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THE NATIONALIZATION OF INDUSTRY*

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I. CLAIMS FOR NATIONALIZATION

NATIONALIZATION IS A METHOD of organizing and administering industry whereby the community owns the means of production and the government is, at least in the last resort, responsible for its control. The crux of the idea is that the whole of one industry falling within the boundary of one nation should be subject to a unifying influence. Contemporary nationalization, therefore, is a piecemeal and empirical approach to much wider ideas—such as that the whole of industry within one country should be brought under state operation or that the whole of the industry in the world might be usefully organized to work together under some supernational authority. This piecemeal approach, one industry at a time or one country at a time, is reflected in the view that certain industries are “ripe” for nationalization whilst others are not yet in fit form for the transfer from private to public hands.¹

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¹ The tests for “ripeness” as set forth by different writers are confusing and not always consistent. Kautsky, *The Social Revolution* 144 (1902), argued that the big industries should be nationalized first: “Without a developed great industry socialism is impossible. Where, however, a great industry exists to a considerable degree it is easy for a socialist society to concentrate production and to quickly rid itself of the little industries.” J. R. Macdonald thought that the rule should be the easiest first: “The harvest which is ripe and most easily reaped will be gathered first and the experience gained in reaping it will be used when more difficult harvests have to be brought in. Thus we will begin the process of nationalizing capital with services like the railways or with the exploitation of national resources like mines.” Jay, *The Socialist Case* 224 (2d ed., 1947), regarded the national ownership of land as having the highest priority: “There is no form of socialism more desirable than the ownership of land, factories, and houses. . . . The public ownership of land should therefore be one of the first duties of a socialist State.” More recently, however, the view seems to be gaining ground that some industries will only very slowly, or perhaps never reach the stage of ripeness, or indeed that nationalization is not an essential part of socialism at all. Thus Mr. Harold Wilson has de-

It is only recently that the claim has been made that nationalization is a more efficient way of organizing an industry than is possible whilst it remains in private hands. The socialist writers of the early part of the century were more disposed to claim other, broader social advantages—that nationalization would abolish the evils inherent in competition, private profit making and the private ownership of the means of production; or that it would open up the way for workers' control in industry; or that it would result in a more equal distribution of income or capital or that it would provide an answer to the manifold dangers of private monopoly. Since 1945, these broader arguments have not been absent. Thus it has been held that certain industries were "basic" to the whole system and could, therefore, not be entrusted to private hands, or that the "public services" should clearly be owned by the public; or that some industries, being "strategic" to a system of central economic planning, must be under the control of the state or that others, such as the Bank of England or the iron and steel industry, represented citadels of capitalism which must be reduced in order to establish the reality of socialism.²

But more and more in Great Britain it has come to be felt that nationalization must stand or fall by the degree to which it replaces a relatively inefficient system of organization by one relatively more efficient. The test must be whether it raises the standard of living. And it is not a little ironic that this switch to a new set of criteria has come just at a time when, as a result of experience of the operation of nationalized industries, grave doubts are widely felt as to whether they are, or can ever be, more efficient than the privately owned industries they have replaced.

clared that "the cotton industry . . . did not fall into that list of basic industries whose position or organisation called for nationalization"; Mr. Strachey that "Nationalization is one of the means to the attainment of Socialism, not the thing itself." And in two volumes emanating from socialist sources, Crossman, *New Fabian Essays* (1952), and Socialism: *A New Statement of Principles* (1952), the idea of nationalizing all industries is regarded as obsolete.

² There still is, however, as perhaps there has always been, a mystical element in nationalization. Thus Robson, *Problems of Nationalized Industry* 367 (1952), states: "Nationalization . . . must succeed for the simple reason that failure would be a national disaster of staggering dimensions. There is every reason why it should succeed. It has sprung from a great popular revolt against the ethics, the incentives, and the results of capitalist enterprise. It represents an attempt to substitute higher moral values, superior human incentives, and a wider conception of economic benefit for those which are implicit in private enterprise. It has behind it the hopes and aspirations of many millions of plain men and women. . . ." It is, however, hard to reconcile these sentiments with the views of the same author in the same book: "The attitude of the voters in the General Election of 1950 was strongly noncommittal. A conspicuous feature of that electoral contest was the comparatively small part played by the nationalization issue. . . . Nationalization played an equally small part in the General Election of 1951." *Ibid.*, at 352-53. Again, Davies, *Problems of Public Ownership* (Labor Party Pamphlet, 1952), suggests that, in addition to industries which might be ripe for nationalization because they were "basic," or

The claim that nationalization represents a more efficient manner of running industry and of translating decisions regarding prices and investment into actions can best be examined in terms of the fundamental changes introduced in any industry subjected to nationalization. They are:

1. The nationalized industry is a larger operating unit than those it replaced. From this arises the claim for the economies of scale.

2. The nationalized industry is monopolistic. Out of this arises the claim that it can adopt more complete integration and coordination of related functions.

3. The nationalized industry is not operated for private profit. From this it is asserted that price and investment policy can be made more rational and that the collaboration between different classes of workers in the industry can be made more willing, smoother and, thereby, fruitful.

II. TESTING THE CLAIMS FOR NATIONALIZATION

In a period of relatively stable prices and costs, claims of this kind might usefully have been subjected to relatively simple tests. Comparisons of prices and costs and the scale of investment before and after nationalization would have provided highly relevant evidence regarding net effects of changes in organization. Actually, such tests are almost completely useless in Great Britain because of the gap in comparability created by the war and the economic instabilities of the postwar period. If, for example, it is observed that before the war coal in Great Britain was plentiful and relatively cheap, and that consumers could exercise choice in the qualities they purchased, whilst since nationalization coal has been extremely scarce, relatively expensive, and supplied to consumers who had no control over the types of coal supplied to them, that may signify nothing. Too many other forces, in addition to the major change of organization, were operating at the same time.

In the absence of anything better, attempts have been made to employ indices of physical efficiency, both for the purpose of assessing the consequences of nationalization and for the purpose of rendering these industries "accountable" to the public. But the emphasis placed upon such measurements and the determined conviction in many quarters that, provided the search is sufficiently prolonged and statisticians are sufficiently courageous and ingenious, there is to be found some relatively simple physical measurements indicating whether an industry is becoming more

monopolistic, or inefficient, some industries might have to be nationalized "to enable Labour to carry through further stages of its Socialist programme."

or less efficient, are in themselves manifestations of much of the unsystematized thinking surrounding the whole of the subject.³ Such indices as output of coal per head per shift, or units of electricity generated per ton of coal consumed or net ton miles hauled per total freight engine hour in service, simply indicate the effectiveness of the employment of one of the factors of production. They cannot provide an over-all picture, they cannot measure the reactions which may thereby be produced upon the effectiveness of other factors of production. In consequence, they may give an extremely misleading picture of how economically coal is being produced, electricity generated, or freight hauled.

The idea that a nationalized industry can ever make itself accountable to the public, in the sense that the public can easily acquaint itself with changes in the efficiency of the industry by referring to figures of physical output in terms of physical input, so-called yardsticks, is a chimera. Once the test of prices, costs, and profits is discarded, or is inapplicable, no other statistics have any great significance. It follows that the numerous institutional changes that have been suggested for improving the "accountability" of nationalized industries are largely beating the air, for increased intelligence or energy on the part of those who are to employ the yardstick is of no account till the yardstick exists.

