Public ownership in post-war Britain: one instrument, many objectives?

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Until recently the dominant narrative on post-war British economic history was one of ‘decline’, but of late this has been challenged from a whole variety of directions. One attack has come from a questioning of the meaning of the term decline, however ‘relative’ it is asserted to be, when applied to an almost continuously expanding economy. (1) A second has been to historicize the term as a product of a very particular context. (2) A third is work which questions the thesis of failure (particularly in manufacturing industry) which usually accompanies the discussion of ‘decline’. (3) Fourth, is work which criticises the declinist assertions about the nature of the British state, and its alleged unconcern with technological and scientific progress. (4) Finally, and most broadly, is the work which questions the benefits of the post-war enthusiasm for economic growth, and therefore by clear implication suggests that in welfare terms a focus on ‘decline’ (which by most accounts means ‘slow’ growth) is highly problematic. (5)

But if coming under increasing challenge, it is clear that the impact of ‘declinism’ on the approach to whole range of issues remains entrenched. One example where it lies behind much that has been written is that of public ownership. Post-war public ownership in Britain is now widely analysed as a “failed instrument”, a title used by Les Hannah in his recent contribution to the Cambridge Economic History of Britain (6). Hannah’s focus, like most others who have offered a judgement on this historical episode, is on productivity. This focus is, of course, part of the normal approach of economists and economic historians. But it also links to the broader narrative of post-war Britain—that of relative decline. So Hannah’s overarching issue is: ‘did the nationalisation of large sectors of the British economy improve its overall performance—as was intended—or did nationalisation on balance intensify the problem of relative British economic decline?’ (7). The productivity record of the nationalised industries remains controversial (8). But the purpose of this paper is not to comment on that controversy, but to step-back from this focus on productivity, recognising that historically, greater efficiency and productivity, was only one of the multiple objectives of nationalisation—a point recognised by, for example, Hannah, but not dealt with in any depth (9). The aim
here is to eschew the declinist inspired normative assessment of nationalisation: ‘how good or bad was it?’, in order to focus on the diversity of these objectives in their historical context of the 1940s through to the early 1970s. In this way it is hoped to move away from the hegemony of declinist accounts, with their normative and often moralizing implications, in order to open up a perhaps more useful account of the role of public ownership in post-war Britain.

The objectives of nationalisation were complex and inter-connected, but may be summarised in the following way: i) as the foundation for a system of national economic planning; ii) as part of the various strategies for productivity improvement iii) as a means to improved ‘human relations’ at the workplace; iv) as a means to improved wage/conditions for the workers employed within them; v) as an instrument of redistribution; vi) as an instrument of national economic management, especially with regard to prices and wages.

For mid-century British socialists public ownership was usually much more than an ‘instrument’; it was one of the foundations of a socialist economy. The other, related, component of this socialism was economic planning, and it was assumed that public ownership would underpin such planning. For inter-war socialists this planned economy would deliver both higher output and greater stability, and in doing so eliminate unemployment. The programme of public ownership implemented in Britain in the 1940s was built on such assumptions. (10) In the event, the climate in which that implementation took place was quite different. Full employment was not at issue, and ‘planning’ meant managing the wartime legacy of a scarcity of resources (including labour) while seeking to improve the balance of payments. (11) The core of government economic policy was to expand output in a supply-constrained economy, and this generated a focus on productivity, especially labour productivity (see below). In an important sense the economy under Attlee was ‘planned’, but planning primarily took the form of allocation of physical resources, and applied as much to the private as to the public sector. As shortages eased this ‘planning’ diminished, revealing how hollow in most respects the idea of a planned economy was. Outside the armaments sector, where the role of government was direct (12), a key part of the problem was the ‘Morrisonian’ corporation, with its autonomy from government control. Such corporations could deploy information asymmetries as well as ideological weapons to sustain a distance from government wishes, which soon led to lamentations, ironically, by amongst others Herbert Morrison, a key organizer as well as ideologue of Labour’s nationalisation programme (13). Of course, government had control over the industries via control over investment, but as physical investment control declined the purely financial control also became weaker than expected, as it was too aggregated to allow central government to effectively direct particular capital decisions. The industries were able
to stress both their autonomy and their requirement to ‘break-even’ to resist what they saw as unacceptable government interference. (14) It is worth emphasizing the ideological significance of the failure of this idea of public ownership as the basis for national economic planning even while Labour was in power. On the one side it meant that when the Conservatives came back to office in 1951 the industries were ideologically vulnerable because one of their key purposes had already been undermined. While the Conservatives only de-nationalised iron and steel and limited elements of transport, they pushed ahead with ‘commercializing’ the industries, though the biggest changes they brought about were towards ‘decentralization’, which did little to clarify the purposes of their activity.

