composition of public enterprise in the light of our general thesis.

### *Growth and Present Extent of Nationalized Industries*

A study of this sort cannot embark upon a history of nationalization in Britain,<sup>3</sup> but a background knowledge will help to give us the necessary perspective in analyzing its development. For our purposes, what is most necessary is recognition of the fact that nationalization has a longer history than is generally realized. Not only are there examples of state enterprise before the period of our study, but there are also some important examples of industries that have been subject to close regulation by the state for a long time and have remained so up to the present, or have later been formally assimilated as part of the nationalized sector.

Although the General Post Office is not regarded as an independent public corporation in Britain (and hence is excluded from the statistics in this chapter), because of its financial dependence on the central government especially for its capital budget, it has been a government trading monopoly for 350 years. Its great period of development began with the introduction of the penny post by Rowland Hill in the 1830's, followed by the extension of its activities in the financial field through the money order system and savings bank facilities. Much later the Post Office became the organization responsible for the state monopoly of the telephone business. At the local government level, the public utility became the standard form of trading service in the nineteenth century, the most important examples being the provision of light and water. After World War I, there was close state control over railway rates and after the Great Depression a compulsory cartelization of the coal industry. These measures paved the way for further and more radical state intervention during and after World War II. The interwar period witnessed also the nationalizing of broadcasting and of overseas airways, these being less important in size but significant in character; they were both relatively new industries when taken into the public sector.

It is, however, true that the most important period of nationalization came after World War II with the assumption of public ownership of the Bank of England; coal, transport, electricity, and gas enterprises; and the temporary nationalization of iron and steel production during the last period of office of the Labour Government which ended in 1951.

<sup>3</sup> For further information, see W. A. Robson, *Nationalized Industry and Public Ownership*, London, 1960, and R. Kelf-Cohen, *Nationalization in Britain: the End of a Dogma*, London, 1958.

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The significance of this change is clearly reflected in the income and expenditure figures for the nationalized industries presented in the next section.

The nationalized industries, or, as we term them following official practice, the public corporations, are listed below. The list and the classification, used also in our subsequent statistical analysis, are taken from the relevant *Blue Book of National Income and Expenditure*.

### *Fuel and Power Industries*

National Coal Board

Electricity authorities

Central Electricity Board

Electricity Board of Northern Ireland

North of Scotland Hydro-Electric Board

British Electricity Authority and Area electricity boards

Gas Council and Area Gas Boards

### *Iron and Steel*

### *Transport and Communications*

Airways Corporations

British Overseas Airways Corporation

British South American Airways Corporation

British European Airways

British Transport Commission (covering railways and road services)

Ulster Transport Authority

Cable and Wireless, Ltd.<sup>4</sup>

National Dock Labour Board.

### *Housing and New Town Corporations*

### *Raw Cotton Commission*

### *Other Corporations*<sup>5</sup>

The list brings out the great diversity of activity of public corporations which has resulted from piecemeal nationalization. Compare, for instance, the functions of the Raw Cotton Commission (broadly, those of a raw cotton merchant and speculative trader) and the functions of New Town Corporations responsible for the complete planning and development of new urban areas. It also suggests some of the problems created by nationalization measures of this kind, such as those arising from competition between the nationalized undertakings, especially the coal, gas, and electricity industries.

<sup>4</sup> The name is that of the company to whom the enterprise formerly belonged.

<sup>5</sup> This group does not include all other "trading" activities of public bodies. For example, the General Post Office and the National Health Service are not classified as public corporations.

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### *Income and Expenditure of Public Corporations, 1938-54*

In social accounting terms, public corporations are normally treated as part of the enterprise sector so that payments for raw materials, and so on, represent intersector payments. Accordingly, since we are concerned with expenditure by national income categories (i.e., with resource use in the wide sense), the statistics we give do not comprehend all the expenditures of public corporations but deal only with expenditures that involve direct factor payments or payments for final output. The tables that follow therefore give details of income payments by public corporations; capital formation by public corporations as a group, both in absolute terms and as a proportion of total capital formation; and the breakdown of the same material by the industry groups set out in the classification above.

