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## CHAPTER 6

# THE NATIONALIZED INDUSTRIES AND SERVICES

### *Employment in the Nationalized Industries*

BETWEEN 1946 and 1950 the transfer of some of Great Britain's most important industries to public ownership involved a notable expansion of government participation in economic life. Loosely stated, the newly nationalized industries and services identified in Table 9 may be distinguished from the bulk of government services by the nature of their functions and the character of their organization. They differ in function in that they are, for

TABLE 9  
Nationalized Industries and Services, Employment in 1950

	<i>Thousands of Persons</i>
Coal mining	735.8
Transportation	888.4
Electricity supply	178.7
Gas supply	140.6
Civil aviation	24.0
British Broadcasting Corporation	11.8
Raw Cotton Commission	0.8
Regional board and teaching hospitals <sup>a</sup>	402.5
Total <sup>b</sup>	2,382.6
Total as percentage of the working population	10.3

<sup>a</sup> Includes 365,850 full-time and 91,714 part-time staff. Of the latter the majority are specialists who hold several positions. Two and one-half part-time workers are counted as one full unit.

<sup>b</sup> Excludes the Bank of England, for which employment data were not available.

the most part, engaged in producing commodities or services of a type which a large section of opinion traditionally believed appropriate for production by private enterprise. They differ in organization in that their assets are owned and their operations managed by public corporations<sup>1</sup> enjoying a high degree of freedom of action from ministerial or Parliamentary control.

<sup>1</sup> An exception is the overseas cable and wireless message facilities, which were merged with the Post Office.

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To define these differentiating characteristics of the nationalized industries is not to say that they are without precedent in Great Britain. Both the central and local governments have long furnished services and produced goods which either were concomitantly produced privately or were of a type which could easily be entrusted to private enterprise. Municipalized utilities, ordnance factories, and naval shipyards are obvious examples. More broadly, there are virtually no functions of government, with the possible exceptions of justice, defense, and foreign relations, which were not, when first assumed by the state, widely deemed to fall properly within the sphere of private industry or of philanthropic, religious, or occupational groups. All health, sanitation, and educational activities, for instance, were once considered to be outside the domain of government.

The use of the public corporation as a form of organization had also been well explored before World War II. At the local level there were semi-independent agencies of considerable experience, like the Metropolitan Water Board (1902), the Port of London Authority (1908), and the London Passenger Transport Board (1933). At the national level there was the Central Electricity Board, which had been established in 1926 to promote and control the bulk generation of electricity and to develop a nationwide system of main transmission lines. There was also the British Broadcasting Corporation, created in 1927, whose recognized success made its organization a model for the corporations which later were to control the newly nationalized industries. Just before the war the British Overseas Airways Corporation assumed the ownership of Britain's civil aviation industry from Imperial Airways.

The nationalization acts of the recent Labour Government thus do not represent a wholly new departure for the British state, but rather a huge extension of governmental powers into unsettled and controversial areas under a form of organization not unprecedented, but still unfamiliar. By 1950, total employment in nationalized industries controlled by public corporations was some 2.4 million, or slightly over 10 per cent of the British working population (see Table 9). The industries and services included were coal mining; gas and electricity; inland transport by rail, road, and water; civil aviation; wireless broadcasting; the Bank of England; and the medical institutions which became part of the National Health Service. Early in 1951 all major firms

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of the iron and steel industry passed into public ownership. This nationalized sector employed close to 250,000 workers who are not included in the above total. At the present writing, Parliament, led by a Conservative Government, has acted to return the iron and steel industry to private hands, but the transfer of ownership has not yet been completed. By the Transport Act of 1953, the Transport Commission also was required to dispose of the bulk of its road haulage undertakings.<sup>2</sup>

The number of persons working in industries nationalized since 1945 does not represent a net addition to public employment. A considerable portion of the assets acquired by the new public corporations were obtained from the local authorities to which they had previously belonged. Measured by output, more than one-third of the gas supply industry and about two-thirds of electricity supply had been owned by local governments for years. The greater part of local street transport, the entire London Passenger Transport Authority, and a large part of electricity generation and long-distance transmission had likewise been in public ownership. The same applies to that major fraction of the hospitals which were owned by local authorities and then brought under the National Health Service.