As an alternative it has been suggested that each nationalized industry should periodically be subject to a grand inquest by some outside body, consisting of members of parliament or of independent experts, which would examine the organization in its entirety, scrutinize all the facts and communicate its general conclusions to the public. Now there are two, often associated but really quite distinct, duties which might be undertaken by such an outside investigating body. It might confine itself to declaring that the organization was or was not being operated in a satisfactory fashion. Here we are back again at the question of what criteria could be imposed in reaching a decision and, in fact, nothing better could be expected than a set of rough and ready judgments made in nondefined terms. Or the investigators might strive to identify the precise weaknesses and mistakes of the organization and to suggest ways of remedying them. This second duty is only likely to be carried out successfully if certain

³ There is something almost poignant in the pursuit of the unattainable here. Thus Robson, *op. cit. supra* note 2, at 7, says, "I made prolonged efforts to obtain an essay on this topic [of 'statistical yardsticks' of efficiency] from a number of eminent statisticians engaged in university teaching and research, in public corporations, and in the Civil Service. The tenor of their replies was to the effect that their studies in this field are not sufficiently advanced to enable them to produce an essay on the subject. This lack of statistical knowledge is a matter of serious consequence to the public. I hope it will not endure for long."

stringent conditions are satisfied. The investigators should be able, after a relatively quick look around, to attain a deeper understanding of the organization than those who have long been in charge of it. The investigators should be prepared, after making their inquiries, to report that they have found nothing whatever amiss and not feel it incumbent upon them to make *some* recommendations because they have conducted an inquiry. And it must further be assumed that any good which the investigators can bring about will more than offset the real cost of the investigation, which will normally take the form of the time consumed by the investigators, the time consumed by the officials of the organization in providing information for the investigators (or indeed in concealing facts which they believe will be misinterpreted) and any loss of confidence and drive in the running of the organization which would follow from resentment on the part of officials at what they regarded as a misrepresentation or misunderstanding of their work. Indeed, the possibility that investigating bodies of this kind may do more harm than good leads many, even of those who favor nationalization, to the conclusion that public accountability is undesirable, that the correct procedure is to choose the "right" men, to trust them within very wide limits to conduct the affairs of the organization and, in cases of palpable failure, to dismiss them and replace them by a fresh group of managers.

Two conclusions seem to follow, the one relating to the process of nationalization, the other to the conduct of industries which have already been nationalized. It is a mistake to assume that the nationalization of an industry can be carried out as a scientific experimental search for a more efficient way of organizing industry.⁴ An experiment implies a hypothesis which is capable of being proved true or false. There is no known way of establishing, from experience, the falsity or legitimacy of the hypothesis that nationalization makes for economic efficiency. Nor is it possible with a monopolistic, nationalized industry to determine whether it is becoming more or less efficient in the economic sense. It might, therefore, be thought that decisions regarding nationalization must be wholly political decisions in which the issue of economic efficiency, however much it is pushed into

⁴ The failure to understand this point leads some writers to claim that nationalization is the natural outcome of a newer, more effective form of organization replacing one which could no longer compete with it. Thus, Robson, *op. cit. supra* note 2, at 366, regards the emergence of the public corporation in the twentieth century as a parallel to that of the joint stock company in the nineteenth. But there is a world of difference between them, in the sense that the former was voluntarily taken up in all cases where its advantages were palpable, could be discarded as freely as it was adopted, and still left room for other forms of business association; the latter was compulsorily imposed, cannot be discarded without serious dislocation, and leaves no room for other forms of organization within its field.

the forefront of public discussion, is irrelevant and in which, if indeed there is to be any rationality at all in the decisions made, broader social considerations of the kind emphasized by the early socialists must provide the guide to action.

It is not open to the student of industrial organization to render final judgments as to whether nationalization is good or bad; those judgments turn upon the standards of worthiness laid down. It is, however, possible for him to take the major changes brought about by nationalization—larger operating units, monopolistic control and non-profit seeking activities—inquire what claims have been made for them and examine, as far as facts allow, the validity of those claims.

III. SCALE OF OPERATION AND ADMINISTRATION

Nationalization in Great Britain has produced industrial units which, judged by any standard, are large. The National Coal Board employs about 700,000 persons and has fixed assets valued at about \$840,000,000. The corresponding figures for the British Transport Commission are 900,000 and \$3,920,000,000; for the British Electrical Authority, 175,000 and \$1,820,000,000; for the Iron and Steel Corporation, 300,000 and \$700,000,000. But, though large, they are not uniquely so. There are a number of companies which rival them in size. Thus the General Motors Corporation of America employs 400,000 workers and has written-down fixed assets of about \$728,000,000.⁵ Corresponding figures for du Pont are 75,000 and \$756,000,000; for General Electric of America, 190,000 and \$252,000,000. What is unique for the nationalized industries is the extent and the speed of the change in organization to which they have been subject. The National Coal Board took over at short notice about 800 formerly independent colliery undertakings; the Transport Commission took over nearly 4,000 formerly separate undertakings; the British Electrical Authority, over 600; the Iron and Steel Corporation, 92. These represented mergers on an unprecedented scale so that the nationalized industries have been confronted with a double problem of organization, one temporary and one permanent: that associated with an extremely rapid *increase* in the scale of operation and that associated with a permanent *change* in that scale and, of course, in the early days, the two acted and reacted upon one another.

Three general observations would probably command very widespread

⁵ These large firms also own considerable assets in other forms, such as marketable securities and investments in other firms. The total assets of General Motors, for example, are in the neighborhood of \$2,520,000,000.

assent. First, there seems to be no special reason why the whole of an industry which happens to fall within one national boundary should be the optimum unit for organization in that industry. The proper scale would be determined not by the historical events which have determined political boundaries but by such factors as the character of the market for the product, the technical features of production, the rate of innovation in the industry and so on. If, therefore, a nationalized industry proved to be of the best size for operation the result must have been fortuitous. Second, even among the most ardent advocates of nationalization, it is accepted that, whatever the future may hold, up to now the gains expected from operation on a larger scale have not been fully realized.⁶ Third, whatever may be said as regards the final aim of nationalization, the process has been carried through, in some cases, at a speed too great for maintaining efficiency. Some of the public boards were compelled to act so precipitately that their immediate administrative problems were virtually insoluble.⁷

The effect of the new scale of operation brought about by nationalization can be examined in two ways. It may be asked, what specific economies have been made possible by the existence of the larger organization? Or again it may be asked, can the new organization clearly be perceived as bringing about a *general* improvement in the operation of the unit in the way of speedier and wiser decisions, swifter executions and more sympathetic adjustments to changing conditions?

All the public boards make claims, in their annual reports, to economies directly made feasible by their size. The potential or achieved economies fall under five heads. Central purchasing of supplies and services in bulk can reduce prices and lessen the stocks which have to be held. The standardization of equipment and appliances may again reduce the variety and volume of stocks needed for smooth working. Research can be centralized and otherwise improved. Costing systems can be made uniform and a basis established for comparison between one operating unit and another. Systems of staff training can be carried out on a more economical scale. And, at least in one case, that of Road Transport, a reduction in the number of administrative workers for a given volume of business has been claimed.⁸

⁶ Davies, *op. cit.* supra note 2, states that "the full advantages which the community, including the workers in the public industries, were led to expect from public ownership have not yet, in every case, been fully realized."

⁷ These difficulties varied from case to case. They were probably greatest with the National Coal Board and with the Road Haulage branch of the British Transport Commission. See National Coal Board 2d Ann. Rep. 5-10 (1947); British Transport Comm'n 4th Ann. Rep. 123-24 (1951).

⁸ British Transport Comm'n 4th Ann. Rep. 49 (1951).

But, apart from Transport, the economies claimed seem extremely modest. The possibilities of purchasing centrally and providing common services may be limited by the diversity of working conditions in different areas.⁹ The British Electrical Authority has indicated that "the advantages of utilising the specialised resources of existing research organisations . . . are such that the bulk of the research required will continue to be done through or by such organisations." The Minister of Transport has pointed out that

there comes a point when an increase in bulk purchase does not give a corresponding reduction in price but leads to a series of other problems—of storage and of local feeling—which have to be considered and which apply some qualifying marks to the advantages of bulk purchase. Turning to standardisation, undoubtedly certain good results to the railways have ensued, but I think hon. Members would be surprised if they knew the number of times I hear people say that British locomotives, for example, used to provide a most fruitful field for individual design which had reactions and repercussions all over the world, and standardisation can be carried so far that the desirable opening may be dried up.¹⁰

One specially interesting case is that of the organization of long distance road haulage by the Road Haulage Executive of the British Transport Commission. Road haulage had previously been carried on by a large group of firms of very varying size, most of them small. The Road Haulage Executive took over some 3,800 of these undertakings with their 41,000 vehicles and organized them in eight geographical divisions controlling twenty-nine districts and 225 groups. "This process of grouping was essential to the creation of a national organisation with a net-work of services throughout the country and was also a necessary preliminary to the integration required by the Act." This concentrated organization fell under very serious criticism as being overcentralized. The Road Haulage Executive was certainly, by 1951, finding it difficult to compete with privately-owned vehicles. In that year the Executive was forced to admit the charge and to suggest a reorganization whereby, in each of fifty districts, "the manager would be responsible for the whole of his trading entity and for the successful operation of the activities within his sphere."