#### INCOME PAYMENTS

Table 17 gives details of the aggregate income payments of all public corporations. The table brings out the great increase in the incomes derived from the economic activities of such corporations as a consequence of the postwar nationalization measures, and also demonstrates the importance of such activities in the period since 1945. However, the increase in the share of total income payments deriving from public corporations from 0.5 per cent in 1938 to 10.9 per cent in 1955 does not represent a similar net enlargement of the public sector as a whole. The change reflected to an important extent a change in the form rather than the volume of public trading. For example, the nationalization of gas and electricity services increased the volume of public corporation activity, but it involved an important transfer of trading activities from the local authorities formerly responsible for the undertakings.<sup>6</sup>

Tables 17 and 18<sup>7</sup> together provide an interesting insight into the precise nature and effects of the postwar nationalization and denationalization measures. The statistics of most interest and importance are those concerned with incomes from employment. The nationalization program began in earnest in 1946, after the nationalization of the coal mines. Income from employment in public corporations as a percentage of total income from employment rose steadily until 1952; fuel and power, civil

<sup>6</sup> See Moses Abramovitz and Vera F. Eliasberg, *The Growth of Public Employment in Great Britain*, Princeton University Press for National Bureau of Economic Research, 1957.

<sup>7</sup> The statistics in Table 18 were provided by the Central Statistical Office. They are not fully comparable with those in Table 17, derived from published sources. Table 17 includes amendments received up to March 1956, and the classification is different (notably in including trading services). There are consequent differences in totals and minor discrepancies between the two tables.

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TABLE 17

INCOME PAYMENTS OF PUBLIC CORPORATIONS, SELECTED YEARS, 1938-55  
(amounts in millions of pounds)

Year	National Income Category				
	Income from Employment	Rent	Interest and Dividends (gross)	Undistributed Profits (gross)	Total Income Payments
1938	17.0	—	9.0	4.0	30.0
% of total <sup>a</sup>	0.5	—	1.4	1.4	0.6
1946	42.0	2.0	14.0	11.0	69.0
% of total	0.7	—	2.1	1.9	0.8
1948	673.0	6.0	80.0	59.0	818.0
% of total	10.0	1.4	11.7	6.0	7.8
1950	803.0	6.0	102.0	118.0	1,029.0
% of total	10.6	1.2	13.5	8.7	8.6
1952	1,139.0	6.0	159.0	143.0	1,447.0
% of total	12.5	1.1	18.5	13.7	10.5
1954	1,204.0	5.0	170.0	221.0	1,600.0
% of total	11.7	0.7	16.0	14.4	10.2
1955	1,220.0	5.0	164.0	187.0	1,576.0
% of total	10.9	0.7	14.1	11.3	9.4

<sup>a</sup> Percentage of total domestic income of the same type before providing for depreciation and stock appreciation.

TABLE 18

INCOME PAYMENTS OF PUBLIC CORPORATIONS BY INDUSTRY GROUPS,  
BY NATIONAL INCOME CATEGORY, 1948-54  
(millions of pounds)

Year	Fuel and Power	Iron and Steel	Transport and Communi- cations	Housing and New Towns	Raw Cotton Com- mission	Other Corpor- ations	Total
INCOME FROM EMPLOYMENT							
1948	366		300			6	672
1949	426		328			9	763
1950	452		335	1		14	802
1951	511	114	378	2		13	1,018
1952	581	139	402	3		13	1,138
1953	605	151	415	2		15	1,188
1954	638	114	432	3		16	1,203

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TABLE 18 (concluded)

Year	Fuel and Power	Iron and Steel	Transport and Communi- cations	Housing and New Towns	Raw Cotton Com- mission	Other Corpor- ations	Total
PURCHASES <sup>a</sup>							
1948	203		220	1	106	10	540
1949	306		227		114	10	657
1950	377		245	1	133	10	766
1951	436	262	249	2	199	13	1,161
1952	504	400	280	2	149	6	1,341
1953	549	452	296	3	89	12	1,401
1954	606	363	281	3	64	13	1,330
RENT							
1948	1		1		1	3	6
1949	1		1		1	3	6
1950	1		1		1	3	6
1951	1		2		1	2	6
1952	2		1		1	2	6
1953	2		2		1	2	6
1954	3		2			1	6
TAXES ON EXPENDITURE							
1948	12		6				18
1949	17		7				24
1950	18		8				26
1951	20		8				28
1952	21	1	8			1	31
1953	22	1	8	1			32
1954	25		9				34
TRADING SURPLUS							
1948	73		37			5	115
1949	112		36		3	3	154
1950	128		54		15	-3	194
1951	125	65	69	1	-2	-2	256
1952	138	92	62	1	-23	3	273
1953	177	85	69		-9	-5	317
1954	190	74	85	1	3	-1	352
TOTAL							
1948	655		564	1	107	24	1,351
1949	862		599		118	25	1,604
1950	976		643	2	149	24	1,794
1951	1,093	441	706	5	198	26	2,469
1952	1,246	632	753	6	127	25	2,789
1953	1,355	689	790	6	80	24	2,944
1954	1,562	551	809	7	67	29	2,925