The significance of nationalization is further qualified by the fact that the privately owned portions of the railroad and utility industries had been subject to close regulation. In coal and steel, moreover, government-approved cartels acted in consultation with government departments and fixed prices and production levels.

The degree of public interest and control already asserted before nationalization, of course, acted to limit the extent to which nationalization could by itself alter the mode of operation of these industries. Furthermore, the newly created public corporations were organized so as to ensure them a very large area of freedom from interference by the state. Unlike the regular government departments, they are not under continuous close supervision by Parliament. A Minister may not be questioned about them except on matters of large public interest. The nationalized industries do not present their estimates to Parliament, their

<sup>2</sup> In March 1955 it was reported that almost three-fifths of the steel plants transferred to public ownership by the Labour Government had been restored to private hands (Reuters, March 3, 1955). The return of road transport to private hands was largely completed by mid-1955.

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revenues do not pass through the Treasury, their expenditures are not controlled by that department, nor does that department take their profits or meet their losses. Public control is exercised principally by the power of the Ministers to appoint and remove members of boards and to give them general directions on matters affecting the national interest. In addition, public corporations are required to publish detailed annual reports and accounts, which are submitted to Parliament.

Nationalization has also made little difference to the position of the work force, which in its formal aspects remains essentially the same as in private industry. With the single exception of the personnel of the cable and wireless service, who were transferred to the Post Office, the employees of the new public corporations were not assimilated into the government service and did not acquire civil service status. Wages and working conditions are determined by collective bargaining between union and corporation. The right to strike is preserved. Workers in a nationalized industry do not name any members of the boards of directors. Almost all these boards do include trade unionists, but only in their individual capacities. Whether public ownership will, in the long run, make some substantial difference in the position of the work force remains to be seen.

### *Background of the Recent Nationalization Acts*

#### INDUSTRIES AND BANKING

For this impressive expansion of governmental participation in the production of goods and services there is a broad basis in the development of British social and political thought and additional support from the circumstances of the times and the conditions of the particular industries affected. The acts of nationalization were the work of the Labour Party, which came into power in 1945. Though its doctrinal position was prominent, the Party's electoral success and the nation's acceptance of its program were founded on a sweep of opinion broader than Labour doctrine and on circumstantial influences narrower than doctrinal principle.

Socialist theory characteristically holds that the "means of production" should be owned in common. This point of principle has been formally accepted by the British Labour Party at least since 1918.<sup>3</sup> For industries of national scope, this has usually been

<sup>3</sup> See G. D. H. Cole, *A History of the Labour Party from 1914*, London, Routledge, 1948, pp. 53-54.

taken to mean ownership by the state, and, since the Labour Party and Trades Union Congress of 1935, the Party has viewed the public corporation as the proper agency for the state to use in most cases.<sup>4</sup>

The Socialist position rests on the broadest grounds: that a true political democracy is impossible as long as productive capital is privately owned and wealth unequally distributed, and that the efficient use of capital for the general welfare demands public management "for use and not for profit." Public ownership is viewed also as a device for equalizing wealth and income—an important objective in its own right. It is held to give the working-man an interest in the success of his establishment which will raise his morale and so his productivity. Finally, public ownership is regarded as a way to achieve the rationalization of the structure of industry, which is taken to be impeded by the splintering of units of ownership.

These arguments had won wide acceptance among Labour voters from the beginning of the century, but not all Labour supporters were Socialists and the Labour Party itself had never won a majority of votes in the country or of seats in Parliament before World War II. Considerations of somewhat narrower and more particular application help explain the country's acceptance of the Labour Party and its program of nationalization in 1945.