It would be quite impossible to provide any simple estimate for the net gains arising from the large-scale operation of the nationalized industries.

⁹ Thus, the British Electrical Authority: "The examination of the extent to which certain services common to Area Boards and the corresponding Generations Divisions . . . [showed] that the degree of possible joint working varied considerably from Area to Area because of varying local circumstances, and that the major activities of the Boards and Divisions were so different as to offer only a limited scope for joint services." British Electrical Authority Rep. and Acc'ts 67 (1949-50).

¹⁰ House of Commons (July 22, 1952).

Perhaps the safest and the fairest deduction is that, in presenting the case for and against nationalization, specific economies of scale could hardly be a crucial item one way or another.

When we turn to the *general* consequences of increased size more striking points emerge. In the widespread public discussion of the nationalized industries, far from their size being accepted as a virtue, it has come to be assumed that it constitutes their most persistent and troublesome problem.¹¹ The great debate has not been about the achievements made possible by the increased scale of operation but how best the public boards can overcome the defects and difficulties associated with their size, of how best they can circumvent just the kind of troubles long familiar to large organizations.

Criticism of overcentralization of the National Coal Board's activities have been made on all sides, the most common complaint being that delay and confusion arose from the fact that most of the members of the central National Board were responsible for executive functions running right down to the individual coal mines. For instance, the Chairman of the Yorkshire Miners' Trade Union declared: "You cannot run the pits from London . . . there is no more ridiculous fallacy than to believe that any industrial or political set-up in London can handle the perplexities of coal."¹² As administrative delays became serious there was a strong public demand for an independent inquiry into the activities of the Coal Board. An independent committee was, in fact, set up in May 1948 to advise the Board on organization after the publicity occasioned by the resignation of a prominent member of the original Board, whose lifetime interests had been in the technical development of the industry, and of several distinguished officials. The former gave as grounds for his resignation that he had "no confidence either in the National Coal Board or in the organisation it has set up." He described it as a cumbersome and uninspired organization which could not deal with indiscipline in the mines, nor keep a check on production costs nor accomplish the vital technical reorganization which the country expected to see carried out. He made proposals for complete decentralization.

The recommendations of the independent committee were never reproduced in full (the Coal Board deeming that "it would not be in the best interests of the industry"), but from what information has been revealed it

¹¹ Davies, *op. cit.* supra note 2, at 7: "Some of the administrative problems of the nationalized industries arise from the very size of the industries taken over. Bigness is perhaps their greatest drawback."

¹² Quoted in House of Commons (Feb., 1951).

is clear that the committee recommended a large measure of devolution of authority. The Coal Board made certain changes, in consequence, but it is obvious that the problem has not yet been solved. In December 1950, there was a new demand in the House of Commons for a further inquiry into the working of the Coal Board but this was refused. And at the end of 1950, the "Economist" was still calling for "drastic de-centralization."

When the British Transport Commission was established a large measure of decentralization was introduced. The Commission itself was a small organization engaged in major policy making and direction. The executive functions were devolved upon a Railway Executive, a Docks and Inland Waterways Executive, a Road Transport Executive, a Road Passenger Executive, a London Transport Executive, and a Hotels Executive. This was undoubtedly due, in part, to the type of assets taken over but, in part, it also reflected current views—for the Transport Commission was set up at a time when criticism of overcentralization by the Coal Board was particularly vociferous. The Commission itself commented thus:

The Commission have divested themselves of responsibilities for the actual conduct of their various businesses, which nevertheless form one undertaking, although in certain limited directions the Commission's own organisation will provide a point of focus for the discharge of certain common services. The Members of the Commission are charged with no specialist or functional responsibilities. The Executives, on the other hand are, in the main, functional bodies and represent the higher management of the concerns whose operation and maintenance are entrusted to them as agents of the Commission.

Even so, there has subsequently been much outside adverse comment on overcentralization by the Executives.¹³ The White Paper on Transport Policy issued by the Conservative Government in May 1952, when they were making their case for partial denationalization, commented:

Experience has shown that the administration of the railways has become excessively centralized under the Act and that the Road Haulage Executive, with the elaborate system of depots working under its direction, cannot give trade and industry the speedy, individual and specialised services afforded by free hauliers before nationalization.

The constant emphasis upon decentralization in the nationalized industries is, in itself, proof that size is now normally to be considered a liability rather than an asset. This undoubtedly explains why each successive scheme for nationalization has resulted in a less centralized, less formal system of organization than the one before, culminating in the scheme for

¹³ And, indeed, within the organization itself. The London Times, p. 5, col. 3 (July 12, 1952), reported: "There are tensions and disagreements which do not appear in the annual report between the Transport Commission and the Railway Executive. There is conflict as to where the line should be drawn between general policy making and management, and strife between centralizers and decentralizers."

iron and steel in which ninety-two firms were to be owned by the state but, for operation, were to be only loosely linked by a small central organization, and were to retain their own names, directors and specialized types of production. Whether, in fact, decentralization is a universal cure-all for the obvious administrative weaknesses of the public boards is dubious. The more fervent advocates of decentralization imply, by their very arguments, that the unification which was one of the basic aims of nationalization is either impossible or undesirable, in which case denationalization and not decentralization would seem to be called for. More generally, decentralization implies local autonomy, diversity of policy, competition between different methods, the absence or the severe restriction of central plans; most of the conditions for which nationalization was supposed to provide a remedy. Indeed, a highly decentralized nationalized industry would hardly be a nationalized industry at all and it can well be imagined that, if decentralization were pressed very far, then criticisms would arise that the industry in which it was introduced was failing to provide the uniformity of conditions, the homogeneity of policy, the central grip upon the whole organization which are precisely the reasons for nationalizing.

It is, therefore, conceivable that the nationalized industries are too large *ever* to be efficiently administered, that on their present scale they outstrip existing administrative technique, and that the see-saw between centralization and decentralization represents futile attempts to attain the unattainable.

Are there reasons for supposing that a nationalized industry may fail to cope with problems of administration which are handled with some measure of success by companies operating on a similar scale? Firms such as General Motors, Unilever, Imperial Chemical, and Du Pont, despite their great size, manage to keep themselves going briskly and with profit. They do not appear to suffer from the same doubts and hesitations, the same palpable defects and changes in organization, the same widespread public criticisms as have the British nationalized industries. Are there any fundamental reasons for this? Is it because the nationalized industries are more directly under the public eye so that their weaknesses are better known than the large companies? Or is it because the nationalized industries are still young and are passing through the pains of early growth?

There are good reasons for believing that the administration of a nationalized industry is, in important respects, more complex than that of a company. The nationalized industry is subject to political pressures of a disturbing kind. In the last resort, its actions will be determined by the Minister and by contemporary public opinion. This remains true despite the

attempts made in Great Britain to take the operation of the nationalized industries "out of politics" altogether by placing them in the hands of public boards which were to be largely autonomous and subject to the overriding view of the Minister only on rare occasions and on matters of highest policy. There is, however, no way of taking the operation of an important nationalized industry out of politics. Nationalization means that the industry will inevitably be pushed into the political arena, with all the consequent dangers of sudden and violent changes of policy. So long as the political parties are not agreed on nationalization as a permanent arrangement, the industry may move between nationalization and denationalization with shifts in the balance of political power. In Great Britain, far from the nationalized industries having been taken out of politics, they are in danger of being torn into pieces in the course of the political struggle. So long as there are opponents of nationalization, they will strive to bring to the forefront the weaknesses and failures of the nationalized industries; they can best do that by making such deficiencies the occasion for political attack. Where the nationalized industries are numerous, then conflicts may arise between them which, if serious, may become matters of public concern and Ministerial intervention.¹⁴ Differences of opinion may arise between the Minister and those in charge of the public board and, since both have the right to put their views to the public, such differences inevitably become the subject of public debate.¹⁵ Finally, since these industries are providing important services and goods, Ministers may be tempt-