<sup>a</sup> Adjusted for stock changes.

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aviation, transport, and iron and steel changed ownership in the period. Between 1952 and 1954, steel and road-haulage industries were de-nationalized, and as a result incomes from employment by public corporations fell from 12.5 per cent to 11.7 per cent of all such incomes (Table 17). In contrast, income from employment derived from all central and local government activity, excluding public corporations, was approximately 10 per cent of all income from employment in the postwar years. Thus, from 1950 to 1954, public corporations provided a larger percentage of total income than all other government activity did. Twelve years earlier, in 1938, the proportion of total income provided by these corporations had been negligible (less than 1 per cent of the total). The growth is of course due to the character of the industries in the postwar nationalizations. Coal and transport, for example, though not necessarily prosperous when outside the public sector, had long been very large employers of labor.

Tables 17 and 18 also show an increase in the importance of income payments by public corporations for services other than employment. The underlying reason is, of course, the growth in the size and importance of the public enterprise sector; but the statistics also reflect both the actual conditions of nationalization and a diversity of trading experience from one industry to another. Thus the interest and dividends figures are aggregations of interest paid on borrowing by the individual corporations and of dividends on the securities issued by corporations (e.g., the electricity authorities) under the statutory powers conferred by the nationalization Acts. The profits figures for individual years are an amalgam of profits in some enterprises and losses in others, the outcome being affected by the changing composition of the public enterprise sector and by fluctuations in the fortunes of some of the corporations such as the National Coal Board and (on a smaller scale) the Raw Cotton Commission.

### CAPITAL FORMATION

Fixed domestic capital formation of public corporations has grown enormously in importance, both in absolute terms and as a component of total capital formation by the public sector, as demonstrated in Table 19. Once more, the great absolute increase occurred after 1946; investment rose from £16 million in that year to £180 million in 1948. This is to be expected; in any advanced country, the great public utilities (railroads, electric light and power, gas, water, etc.) account for a large fraction of total invested capital, even by comparison with heavy manufacturing industries such as iron and steel.<sup>8</sup> The postwar nationalizations included enterprises of just that type. It is also noteworthy that the

<sup>8</sup> See Lawrence H. Seltzer, "The Mobility of Capital," *Quarterly Journal of Economics*, May 1932.



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TABLE 19  
GROSS DOMESTIC FIXED CAPITAL FORMATION OF PUBLIC CORPORATIONS  
SELECTED YEARS, 1938-55  
(amounts in millions of pounds)

GROSS FIXED CAPITAL FORMATION						
<i>Public Sector</i>						
	Public Corpora- tions	Govern- ment	Total	Total	Public Sector as Percentage of Total	Public Corporations as Percentage of Public Sector
1938	10	173	183	656	27.9	5.5
1946	16	259	275	925	29.7	5.8
1948	180	491	671	1,435	46.8	26.8
1950	288	531	819	1,700	48.2	35.2
1952	409	755	1,164	2,108	55.2	35.1
1954	537	762	1,299	2,549	51.0	41.3
1955	575	725	1,300	2,865	45.4	44.2

increase continued after 1948, despite the denationalizations referred to earlier. The share of the public sector as a whole in total gross capital formation fell from 55.2 per cent to 51.0 per cent between 1952 and 1954, but that was the consequence of the slower rate of increase of other public sector investment, which was £7 million higher in 1954 than in 1952, rather than of changes in the public corporations group, whose gross investment rose to £128 million over the same period.