The economic problem which the public regarded with greatest concern as the war drew to a close was the maintenance of full employment. For this purpose it was held that the level of investment had to be high, and that it had to be susceptible to management in order to keep it stable and to direct its location to areas of surplus manpower. The possibilities of achieving these aims would, it was argued, be enhanced if the area subject to direct public control were enlarged by the nationalization of industries accounting for a significant proportion of total investment. The Labour Party's 1945 program made much of these possibilities, and since there was wide public acceptance of the notion of state intervention to control the level and location of investment, it is plausible that these arguments weighed with many people when they considered the nationalization of particular industries urged by the Labour Party.<sup>5</sup>

<sup>4</sup> Austen Albu, "The Organization of Nationalized Industries and Services," *Problems of Nationalized Industry*, W. A. Robson, editor, London, G. Allen, 1952, pp. 74-76.

<sup>5</sup> The effect of the depression on Labour opinion is well described by

Britain wanted a high level of investment not solely to safeguard full employment, but also to raise productivity. The country's progress had been slow in the inter-war period. There had been a serious loss of capital abroad during the war, the post-war balance-of-international-payments problem was threatening, and the burden of the social welfare program to be undertaken was heavy. But faith in the country's ability to obtain the benefits of free enterprise was limited. Though skeptical of the fruits of nationalization, *The Economist* wrote: "The vision of a completely untrammelled industry achieving new prodigies of enterprise by the method of free competition is nowadays merely a vision. For one thing, comparatively few British industries are competitive. The practices of controlling prices and production and of protecting profit margins have gone so far that a 'market price' is becoming a rare phenomenon."<sup>6</sup> Some weeks later the same journal added: "In 1939, it was an extreme rarity to find a manufacturing industry where anything approaching genuine competition prevailed, where no control was exercised over prices or the scale of production or the conditions of sale—and such exceptions as existed before the war will be found to have disappeared at its end."<sup>7</sup>

Finally, the idea that deliberate measures of industrial reorganization were necessary was widely accepted, not only by labor groups but also by businessmen. Provided the reorganization could be managed cooperatively, the latter saw in it a means to attain both the safety and profits of limited competition and a more orderly and efficient set of technological arrangements.<sup>8</sup>

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H. A. Clegg and T. E. Chester, *The Future of Nationalization*, Oxford, Blackwell, 1953, pp. 11 ff. The Socialism of the 1945 program was notably full-employment-oriented in the opinion of its own supporters. See *New Statesman and Nation*, October 14, 1944, p. 248. The need for state control of investment, although not necessarily by nationalization of industry, was widely accepted even in non-Socialist circles. Beveridge's *Full Employment in a Free Society* had made a striking impression. The most authoritative organ of liberal opinion was convinced: "And even if the question of 'imperfect competition' never arose, purposive direction by the organs of the state would be necessary to secure the two objectives of adequate employment and of a balanced location of industry" (*The Economist*, July 22, 1944, p. 104). The wartime White Paper on *Employment Policy* accepted the task as a matter of governmental responsibility (Ministry of Reconstruction, 1944, Cmd. 6527).

<sup>6</sup> July 22, 1944, p. 104.

<sup>7</sup> September 9, 1944, p. 342.

<sup>8</sup> See Clegg and Chester, *op. cit.*, pp. 15-17.

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There had already been attempts of varying significance to achieve better organization, partly by state-tolerated cartels and mergers, partly by active state intervention of various kinds. The public utilities—gas, electricity, and rail transport—had, of course, long been regulated as to prices, character of service, right of entry, and other matters. In addition, considerable portions of the gas, electricity, and local street transport industries were in the hands of local authorities. After World War I the concentration of electricity generation and the construction of a national grid had been accomplished under the aegis of a public body, the Central Electricity Board, established in 1926. Railways were run by the state as a national system in World War I. When returned to private ownership in 1921, they were amalgamated into four companies by authority of an act of Parliament, as an alternative to nationalization. When Lord Ashfield, the most powerful figure in London transport, demanded monopoly powers in order to control and coordinate the activities of independent motorbus operators in the metropolis, the Labour Party, led by Herbert Morrison, argued that the monopoly powers should be granted only to a public board. This was a position which private interests found difficult to attack. The bill to establish the London Passenger Transport Board was passed by a Conservative-controlled Parliament in 1933, and Lord Ashfield himself became Chairman of the Board. Between regulated private monopoly and public ownership there was a short and easy path.<sup>9</sup>