¹⁴ Thus, the British Electrical Authority has pointed out that it, like all other consumers, "has no freedom in the purchase of coal and cannot, therefore, select the qualities which would give the highest degree of efficiency." British Electrical Authority Rep. and Acc'ts 51 (1947-49). It has complained of the unfavorable position in which the electricity supply industry has been placed by the adjustments of prices by flat rate increases irrespective of the grade of coal. *Ibid.*, at 37 (1949-50). It resisted the proposed increased railway freight charges in November 1949. *Ibid.*, at 38 (1949-50). The British Transport Commission has pointed out that the "unsuitable qualities of coal now available" have increased the fuel consumption. British Transport Comm'n 1st Ann. Rep. 61 (1948). The National Coal Board opposed the suggested increase in railway freight charges in 1949. National Coal Board 5th Ann. Rep. 25 (1950). The most striking case of disputes between boards, however, is to be found in the evidence presented before the Ridley Committee on National Fuel Policy in 1952. The Gas Council accuses the British Electrical Authority of adopting a price policy which unfairly hampers the Council. The BEA accuses the Gas Council of not charging consumers the full cost of their capital equipment. The Coal Board attacks the BEA for its attempts to spread its load and declares that space heating by electricity is uneconomical. The BEA rejoins that the Coal Board has failed to supply coal in adequate quantities and suitable qualities.

¹⁵ Two important instances have occurred where the public board and the government differed as to what was "in the best national interest." The British Electrical Authority has pressed for a larger proportion of the total capital investment. British Electrical Authority Rep. and Acc'ts 13 (1950-51). And, in 1952, the British Transport Commission and the government clearly disagreed about the possibilities of integration in road transport.

ed to court popularity by giving way to democratic pressures for the provision of these goods and services on exceptionally favorable terms.¹⁶

The dilemma which arises when an industry has been placed firmly "in politics" by being nationalized and then is organized in such a way as to take it "out of politics" is very clearly shown in the efforts made to demarcate the functions of the Minister and those of the officials of the public board. In each one of the nationalization statutes it was laid down that the Minister must hold responsibility for matters of "national interest" or "public interest." The underlying idea was that the task of operating a nationalized industry could be broken into two parts: the handling of questions of national interest, which would be the function of the Minister, and the handling of "day-to-day" policy which would be the responsibility of the officials of the public board. Thus, it was considered, the double purpose would be served: the main policies of the board would be directed towards the serving of the public interest but there would be no interference in the brisk daily dispatch of business by the boards; the virtues of public control and private enterprise would be combined. This splitting of responsibility was, further, to determine the extent to which Parliament could ask questions about, and interfere in the work of, the public boards.

But it has, in fact, proved impossible to give real meaning to this distinction between matters of national interest, of major policy on the one hand and matters of day-to-day importance on the other. The process of administration cannot be split up into parts in this way. Wise policy in major matters can only be built up by careful scrutiny of day-to-day matters. No event, in the first instance, can be labelled as a minor or a major matter. The manner in which a minor event is dealt with may determine whether it becomes a major one in the operation of the organization. The administrator must constantly concern himself with the events which impinge upon his organization in order to decide which are major (in the sense that they merit his attention because they are awkward, pregnant with danger or full of possibilities) and which minor. But the very choice of what is major and what is minor, which function would surely be re-

¹⁶ Perhaps the most striking case occurred when the government stepped in, in June 1952, and prevented proposed fare increases in the London region. At least one writer, Lewis, *The Price Policy of Public Corporations*, in Robson, *Problems of Nationalized Industry* 192 (1952), has argued that the public boards should be subject to more day-to-day control than they are at present. Thus, he argues, that the Minister, and not the management of the public board, should decide in each case whether a profit or loss should be made; and that all prices of a public board should be made subject to the scrutiny of a price tribunal. This, of course, would push the working of the public boards even more definitely into the political arena.

garded as a part of major policy,¹⁷ can only be exercised through day-to-day attention to what would normally be regarded as detail.¹⁸

It would, therefore, appear that the public boards operate in an environment in which the administrative task of reaching decisions is more complex than those found in companies. The difference between the two cases will, indeed, depend upon how far companies are themselves subject to state controls and how the companies organize themselves (it is possible to conceive of cases where the company adopts a system of administration similar in kind to that of the public boards). Normally, however, even in conditions like those in Great Britain at present, it may be expected that the public board will encounter impediments to effective action and obstacles to systematic and consistent decision-making which do not hamper the company.

IV. MONOPOLY

Nationalization is generally looked upon as an act of exclusion: the state undertakes certain activities and, at the same time, legally debars private individuals from engaging in them. We must, therefore, consider what aims are thought to arise from this extension of monopoly power. The matter is complicated in two ways: some of the nationalized industries provide services, such as rail transport, gas or electricity which have long been regarded as suitable for operation under monopoly conditions; some of the industries, such as iron and steel, have been nationalized on the grounds that they were already private monopolies. The purpose of the present section is to examine the virtues of those additions to monopoly power which can be attributed uniquely to the nationalization experiment.

Each of the public boards has a tight grip upon one or a group of markets. The National Coal Board has virtually a complete monopoly of coal-getting in a country where nine-tenths of the heat and motive power is derived from coal. There is, of course, competition from gas, electricity and oil, but the costs of gas and electricity are partly made up of the cost of coal, and fuel oil still occupies a small place in the general market for heat and power. The British Transport Commission had conferred upon it a monopoly of the long distance carriage of goods and persons. About four-fifths of the total sums spent by passengers are paid to the Commis-

¹⁷ The story is told that when Sydney and Beatrice Webb were married, they agreed that he should make decisions in the big matters and she in the small matters, but that one of the small matters was deciding, in each case, what was a small and what was a large matter.

¹⁸ Thus, the head of one of the largest businesses in the world regards it as one of his most important functions to examine each day a classified list of all the complaints made regarding the firm's products.

sion. On the freight side the Commission owns the railways and the road vehicles engaged in long distance transport, with the exception of goods carried in manufacturers' own vehicles. The British Electrical Authority has some competition from privately generated electricity but this does not seriously diminish its monopoly powers. The Gas Council produces nearly nine-tenths of the gas produced in the country. The Iron and Steel Corporation produces virtually the whole of the national steel output. Of course there is competition between some of the boards, such as that between gas and electricity. And in some of their ancillary activities the boards must meet private competition, particularly the Iron and Steel Corporation in its production outside iron ore, pig iron, steel, and hot-rolled products. But the purpose of nationalization was to create monopolies and that purpose has been achieved.

Some technical claims are made for these monopolies. Thus the monopoly of the National Coal Board enables it to organize as one piece the whole of a coal mining basin without being hampered by the claims of numerous landowners, but of course that justifies the unification of mining rights without necessarily justifying the unified operation of all the national coal mines. And the British Electrical Authority, by virtue of its control over all generation and distribution, can switch supplies from one area to another, although such economies are limited by the cost of transmission and the degree to which peak demands coincide in different parts of the country.¹⁹

In the early stages of nationalization it was assumed, however, that the major gains of monopoly lay in a process which is variously described as integration, coordination or unification.²⁰ It is extremely difficult to discover what exactly is meant by the term integration and, therefore, even more difficult to ascertain whether integration has been achieved and what its benefits have been. The points to be made here can perhaps be illustrated by examining the British Transport Commission for it is in terms of transport that the possibilities of integration have been thought to be greatest and most easy to realize. When the Transport Commission

¹⁹ The British Electrical Authority claims that, through the 275,000-volt transmission grid which it proposes to build, the total generating capacity otherwise required will be reduced by about 5%.

²⁰ Whether these words are exactly synonymous is difficult to determine. The British Transport Commission uses the phrase, "integration and co-ordination." Unless the Commission has failed to integrate its own language, this suggests that "integration" and "co-ordination" are different things. "Unification" has tended to become unpopular, since it seems to connote "centralization" and "centralization" has recently come to carry unpleasant associations.

was set up in 1947 much was expected of integration.²¹ In 1950, the Transport Commission was insisting that "no opportunity has been lost to emphasize that integration is vital to the prosperity of the Commission's undertaking. . . ."²² Yet time has simply led to growing disputes as to whether integration has brought any benefits and increasing perplexity as to what is integration. Each annual report of the Commission has spoken of the progress made in giving effect to, or preparing the way for, the policy of integration required by the Transport Act, culminating in the claim in 1952 that

the way was prepared for many important steps in the process of integrating the different forms of transport, from which large economies would eventually result.²³

Yet the Minister of Transport asserted, almost on the same day the report was issued, that

it is the absolute failure in the realm of integration, despite all the effort put into it—and the very magnitude of the effort shows how impossible the task is to achieve—that is the justification for a new approach which forces upon the Government of the day the obligation to introduce a new Transport Bill.²⁴

And whilst, in the course of the crucial debate in the House of Commons in July 1952, one party was holding that "integration was a word that was used to mystify millions," the other was claiming that a real meaning could be given to it without, however, indicating what the meaning was.