The table also shows the extent to which public corporation investment has come to be the major component of gross fixed investment by the public sector by the end of our period. Less than 6 per cent of public sector investment in 1938 and in 1946 was made by public corporations; in 1954 they were responsible for more than 40 per cent of the total.

Table 20 breaks down capital formation (including changes in the value of stocks) by industry groups. The rise in the proportion of gross domestic capital formation originating in the public corporations to around one-fifth of all gross domestic capital formation since 1949 is shown to be due primarily to investment by the fuel and power group. Investment in fuel and power rose almost continuously during the post-war period and in 1953 still constituted much more than one-half of all domestic fixed capital formation by public corporations, despite an increase in investment by the other groups. Up to 1954, investment by the other three important groups (iron and steel while nationalized, transport, and housing), though significant in total amount, had always been smaller in total volume than investment in fuel and power alone.

The sources of funds for financing investment by public corporations can be seen from Tables 21 and 22. The items need some explanation.

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TABLE 20

GROSS DOMESTIC CAPITAL FORMATION OF PUBLIC CORPORATIONS,  
BY INDUSTRY CLASSIFICATION, SELECTED YEARS, 1938-54  
(millions of pounds)

	Fuel and Power	Iron and Steel	Transport and Communi- cations	Housing and New Townships	Raw Cotton Commis- sion	Other Corpo- rations	Total	Percentage of Gross Domestic Capital Forma- tion
1938							10 <sup>a</sup>	1.5
1948	126	—	65	10	10	1	212	13.2
1949	193	—	76	13	13	2	297	18.0
1950	194	—	74	14	18	2	302	20.3
1951	253	52	85	22	29	2	443	17.9
1952	299	83	84	34	-48	2	454	21.0
1953	280	59	81	58	-34	3	447	18.1
1954	343	34	80	55	-29	3	486	15.4

<sup>a</sup> Almost entirely capital formation by London Passenger Transport Board.

TABLE 21

FINANCING OF PUBLIC CORPORATION INVESTMENT, SELECTED YEARS, 1948-55  
(millions of pounds)

	1948	1950	1952	1953	1954	1955
Undistributed income <sup>a</sup>	59	118	143	175	221	187
Capital transfers <sup>b</sup>	4	3	5	6	6	12
Loans from central government <sup>c</sup>	63	29	73	39	100	142
Stock issued less stock redeemed	109	163	228	219	205	371
Additions to tax and interest reserves <sup>d</sup>	-23	-11	5	8	-46	-126
Total	212	302	454	447	486	586
Gross domestic capital formation						
Fixed capital formation	180	288	409	478	537	575
Increase in value of stocks and work in progress	32	14	45	-31	-51	11
Total	212	302	454	447	486	586

<sup>a</sup> Before providing for depreciation and stock appreciation.

<sup>b</sup> Net receipts.

<sup>c</sup> Net.

<sup>d</sup> Less net acquisition of other financial assets and net investment abroad.



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Broadly, the statistics exclude items concerned with the transfer of economic activities from private to public ownership, and are restricted to the trading operations of the corporations once in existence. Thus, stock issued (less stock redeemed) does not include stock (securities) issued as compensation to former owners. Gross domestic capital formation does not include increases in assets resulting from the transfer of assets from the private to the public sector. The figures in Table 22, which gives a breakdown by industrial groups, are not directly comparable with the overall figures in Table 21, because only the major groups are included in the detailed table.<sup>9</sup>

The chief sources of financing have been the corporations' own resources (undistributed income), loans from central government, and the issue of securities (Table 21). The aggregate statistics, which appear to indicate the growing importance of stock issues and corporation funds as sources of financing, conceal a good deal of diversity between industrial groups, and in any case cover too short a span of years to provide a reliable indication of a trend. From Table 22, we discover that during the period of study the preponderant fuel and power group depended to a relatively small extent upon government loans, but raised a growing amount of capital by stock issue and (to a smaller extent) from its own resources. In contrast, investment by the housing and new towns corporations was financed almost exclusively by central government loans, which have also been important in financing investment by the Raw Cotton Commission and by the other-corporations' group.

Public corporations have become increasingly important as buyers of particular types of capital goods. Only sparse data are available. The few figures we have suggest that by the end of our period the public corporations had become so important in some sectors (they purchased 34 per cent of all plant and machinery in 1954) that they may well have acquired monopolistic powers in some markets. The extent of these powers and the use that has been made of them have perhaps received less attention from economists than they deserve.