Private cartels and mergers in other fields were, as already stated, common. Their professed aim was rationalization. But while many industries were thus able to restrict output and raise prices, shipbuilding and flour milling were the only industries which by their own efforts were able to achieve even the type of rationalization implied in eliminating the less efficient portions of excess capacity. Both operated through private cartels which financed the retirement of capacity by a levy on the industry.<sup>10</sup> In 1934 the steel industry, with the approval of the government, set up a powerful cartel, the British Iron and Steel Federation, which coordinated the activities of a number of existing quota- and price-fixing associations. In return for promised reorganiza-

<sup>9</sup> *Ibid.*, p. 18.

<sup>10</sup> P. J. D. Wiles, "Pre-War and War-Time Controls," in *The British Economy, 1945-1950*, G. D. N. Worswick and P. H. Ady, editors, Oxford, 1952, p. 140.

tion and capital expansion, the government granted a tariff. The tariff and the restriction of capacity raised profits, but reorganization and development were not impressive.<sup>11</sup>

Private action was often inadequate to bring the divergent interests of different firms under control. After the depression of 1929-1932, the support of state authority was successfully enlisted by a few industries. Steel has been mentioned. The Cotton Industry Reorganization Act (1937) set up a Spindles Board to buy up and scrap excess capacity by levies on the spinners. A 1940 act (Cotton Industry Act) established a Cotton Board "to stimulate research and exports; to collect information; and 'to act as a negotiating body on any matters affecting the industry.'"<sup>12</sup> More important, the coal industry, which had been operated but not reorganized, by the government in World War I, was formed into a statutory cartel in 1930 in the hope that reorganization and development plans might be implemented. This produced district selling schemes which regulated output, but neither the cartel nor the Coal Mines Reorganization Commission were able, with their inadequate powers, to overcome the disinclination of independent, cartel-protected owners to amalgamate pits or to invest capital.<sup>13</sup> The nationalization of coal royalties carried through in 1938 could have only a very gradual effect as existing leases expired.

These measures and the attitudes on which they were based must have predisposed a large sector of non-Socialist opinion to accept acts of nationalization. For if monopoly is openly accepted as necessary for the proper organization, operation, and development of an industry, many persons would accept the need for the most intimate and extensive state regulation. It is then more difficult to oppose public ownership as one means by which that regulation can be made effective.

These considerations applied with exceptional force to the major industries actually proposed for nationalization—coal, transport, gas, electricity, and steel. They are "basic" industries and so appealed to Socialists as the areas in which the principle of common ownership of the means of production should first be applied. They account for a substantial proportion of total invest-

<sup>11</sup> *Ibid.* See also Clegg and Chester, *op.cit.*, p. 38.

<sup>12</sup> Worswick and Ady, *op. cit.*, pp. 140-141.

<sup>13</sup> *Ibid.*, p. 131, and Ben W. Lewis, *British Planning and Nationalization*, Twentieth Century Fund, 1952, pp. 55-56.

ment; hence the task of keeping investment expenditure high and stable might be facilitated by nationalization. The transport, gas, and electricity industries, moreover, are the commonest examples of public utilities. That they are clothed with the public interest had been accepted for decades, and intimate regulation and local public ownership of substantial portions of them already were in effect. Parts of electricity generation and long-distance distribution were already nationalized.

All the industries included in the Labour Government program were monopolies by cartel, by merger, or by franchise. There was, indeed, inter-industry competition between rail and road transport and between gas and electricity. But this rivalry was taken to be only a minor limitation upon market power and, at the same time, an obstacle to the rational expansion of the industries affected. Public regulation therefore was viewed as inevitable, and it had already gone far.