The muddle over meanings can be clearly discerned in the aims and statements of the Transport Commission. They began with the widest possible interpretation of the idea:

Rail, road and inland waterway services were to be developed as complementary to each other and were not to be regarded as rival forms of transport.²⁵

This is understandable. It assumes that the customer is interested in having his goods (or himself) carried in the most effective way, that he has no interest in the methods of transport but simply in the result. Just as a consumer of electricity would have no direct interest in whether his light was provided by electricity generated by burning coal or by burning oil under boilers. Only one product is being provided; it is the function of the Commission from its specialized knowledge to fit together the different

²¹ The Minister of Transport, in the House of Commons (Dec. 16, 1946), said, "Give this Labour Government five years of power in this field of transport services, and the people of this country will see more progress than would be made in 500 years of Tory Rule."

²² British Transport Comm'n 3d Ann. Rep. 22 (1950).

²³ British Transport Comm'n 4th Ann. Rep. iii (1951).

²⁴ House of Commons (July 22, 1952).

²⁵ This was the theme of their "Statement of Policy on the Integration of Freight Services by Road and Rail."

methods of providing transport, as one would fit together the different pieces of a jig-saw puzzle, in order to bring about the optimum physical fit. We may refer to this conception of integration as "global physical integration." For this kind of integration, monopoly is essential—all the pieces must be in one hand. The consumer has no choice over method.

The Commission is soon found, however, to be going back on its tracks when it declares that it

had no intention of operating integration schemes which would impair freedom of choice where regular services of different kinds are available between the same points.²⁶ If regular different transport services are provided, then, contrary to the first conception of integration, some choice is being left to the consumer over methods of transport. But why should that choice be offered? Why should the Commission not offer the best method of transport? Why the duplication? It must be either because the Commission finds it cannot carry through global physical integration or because, when it has done so, it finds two methods exist of carrying a particular load which are equally effective for its purpose. This second conception of integration may be named "partial physical integration."

In its 1951 report, however, the Commission goes far the other way: The Commission have made no attempt, and do not intend to attempt, to enforce arbitrary selections of their services upon the public. There is no question, for example, of forcing the customer away from road to rail. Suggestions to the contrary are not justified. *All the Commission ask is that the customer shall pay the real cost of the service he selects, and that he shall not receive one service at its bare cost if he insists at the same time on the maintenance of other services at less than cost.* Though in the present state of the country's financial and economic position it is difficult to establish what the true long-term costs of different forms of transport will be, it is of vital importance ultimately that the true costs of the various services shall be brought home to the customer. This will never be achieved by partial competition between services with different public obligations and with charges fixed on different principles. Only when co-ordinated charging arrangements for both Rail and Road are in operation can the true costs be made to "compete" with each other, and thus bring into proper play those forces which will influence the customers as a whole to make use in the most economic ways of the services they desire.²⁷

This implies that the different services shall be rival services, that the outcome of this rivalry shall be determined by the choice of the customer and "integration" is whittled down to the function of guaranteeing that as far as possible, each service charge according to its costs. Clearly, with this conception of integration, it would not be necessary for the Commission to have a monopoly of operation of different methods of transport.

²⁶ British Transport Comm'n 3d Ann. Rep. 22 (1950).

²⁷ British Transport Comm'n 4th Ann. Rep. 16 (1951).

All that would be necessary would be to make certain that each service was charging its "real cost." The consumer is then left perfectly free to choose the method of transport. This form of integration can be best called "competition."

At this point it might, therefore, be asked why the Commission requires a monopoly of operation at all. Why should it not be content with insisting that each service charge its "real costs" and then providing the services called for by the consumer at those prices? Indeed, it may be asked why the Commission need intervene at all since no service is likely to continue in operation unless it covers its costs. Here the Commission would appear to make a further volte-face. It resists the idea of abolishing the monopoly on the grounds that "fair competition" between road and rail is impossible. The argument is that, before nationalization, there was a public system of transport—the railway system—and a private system—the road system. The public system had certain duties and responsibilities placed on it as a common carrier: it had to operate services regularly, to give all users equal treatment, to apply uniformly an approved tariff. Such responsibilities were not placed on the private system. Why, then, should not the public system be relieved of these obligations and then be allowed to compete with the private system? The answer the Commission gives is as follows:

The public system, so long as it retains the essential characteristics of a public system and meets the public obligations laid upon it, cannot adequately deal with price competition which is casual, temporary or experimental in character. And to suggest that the public system should be freed from these disadvantages is really to turn it into a private system—something which the vast majority of the commercial and industrial community have never been willing to accept in practice. That a public system should carry only when it likes, or what it likes, and should carry at prices which differ according to season, or route, or user, or the particular circumstances of each "job"; which fluctuate with the state of the "markets" for each different type of traffic; and which are governed only by the competitive requirements of the system and its own search for profit, would be something novel and unlikely to be tried. How a true public system could meet private carriers on fair terms, unless the private carriers were made subject to suitable regulation of obligation and price in relation to real costs, is a problem for which no solution has yet been found.²⁸

In brief, *if* there could be competition then there would be no need for the monopoly. Since there cannot be competition then there must be monopoly, and we are forced back again to the original idea of "global physical integration."

So far, integration has been discussed in terms of the transport indus-

²⁸ *Ibid.*, at 42.

try, but the same principles emerge in the other nationalized industries, and the argument can now be widened to cover them. The main virtue of monopoly, the argument runs, is that it makes possible physical integration of resources. There appear, however, to be three serious drawbacks to such integration. First, that it logically calls for more and more coordination, implying bigger and bigger units of control, and thereby outstrips the limits of administrative feasibility. Second, that in the process of solving technical problems, it restricts or extinguishes consumers' preferences and thus defeats its own end. Third, that extensive integration will normally call for large scale changes in the duties and responsibilities of workers and thereby create new problems in labor relations.

Integration Without Limit

Complete physical integration within one industry is, in itself, a most formidable task to which there can hardly be an end. When the Transport Commission was set up, individual manufacturers were still left with the right, under so-called "C licenses," to use their own vehicles to carry their own goods (although the original bill contemplated a severe restriction of such rights). Since nationalization, the number of these vehicles has increased enormously—from 490,000 in 1948 to 796,000 in 1951. There is no doubt that this increase is partly reaction to the monopolizing of public long distance road haulage. But the growth of the C license is destructive of transport integration; it almost certainly creates surplus capacity in road transport,²⁹ and logically it calls for the withdrawal from all manufacturers of the right to carry their own goods.³⁰ But if the Transport Commission were to take over all the C licenses, it would be called upon to operate more than ten times as many vehicles as it now operates. In the case of electricity supply, there is no law in Great Britain which debar individuals or firms from generating their own electricity. But the British Electrical Authority has always looked with a somewhat jaundiced eye upon private generation. The Authority has, indeed, declared that they "are not opposed to the installation of private generating plants where economically justified."³¹ But they go on to argue that private generation

²⁹ This is all the more certain since, under the existing law, a C license vehicle cannot carry the goods of anyone save its owner. It follows that the C license vehicle will often return empty, i.e., waste is created of just the kind which nationalization is supposed to eliminate.

³⁰ It has often been suggested by supporters of nationalization that C licenses should be restricted on the familiar ground that they are "creaming off" the traffic. The attitude of the Transport Commission has been to minimize the importance of the growth of C licenses, to suggest that the growth may be temporary, but at the same time to deprecate it. See British Transport Comm'n 4th Ann. Rep. 30-31 (1951).