### *The Timing of Nationalization*

It is commonly believed outside Britain that the extensive nationalization program carried out after World War II represents the realization of a Socialist program of long standing. Certainly, there had been a long period of discussion of, and support for, nationalization measures inside the Labour Party and among Fabians and other social reformers. The Labour Party program had incorporated extensive public ownership at

<sup>9</sup> Further information about the meaning of the items is given in the *Blue Book on National Income and Expenditure*, 1957, p. 48.

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least as far back as 1918, and questions of the organization and control of individual industries had been discussed for many years. Nor had the idea of nationalization as a solution to the problems of particular industries been entirely anathema to other political groups. For example, the Sankey Commission, whose members could hardly be labeled as Labour apologists, had suggested as early as 1919 that nationalization was the only practicable solution for the problems of the coal industry, given the parlous state of that industry after World War I. Thus it could plausibly be argued that the timing of the nationalization measures reflects the accession to power of a Labour Government with a firm majority rather than the "inevitable" effects of the major war that preceded this unique situation in British political history.

Without straining our thesis too far, however, it is possible to argue that World War II cannot be dismissed as an irrelevance. True, there "might have been" a Labour Government during the 1940's, perhaps with a smaller majority, had the war not occurred. But we have already accepted the futility of speculation about such matters. World War II is part of our history, and it had such an important influence on our society that it produced a postwar situation in which no party coming to power, whatever its political character, could have afforded to neglect either the effects of the structure of the wartime economy on postwar policy or the effects of the war itself upon the organization of such major industries as coal and transport. We would offer two arguments in particular to bolster this general claim.

First, the Second World War, much more than the First, meant a very considerable depreciation in the fixed equipment and plants of major industries such as transport and fuel and power. Inevitably, therefore, the problem of rehabilitation was immense, necessitating some form of official intervention, if only in the form of subsidies. Further, the waging of a total war which required the complete reorganization of these industries to meet the needs of the war economy, involving the centralization of production and distribution decisions, left an administrative legacy similar to that already described in the case of the social services. Thus the combination of the necessity for state assistance and of the existence of an apparatus of state control imposed by wartime conditions invited nationalization as a solution.

Second, as acceptance of nationalization relies on the opinions of the electorate, one has to account for the strong electoral support given *for the first time* to nationalization measures by the election in 1945 of a Labour Government with a firm majority. While we do not know what "might have been," and while it is notoriously difficult to trace cause and effect in the translation of views and opinions into practical politics, it nevertheless seems plausible to suggest that the experiences of the war

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engendered a new and profound—if mistaken—respect for the efficiency of collective physical planning and for large-scale government intervention.<sup>10</sup> As two war historians stated in another context, “perhaps the most insidious legacy of war was a habit of mind. The reckonings of national achievement to which people had accustomed themselves had been in physical terms. Finance had lost its traditional significance as a criterion and method of control. . . . For the British people, as well as for their defeated enemies, a painful and dreary course of ‘re-education’ lay ahead.”<sup>11</sup>

We are not concerned here to argue that the British nationalization measures after World War II were good or bad in themselves. But however sympathetic one might be, for example, to the view that nationalization offered the only possible solution for the problems facing the fuel and transport industries, the fact remains that no economist would put forward wartime experience as providing satisfactory technical evidence for the necessity or value of continuing the use of wartime “planning” methods in time of peace. Nevertheless, much of the initial postwar political support for planning and hence for nationalization rested in good measure upon such a false analogy between wartime and peacetime conditions. To this extent, and notwithstanding the long earlier history of pressure for nationalization measures from particular groups, it seems clear that the growth of this part of the public sector has shared in the displacement effect of war that we have found important to the evolution of government activities of other kinds.

<sup>10</sup> See, for example, Lionel C. Robbins, *The Economic Problem in Peace and War*, London, 1947, Lecture 2; and Roy F. Harrod, *Are These Hardships Necessary?*, London, 1947, pp. 111–114.

<sup>11</sup> W. K. Hancock and M. M. Gowing, “British War Economy,” *History of the Second World War*, Civil Series, No. 1, London, 1949, p. 553.