Finally, all the industries were held to require radical improvement in organization, capital equipment, or both. Private or local monopolies, subject to such state authority as had been established before the war, had manifestly proven inadequate. The coal pits still required extensive amalgamation and equipment. The railroads, fast losing traffic to trucks, were failing to improve or even adequately to maintain their equipment for necessary services. Local electricity distribution companies required amalgamation into area schemes to permit standardization of current systems, voltages, and methods of charge; to expand distribution, especially to rural areas; and to obtain more efficient load factors by combining the varying use patterns of different localities. The capital equipment of all the industries on the nationalization list required improvement and enlargement, and government assistance would, it was argued, be required to obtain the capital. In all cases but steel, these needs were defined and certified by a series of public inquiries. In the case of steel the industry produced its own plan for capital expansion with government assistance.<sup>14</sup>

Public opinion with regard to three of the industries was so in accord that *The Economist* could write before the 1945 elections: ". . . on the further issue of economic policy, the most that a Labour Government could be expected to do would be to change the formal ownership of the mining, transport and power

<sup>14</sup> Cf. Clegg and Chester, *op. cit.*, pp. 20-40.

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industries, while a Tory Government will certainly have to concern itself with the same industries, and might well be compelled by events to be almost equally drastic in its intervention in their policies, even though it left the formal façade of ownership untouched."<sup>15</sup>

Nationalization, then, appears to have been only in part a reflection of the spread of Socialist convictions in Britain. In part it must be attributed to the existence of peculiarly difficult problems in a few industries, in part to an attempt to facilitate general employment policy, and in good part to the weakness of private enterprise. The principle, as distinct from the form, of nationalization was accepted with surprisingly little controversy in all the large industries just discussed except steel.

In three other industries there was also little dispute. The Bank of England had been effectively a government organ for many decades. It was brought under state ownership partly to satisfy Socialist principle and partly to clothe it with formal powers to direct the money market. Civil aviation had been nationalized in 1940, when the government took over the monopoly previously granted to Imperial Airways. The industry had been early organized as a monopoly with state subsidy for military reasons, to serve the interests of foreign policy, and because a large scale of operation was thought necessary. It was put under government ownership to permit greater concentration upon national objectives. The Nationalization Act of 1945 merely reorganized the British Overseas Airways Corporation into several area units. Finally, overseas wireless and radio were acquired and placed in the Post Office with the telephone and telegraph services, which the government had taken over many years earlier.<sup>16</sup>

### THE HEALTH SERVICE

In addition to passing the acts of nationalization in industrial and commercial fields, the recent Labour Government assumed responsibility for virtually all medical care in Great Britain. This development is again an expression of Socialist principle and the culmination of a long history of expansion in state provision of preventative and curative health services.

In no other field, except perhaps education, does the principle of equal treatment or of provision according to need make such a

<sup>15</sup> May 26, 1945, p. 686.

<sup>16</sup> See above, Chapter 3.

strong appeal. "If the Socialistic principle of the equal treatment of equal needs is to be applied anywhere, medicine is clearly one of the first fields in which it ought to be introduced. In many fields we can fairly salve our consciences, at any rate for the time being, by applying the principle of the 'national minimum' below which no one is to be allowed to fall; we can tolerate large differences above the minimum. . . . But in the case of medicine the minimum is bound to approximate to the standard."<sup>17</sup>

The assumption of some degree of governmental responsibility for public and individual health long preceded the conscious formulation of modern Socialist doctrine and won acceptance far beyond Socialist or Labour circles. In Chapters 4 and 5 we have already traced some of the major steps taken by the central and local governments since the beginning of the nineteenth century, first to provide the proper environmental conditions at home and at work and then to furnish facilities for individual care, particularly through general, tuberculosis, and mental hospitals. In addition, since 1911 the health insurance scheme has provided free medical treatment and sick pay for workers.

Nevertheless, serious deficiencies in facilities for health care were still deemed to exist in the 1930's, and these led to a widespread demand for a comprehensive health service to be instituted after the end of the Second World War. The elaborate survey made by *Political and Economic Planning* in 1937 seemed to bear out three contentions: the standard of health was still low, the incidence of ill health was more general and more serious in the lower income groups, and the existing health services were inadequate. Insurance, for example, covered workers but not their families. A great quantity of disease remained uncared for, even unsuspected. Hospitals were too small, generally below an acceptable standard, and poorly distributed, and other aspects of health care were poorly organized.<sup>18</sup>

The existence of this mass of ill health was, by the early 1940's, regarded not only as an affliction for the individuals involved, but also as a burden on the productivity of the nation and a serious complication for another task which the government was exploring, the creation of a comprehensive social insurance plan.