³¹ Report of the Committee on National Policy for the Use of Fuel and Power Resources 130 (1952) (hereinafter referred to as the "Ridley Committee Report").

cannot be in the national interest unless (a) the efficiency of the private generators is equal to that of the public, (b) the load factor of the private generators is equal to that of the public, (c) all new schemes for private generation should be examined in consultation with the Electricity Boards, and (d) firms using private generators should not expect a "stand-by service" from public generators except on terms which fully cover the costs involved. In brief, freedom for private generation will normally be an embarrassment to optimum integration.

The anxiety to place all the relevant pieces within one hand has led, indeed, to friction among the public boards themselves. Hence the dispute between the National Coal Board and the Gas Council as to whether the former should be permitted to operate coal carbonization plants³² and the dispute between the Coal Board and the British Electrical Authority as to how rapidly coal mines should be electrified and as to whether the Coal Board should be allowed to generate electricity.³³

If, however, there is virtue in integration, there can be no reason why it should be confined to some arbitrarily delimited industry. There is already a demand in Great Britain that the three boards for coal, gas, and electricity should, in turn, be subject to centralized control and integration because the industries are now "following separate paths."³⁴ Given time, it would make itself apparent to the integrators that all industries follow separate paths and should be integrated by the imposition of a unified monopoly control. For example, the oil industry would certainly have to be coordinated with the fuel and power industries. Fuel is carried by railways in the form of coal, it is also carried by gas companies and electricity companies in the form of gas and electricity: transport and power and fuel should be integrated. The fuel industries seek to provide warmth in houses; the building industry, by improving insulation, is trying to achieve the same end: building and fuel and power should be integrated. There is no limit to integration short of a unified control over all economic activity. The paradox here is that while more and more coordination is being called for *between* nationalized industries, where presumably it would be relatively difficult, less and less coordination (i.e., more and more decentralization) is being demanded *within* those industries, where presumably it would be relatively easy to achieve.

The Place of the Consumer in Integration

Every business is concerned with what it will produce for itself and what it will buy from outside, that is to say, with the extent to which it

³² *Ibid.*, at 179.

³³ *Ibid.*, at 147-48.

³⁴ Evidence of Trades Union Congress, *ibid.*, at 219.

will integrate its activities. The limits within which it must operate will normally be narrowly determined by the discrimination of the consumer, for should the integration result in the offer of inferior choices, the non-integrated firms will take the market and the experiment in integration will be at an end. But where physical integration is attempted by a producer holding a statutory monopoly, then the consumer's satisfaction will depend upon the power of the producer to understand completely the consumer's preferences and to respect them. The danger is that the producer, while seeking for integration which eliminates physical waste, may believe that he is leaving the position of the consumer unaffected, whereas he is really undermining it. For example, a transport monopoly may believe that, although it has replaced road by rail traffic in a particular case, the consumer will have his goods delivered exactly the same way. But the monopolist is never in a position to be sure of that. While the new and the old form of service might *generally* be the same, only the consumer can know the significance of apparently minor differences between them. For example, the new service might be slightly more reliable in the winter than in the summer, the old slightly more reliable in the summer than in the winter; only the consumer would know the importance of summer and winter regularity for the transport of his goods. The producer, either through his inevitable ignorance or by reason of his preoccupation with the obvious technical gains from integration, may normally be expected to underestimate the importance of consumers' preferences.

Two illustrations, drawn from the relations of the public boards themselves may be given. In 1952, the National Coal Board, greatly concerned about the future supply of coal and power, recommended that any further growth in the heating load of electricity should be prevented and that, in order further to reduce this load, domestic consumers should apparently be forced to desist from the use of electric fires and be compelled to use gas fires.³⁵ Calculations were given purporting to show that in terms of physical integration, fuel would be saved. The British Electrical Authority, while seeking to controvert these calculations, concluded:

The Authority feels strongly that the consumers are in the best position to balance the various factors which determine the most economic and efficient means of meeting their individual requirements, and therefore that the freedom of each individual to choose the fuel and fuel-saving appliances most suited to his needs should be preserved.

In the second case the roles were reversed. The British Electrical Authority argued that the National Coal Board should electrify its coal mines more rapidly.³⁶ But the Coal Board properly pointed out that the decision

³⁵ *Ibid.*, at 122.

³⁶ *Ibid.*, at 149.

in the case of each coal mine was to be arrived at by the consideration of many factors, most of which were outside the knowledge of the British Electrical Authority.³⁷

Integration and Labor Relations

All good administrative arrangements must take into account the fact that human as well as physical resources are involved and that any arrangement which fails to evoke cooperation by the worker thereby condemns itself. All organizations are confronted with this problem but the large monopolistic organization may be in greater difficulties than most. First, because it is large the maintenance of personal relations which bring understanding are more difficult. Second, the fact that the worker is employed in a monopoly, and therefore has no other obvious source of employment, may make him more determined to safeguard his interests. Third, the fact that one organization must deal with all the labor in the industry calls for uniformity of treatment difficult to establish when operating condition may vary greatly. Fourth, the schemes for physical integration possible under monopoly will naturally cause upsets to established expectations.³⁸

To sum up: the only general case that can be made for monopoly in the nationalized industries is that, without it, the physical integration of assets will be impossible. To the extent that the pursuit of full integration is disclaimed, then the need for monopoly is reduced. The virtue of monopoly is, therefore, dependent upon the merits of complete coordination. But such coordination is a technical conception, its achievement is likely to frustrate the preferences of consumers, reduce the freedom of the worker. If that conception is carried forward logically it calls for the coordination not of an industry but of all industry. At that stage the problems of administration, already acute in the lumps of the economic system now nationalized, would become an overriding obstacle to efficiency.

The Integration Actually Achieved

An examination of the detailed claims made by the boards to economies arising through integration suggests that most of these economies are, in fact, not dependent upon an operating monopoly and sometimes are not even dependent upon public ownership. To take, again, the British Transport Commission which has provided, in its annual reports, the most systematic description of progress in integration and coordination, the Com-

³⁷ *Ibid.*, at 178.

³⁸ Such labor problems have undoubtedly complicated the schemes of integration of the British Transport Commission. British Transport Comm'n 4th Ann. Rep. 4 (1951).

mission makes some claims which are really economies of scale as, for instance, when the responsibility for maintenance of the road vehicles of the Road Haulage Executive and those of the Railway Executive is placed in a common organization. Some of the economies might well be brought about by competition. Thus the closing down of the redundant railway branch lines and stations does not call for monopoly: it was going on before nationalization. Some of the economies partake of the nature of merchandizing centralization long familiar in competitive systems. For example, the Commission, in its 1951 report, is at pains to describe a system in which, in the transport of small consignments between London and Manchester, the Road Haulage Executive takes the responsibility for gathering together such consignments, sorting them, handing them over packed in large containers for transport in trainloads by railway between the cities, and then distributing them to their final destination.³⁹ But of course there is no reason why a private road organization could not have used the railway facilities in this way or why a dispatching agency could not have provided such services for the consumer and simply employed existing road and rail facilities, or why independent rail and road companies could not have organized those inter-connections without being under common ownership. The same argument would apply where the Commission submits as improvements of integration "late omnibus services from stations after return rail excursions" or "portable stands at agricultural shows displaying both Railway and Road Haulage literature."

The experience of the British nationalized industries as regards monopoly, leaves us confronted, therefore, with a series of non sequiturs. Monopoly can only be defended if the aim is complete physical integration. But the case for integration of this kind has never been made satisfactorily. The various industries have not, in fact, made any attempt at establishing complete physical integration. Indeed they claim that they wish to leave the consumer with his preferences. Meanwhile, the economies of integration which have actually been introduced are economies which do not really depend upon possession of monopoly powers.

V. THE ABSENCE OF PROFIT-MAKING

By their statutes, the nationalized industries are instructed that they must cover their costs by their proceeds "taking good years with bad." That means they must not make losses but it also means that, after allowing for capital increases, they must not make profits. The absence of profit-making derives directly from the underlying philosophy of nation-

³⁹ Ibid.

alization, which is that profit-making is improper. Can the economic consequences of this notion be traced? The question leads directly into the most complicated issues regarding price and investment policy.