<sup>17</sup> *New Statesman and Nation*, March 30, 1946, p. 224. See also R. A. Brady, *Crisis in Britain*, University of California Press, 1950, p. 354.

<sup>18</sup> See the summary of the *PEP* and other relevant reports in Brady, *op. cit.*, pp. 355-367.

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Sir William Beveridge formulated his scheme for social insurance upon the assumption that there would be a comprehensive national health service providing every citizen "whatever medical treatment he requires, in whatever form he requires it, domiciliary or institutional, general, specialist or consultant, and to ensure also the provision of dental, ophthalmic and surgical appliances, nursing and midwifery and rehabilitation after accidents."<sup>19</sup>

That Beveridge was able to base his insurance scheme upon so radical an assumption is a reflection of the development of public opinion. The British Medical Association had itself proposed a radical extension of health insurance in 1930. The Association put forward a revised scheme in 1938, which, it is estimated, would have entitled at least 90 per cent of the population to free medical care. The Conservative Party, in a Coalition Government White Paper of 1944, accepted, in the words of a spokesman, "the principle of a national, comprehensive, 100 per cent health service."<sup>20</sup> When the Labour Government proposed its plan for a national health service, controversy centered, therefore, not on the general principle, but on such matters as the status of physicians as fee-paid contractors of the service, rather than as civil servants; the degree of professional influence in administration; the role of local governments in the management of hospitals; and the preservation of foundation assets in the case of voluntary hospitals taken over by the state.

The National Health Service Act fell into three main parts. First, the hospitals, both voluntary and local authority, were taken over by the Ministry of Health to be administered by regional hospital boards. Second, for purposes of medical care outside hospitals, the services of doctors, dentists, oculists and opticians, and pharmacists were contracted for on fee bases peculiar to each of these services. These professional services are administered by executive councils, one for each branch of the service. Third, the local authorities were required to provide and maintain a system of health centers to the satisfaction of the Minister of Health. All these services were made completely free to every member of the population choosing to use them,<sup>21</sup> and free choice of physicians was an integral feature of the plan.

<sup>19</sup> W. H. Beveridge, *Social Insurance and the Allied Services*, Macmillan, 1942, p. 158.

<sup>20</sup> Brady, *op. cit.*, pp. 368-369.

<sup>21</sup> Certain charges for eye glasses and dentures were later instituted.

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For the purpose of the present discussion, it should be pointed out that only the section relating to hospitals represents a clear act of nationalization. The buildings and equipment of these institutions became the property of the nation, and their full-time staffs became employees of a national service providing hospital care. Doctors and dentists, however, are generally private contractors. They are remunerated by the state for any patients whom they accept under the provisions of the Health Service Act, but they meet their own costs and their income depends primarily on the number of patients they can attract. They reserve whatever portion of their time they please for private practice. The health centers, though subject to central supervision, remain a local government responsibility. These considerations led us to enter in Table 9 only the staff of the regional board hospitals as employees of nationalized industries and services. Since most practitioners, however, have no real alternative to devoting the bulk of their time to the care of clients of the Health Service, and since, with respect to such clients, their fees are fixed and many of their activities are regulated, one may question whether the difference between their position and that of state employees is fundamental.

The National Health Service today cares for almost the entire population, and almost all members of the professional groups involved are participants.<sup>22</sup> While there may be changes in its form from time to time, there can be little doubt that the basic elements of the service will be retained by future British governments.

<sup>22</sup> In 1950 between 90 and 95 per cent of all general practitioners, over 90 per cent of all dentists, and almost all pharmacists were participating. Approximately 95 per cent of the population was using the service (*Health Services in Britain*, British Information Services, T.D. 753, December 1951).