The older arguments do not appear to take us very far. It used to be said that, if profits had not to be made, then prices would be that much lower, the consumer would benefit. Against this, it was said that to aim at the making of a surplus was itself an incentive for the maximum drive and energy, that the absence of this incentive would lead to general economic debility. But I know of no method by which one can test the validity of either of these ideas.

An indirect approach to this question can, however, be made along two lines. First, a monopolist who is instructed not to make profits must find some way of fixing his prices so that he obeys the rule. It can, therefore, be asked whether the *pricing policies* of the nationalized industries are such as to give results superior to those obtained in a free market. Second, if profits are not to be made, decisions regarding investments must be reached in ways different from those pursued in a free market economy. It can, therefore, be asked whether *investment policies* of the nationalized industries have anything to commend them as against the investment mechanisms of a free economic system.

Pricing Policy

There are two branches of pricing policy, the fixing of the general level of prices and the determination of price differentials. In both cases the monopolized industries have run into formidable difficulties. The first case is well illustrated by events in the coal mining industry. At present the National Coal Board is paying its way, proceeds are covering costs. But at the general level of prices being charged by the Coal Board, the demand for coal is greater than the supply. The rationing of coal is, therefore, necessary with all the crudities which go with rationing—absence of choice of quality for the consumer, expense of government administration, and so on. The obvious way out would, of course, be to allow the price of coal to rise until the demand and supply were equalled. But if the price of coal were to rise to that point, then the Coal Board would make very large profits. This is an example of the general case, familiar to economists, that where the marginal cost curve is rising, prices based on average cost and not on marginal cost may mean a demand greater than supply. The knots into which British policy has tied itself are revealed in a recent official report on fuel and power policy.⁴⁰ One half of the committee was in favor of

⁴⁰ Ridley Committee Report, *op. cit.* supra note 31.

raising the general price of coal so that there was a closer approximation between price and marginal cost. The other half objected on the ground that it was foolish deliberately to raise the price of coal at a time when it was vital for Great Britain to keep down prices and costs. But even the first group, which favored an increase in price, was not prepared to allow the Coal Board to make profits. This group suggested that the increase in price should be brought about by imposing an excise duty on coal.⁴¹ Such a policy of taxing coal raises, however, more questions than it answers. Is such a tax a good tax? What guarantee is there that the resources thereby placed in the hands of the State will be as well employed as if these resources were left in the hands of the industry?

The general point is, therefore, that a policy designed to avoid profits means prices related to average costs. With a rising marginal cost curve this means a demand greater than supply. This means rationing. One of the important functions of the price system is jammed. And rationing of a raw material widely used in industry will almost certainly contribute to industrial inefficiency.

What next of differential prices? What policies have the boards been following in drawing up their detailed price schedules? It is claimed that since the nationalized industries have these price schedules completely within their control and since they need not aim at a maximum profit, they are in a position to provide favorable prices to specially deserving groups. In effect, they can grant socially desirable subsidies. For example, the Coal Board has deliberately kept high cost mines in operation, partly because the coal was needed, partly because employment was thereby provided in isolated areas. The Central Electricity Authority has a statutory obligation to encourage the extension of supplies to rural areas. The Transport Commission has inherited the obligation to provide special privilege fares, workmen's tickets, and the like. This is the well known principle of "pooling costs." The obvious objection to the pooling principle is that, should there be a case for subsidizing special groups, the cost of doing that is surely best spread over the community as a whole. There is no particular case for placing the burden of, say, a subsidy to some users of electricity upon the other users of electricity.

Leaving on one side the so-called social obligations of nationalized industries, the public boards from their inception have regarded it as one of their first duties to produce what they describe as a "rational price structure." Indeed, in the case of the Transport Commission, that responsibility was placed upon it by its statute. What progress has been made in pro-

⁴¹ *Ibid.*, at c. IV.

ducing rational price structures? Two points are very clear here. First, the task of creating, in the absence of a free market, a "rational price structure" is proving much more difficult, and the time taken for this purpose is proving to be greater than was originally envisaged. The experience of the National Coal Board is striking: in 1946, with its first annual report, the Board indicated that

for the time being . . . sales would continue to be made at existing prices.

In 1947, with its second annual report, the Board states that the present price structure of coal is unrealistic and the Board intend to bring in a new and rational price structure as soon as possible.

In 1948, the Board reported that

at first, the Board intended to leave things as they were until they could introduce a new price structure for the industry. . . . After going more fully into the matter, however, they have come to the conclusion that this cannot be done all at once or done soon.

In 1949, we find in the Board's annual report:

The Board are convinced that, in the interests of consumers, testing and proving exercises are necessary before a long term price structure can be established.

In 1950, we find the Board saying:

The Board made no important price adjustments in 1950. But by the end of the year they had prepared for further moves to be made in 1951 towards a rational price structure.⁴²

Only in 1951 did the Board record that it was nearing the end of its labors in this matter. To what end shall be shown later.

Similarly with the British Transport Commission. By the Act of 1947, the Commission was charged with the duty of preparing "a Charges Scheme, relating to all the services provided by the Commission for the carriage of passengers and goods" before August 1949. It was given two years to carry out this function. In 1949, the Commission was forced to ask for an extension of this period until 1951. In 1951, the Commission was forced to ask for a further extension until 1953. So that the charges schemes are not yet complete.

⁴² The Board in this year continued to explain the grounds upon which it was seeking for a rational price structure. The following (§ 108) deserves to be preserved as an exhibit in any museum of economic obscurantism: "A rational price structure is needed both to promote the efficient use of coal and to help the Board in deciding upon their production plans. If there were no scarcity of coal there might have been no need for an elaborate exercise to work out a rational price structure: the 'market' would indicate what prices were too low or too high and so point the way to what prices should be. But in time of scarcity the indications of the market are not clear. Nearly all coals are scarce, whether they are correctly priced or not, and degrees of scarcity are not easily determined. A faulty price structure does not leave the over-priced coals unsold; it means dissatisfaction among consumers. So the Board had no choice; they had to work out a new price structure as a starting point. In the long run, the indications of the market will not be ignored."

For four or five years, therefore, the major public boards have been searching, without finality, for rational price structures. A simple deduction from this is that, for four or five years, these industries have each been operating with a price structure which is believed to have been irrational; which cannot have been particularly good for British industry.

It is the Coal Board which has gone the furthest in establishing a new price system. The principles which they have apparently decided upon hardly seem novel and are not very reassuring. Briefly, these principles are:

(a) The relative prices of different kinds of coal should be based upon a detailed technical assessment of the different types of coal. The aim seems to be that the price differentials should be those which "a rational consumer" would pay. The obvious objection to that principle is that the only way to find out what a "rational consumer" would choose would be to provide him, of course, with whatever information and advice was possible and then leave the market free. It is difficult to see how scientists can ever tell us what the correct price for a commodity is. It is, however, only fair to point out that, by applying this principle, the Coal Board has probably gone some way towards the restoration of those basic differentials, ironed out during the war, which would probably emerge in a free market. That the Board has not fully succeeded is shown by the complaints that have been made both by the British Electricity Authority and the Gas Council.⁴³

(b) There should be a zone system of uniform delivered prices for coal. That is to say any consumer will pay the same prices for coal whatever coal mine it comes from; all customers in the same zone will pay the same price; all prices will be delivered prices. Put briefly, this system is similar to that pursued by an industry employing a basing-point system. It carries with it the same objections as a basing-point price system—that it makes for an inefficient location of industry and it slows down the elimination of weak units in the industry.

The search, in the absence of a free market, for these rational price structures, has, undoubtedly, led to a good deal of muddle and frustration, and it would appear that this is now being recognized even by the Boards

⁴³ Thus, the British Electrical Authority complained: "Even after the latest price revision, the average pit head price of fuel to the Authority per therm is still somewhat higher than the price per therm paid by many other users, although the quality is so much lower. . . . The Authority have, therefore, been called upon to subsidise other coal consumers such as the Gas Boards." Ridley Committee Report, *op. cit.* supra note 31, at 152. The Gas Council reported: "The National Coal Board prepared in March 1951, a scheme for giving price reductions to domestic and industrial coal users by increasing the price of coal for carbonisation. . . . The gas industry believes that the principle of this scheme was applied in a discriminating fashion against the gas industry when coal prices were revised on Dec. 31st, 1951." *Ibid.*, at 169.

themselves. For in very recent months a new principle seems to have been gaining ground—the principle that prices should be equalled to “relevant” costs. The Ridley Committee recently reported in favor of this. The Transport Commission has reached the conclusion that “the consumer should pay the real cost of the service he selects,” and it has argued that if privilege tickets at low prices are to be provided the cost of the subsidy should not fall upon the other passengers but should be met by a tax upon the whole community.⁴⁴ The Gas Council “accepts in principle the contention that the price of a product or service should as nearly as possible equal the cost of providing that product or service.” And, of course, this movement is reflected in the actions of the present government which, in its scheme for denationalizing transport, is aiming at competition between road and rail and, to that end, intends to try to make the competition fairer by leaving railways much greater latitude in fixing its charges in relation to actual cost.

It is not difficult to discern the inconsistencies between present practices and the new principle of linking costs and prices. There is no agreement as to what are “relevant” costs—are they average or marginal costs? A system of uniform delivered prices, such as is now practiced by the Coal Board, clearly implies a pooling of transport costs. The Central Electricity Authority is certainly not enthusiastic for measures which would enable it to impose upon its customers, at peak load, prices related to cost. But it would appear that the present movement of opinion and of practice is away from the notion that the public boards have social responsibilities to special sections of the community, away from the idea that some scientific assessment of the technical qualities of a commodity enables a proper price to be fixed for it, away from the pooling of costs and towards a closer linking of costs and prices. That, at least, seems a step in the right direction. But the principle is hardly a new one.

VI. INVESTMENT POLICY

In the prewar period, British critics of private enterprise argued in two quite different ways. On the one hand, it was said that, since private enterprise would inevitably degenerate into monopoly, the restrictionist policy of the monopolist would lead to too little investment in some important industries. On the other hand, it was said that private enterprise, because of its uncoordinated nature, would result in entrepreneurs overinvesting in good times and thus creating problems of surplus capacity later. The grounds upon which nationalization was advocated in Great Britain reflected both these notions. The steel industry was nationalized

⁴⁴ British Transport Comm'n 4th Ann. Rep. 29 (1951).

because, so it was alleged, it had starved the community of steel making capacity. The coal mining industry was nationalized because, among other reasons, it seemed powerless to handle the conditions of overcapacity to which it was especially subject. Has capital investment in Great Britain been more rationally distributed since nationalization?

There is no technique by which economists can examine a table recording the details of the national industrial investment and thereby decide whether the distribution of investment has been about correct or, if incorrect, in what ways. Where vast errors are made, of course, they cannot be overlooked. (Nobody doubts, for instance, that the very large investment made by the British government in the African ground-nuts scheme was an error, because the return was nil.) But where the question is that of more or less, there may be as many different individual judgments as there are different observers. Criticisms have, in fact, been advanced of British postwar investment policy on three grounds: that the nationalized industries have been able to obtain too large a proportion of total savings, to the detriment of private industry; that, within the public sector, the electricity industry has obtained more than its due share of investment;⁴⁵ and that the distribution of capital has been used to maintain the existing location of coal and steel production to the disadvantage of other, low-cost, centers.⁴⁶ These are personal opinions. But it is reasonable to assume that, where the party in power favors nationalization, it is likely to be sympathetic to the demands of the nationalized industries. And British experience suggests that the struggle between the various public boards over the distribution of capital has a militant quality by comparison with which the normal competitive processes of a free market seem mild. There is certainly no reason to suppose that a period of nationalization ushers in a kind of millennium by which each individual, informed by some inner light, unerringly recognizes what is the national interest and spontaneously moderates his own demands in accordance with it.

One point, however, is clear. The essence of an investment decision is prediction of future conditions. And the success of investment will turn upon skill in forecasting the future and the rapid recognition and remedying of investment errors. Now there appears to be no reason why nationalized industries should be more likely to predict the future successfully than others. Indeed, the pressures, political and other, which fall upon them may easily accentuate errors. This can be illustrated by current dis-

⁴⁵ In the period 1948-1951, gross capital investment in the nationalized industries was slightly more than one-half the investment in private manufacturing industry. Of the gross capital investment in the nationalized industries, about one-half has gone into electricity supply and distribution.

⁴⁶ See Allen, *The Outlook for British Industry*, Westminster Bank Rev. (Aug., 1952).

cussions in Great Britain about the probable future demand for coal.⁴⁷ The National Coal Board recently prepared a long distance plan in which it reached the conclusion that the best estimate it could give, and work to, was that demand in 1961-1965 would be 230-250 million tons of coal. That estimate has been challenged. The Ridley Committee suggested that this was about twenty million tons too low. The Federation of British Industries estimated that it was fifty million tons too low. Both the Electricity and the Gas Authorities complained that this estimate did not allow sufficiently for the probable increases in electricity and gas requirements. The Coal Board, supported by the Gas Council, sought to defend its figures by declaring that the policy of the British Electricity Authority in pushing the use of electricity for heating purposes, and thus enlarging its estimates of its future demand for coal, was "incompatible with the national interest"; in effect, the Coal Board queried the need for coal as embodied in the program for expansion of the Central Electricity Authority. It further pointed out that if it had to plan to produce more coal it could only do this with sharply increasing costs of production. Nobody, apparently, has yet tried to work out whether, if costs and prices rise this way, anybody will be able to afford to buy any coal at all. So these public boards, each naturally putting its own interests in the forefront of its thinking, throw in conflicting calculations upon which, sooner or later, some kind of action must be taken. It is conflicts of this kind which have recently led to the suggestion that a kind of super public board should be created, the task of which would be to coordinate the activities of the existing public boards, although why a super public board should be able to guess more accurately than a public board has not been made clear.

All investment decisions, whether they are made by private enterprise or by public bodies, involve the taking of action upon the basis of incomplete evidence. That is what risk taking means. But no reason has yet been advanced for believing that major investment decisions made by private firms are more likely to go wrong than such decisions taken by public boards in the kind of atmosphere in which Great Britain now proceeds to determine the probable future demand for coal as a preliminary to investment decisions by the National Coal Board.

VII. CONCLUSIONS

For the student of industrial organization, the right question to ask about nationalization is whether it has added to our stock of knowledge concerning the best way to organize industry in order to raise the standard

⁴⁷ Ridley Committee Report, *op. cit. supra* note 31, at 12, 121, 136, 148, 211.

of living. Since no institution is perfect, no suggestion for change should be dismissed summarily. But, judging from the British experience, the major impression left is that nationalization is peculiarly barren of anything fruitful or novel. When it is remembered what hopes have in the past been placed upon it, what emotions it has aroused, what upsets have been suffered to bring it about, there is something almost melancholy in its failure to introduce any fresh idea in the field of organization or administration. It has long been known that there were economies to be gained, within limits and in appropriate circumstances, from an increased scale of operation. Within limits and in appropriate circumstances—but the nationalizers have perverted this subtle doctrine into a crude rule of “the bigger the better” and have done nothing to match improved devices of management against the crowding problems to which size gives birth. It is natural that the search should be uninterrupted for ways of so coordinating groups of men working with capital equipment that no movement will be made, no effort expended, no equipment provided superfluously. The nationalizers held out to us this promised land of perfect coordination, provided only they were first granted monopoly—the exclusive rights in perpetuity to cater for certain needs, freedom from outside competition, and the power to accept technical innovation at rates convenient to themselves. But what has Great Britain, having somewhat lightheartedly given hostages to fortune in this way, received in return? Nothing but promises of bounties from coordination for the future, complaints that the monopoly powers were not extensive enough, suggestions for even more grandiose schemes of coordination. And, finally, in very recent days, the discovery of the merits of the principle that prices should be related to “relevant” costs—a notion which is not very new.

All of which suggests that the early advocates of the nationalization of the means of production, distribution and exchange were on much firmer ground in appealing to its social virtues than the later advocates in claiming that they had discovered a secret for rendering industry more productive. If a community really comes to believe that profit making and the private ownership of industrial capital are so repugnant to its ethical standards that it must replace them, then there is nothing remaining for the economist, as economist, to say. But if, as is the practice more generally these days, it is assumed that the search for what is considered morally right will also lead to a pot of gold, that doing good will also bring an economic bonus, then it would seem that this is just another rainbow in the sky.