On the Labour side, it meant a lack of clarity about their purpose which partly underlay the ideological battle over future nationalisation during the years in opposition. (15) It meant that a much narrower sense of the purpose of the industries came to dominate party discussion, as clearly shown by the 1957 document ‘Industry and the Nation’ with its notion that in future nationalization would be appropriate where an industry was ‘failing the nation’, and it was clear the notion of failing would be narrowly defined. (16) Of course, in the 1960s Labour once again committed itself to ‘planning’, but in stark contrast to the 1940s, it was clear in the 1960s, most obviously in the 1965 National Plan that the key target of ‘indicative planning’ was the private sector, with the public sector playing a minor, supporting role. (17)

The demise of public ownership as an instrument of national economic planning is part of a bigger story about the evolution of all the instruments by which governments sought to control heir activities. Planning in the strong sense would have implied a direct command and control relationship between central Ministries and the individual industries. Outside armaments, this was not what happened. As physical controls were relaxed in the late 1940s, the instruments became predominantly financial, but these controls operated at a very aggregate level. In the initial post-war period the financial position of the industries was generally healthy-demand was expanding, and higher costs could generally be passed on to consumers (though see below on national economic management). But from the late 1950s the situation started to shift in several major nationalized industries—especially coal and railways where demand conditions deteriorated. (18) In addition, the government was committed to large scale investment in the industries, but because of their deteriorating finances, more of this expenditure had to come from the Exchequer. This was vital context for the 1961 White Paper, which for the first time sought to replace the vague words in the nationalisation statutes about ‘balancing the books’ with more closely specified financial targets for the industries, with five year periods of breaking even, full coverage of depreciation, and a contribution to
investment.

Control by finance was problematic not least because part of the problem of the industries was price control by the government (see below), which worsened their financial position, especially coal and railways in the early post-war period when demand was strong. More broadly, many of the other nationalised industries were monopolies, so they could, within limits set by their degree of market power, achieve financial strength by exploiting the consumer. Further, there was profound ambiguity about the impact of requiring the industries to part finance their own investment programmes when the basis for investment decisions as so obscure, though by the late 1950s the Treasury was becoming conscious of low rates of return on much of the investment that had taken place. (20) But with the ending of physical controls as an alternative instrument of control, and more broadly the collapse of any coherent notion of the industries as a key part of national planning, the focus of financial issues was sustained by the Labour government after their return to power in 1964.

There was great deal of debate about nationalization in Labour advisory circles at this time, but the main drift of this was to call for the supplementing of financial controls by economic assessments, such as DCF investment appraisal and pricing rules, but the government’s agenda was dominated by financial issues in the context of the overall fiscal difficulties of the Wilson years, especially after devaluation and the budgetary squeeze that followed. (21)

Enhancing productivity and efficiency have today become such commonplaces of political debate, that the shifting contexts in which these issues have been pursued, and therefore their historical significance, is in danger of being lost, and nowhere is this clearer than in the nationalized industries. First, it is important to emphasize that concern with productivity and efficiency was crucial to the nationalisation doctrine as it evolved in the 1930s and was implemented in the 1940s. In the 1930s support for nationalisation on the Left was often underpinned by a critique of private ownership which suggested that both ‘monopoly capitalist’ firms focused their actions on exploiting their customers rather than improving the ‘forces of production’ or that small ‘disorganized’ firms needed to be ‘rationalised’ to take proper advantage of modern techniques. From either angle, nationalisation could be urged as a route to ‘rationalisation’ and improvement that only public ownership could unleash. (22) Such notions were combined with the idea of nationalization as the basis for national economic planning as described above. But, fleetingly, as we have seen, in the 1940s it appeared that this ‘planning’ was occurring, and this
tended to shift attention on to the efficiency issues. At the same time, the Labour government’s priorities of getting more output from a resource-constrained economy meant this productivity goal was given high priority. As far as the public industries were concerned this focus on efficiency led simultaneously in several directions. Most broadly, it led to a concern with what may be called a particular type of ‘engineering’ efficiency, rather than allocative efficiency, grounded to a substantial extent in the ideas of the ‘rationalisation’ movement of the inter-war period. In this conception efficiency was concerned with reducing costs via the application of new technologies embodied in large production units, and thus enabled to realize economies of scale. At its crudest this was ideologically stated as support for ‘mass production’ or the ‘American system’ though less vulgar versions gained widespread currency. (23) Despite their ambiguity for socialists, such ideas were common in Labour circles but also seem to have influenced public industry managers—it was not just a case of ministers seeking to impose their ideological vision—even if they had been able to do so. Such ideas of efficiency may be criticised for their neglect of allocative efficiency, ie a focus on physical efficiency at the expense of the state of the market. But such criticisms have little relevance to the 1940s. Rather, the problem in that period was that the productivity drive came into conflict with the ‘maximise output’ imperative, so that, for example the closure of low productivity coal mines, to concentrate output in more efficient pits, a classic idea of ‘rationalisation’, and supported by the mining union, was resisted by the government because it would decrease total output. (24)

Coal was in many ways the key industry in the major trope of the drive for efficiency in the nationalized industries in the 1940s, the attempt to raise labour productivity. Harold Wilson boasted to Tony Benn that he had invented ‘output per man and the whole idea of productivity’ while working on the coal industry in the war period, and this is only a slight exaggeration if we are talking about operationalising such ideas. (25) Labour productivity, measured as Output per Manshift (OMS), found its classic home in coal where physical output could easily be measured, and mechanization was low so output could plausibly be related directly to labour input. The career of labour productivity as a key term of post-war economic rhetoric therefore began in a setting that at least gave it some plausibility as a general measure of at least physical efficiency. However, one of the many problems of the post-war productivity debate, both inside and outside the nationalised sector, has been the way it has been applied in industries where these very particular conditions do not apply. And even in coal one of the almost tragic ironies of the rhetoric of physical labour productivity is that it becomes almost irrelevant to the fate of an industry if there is a fundamental adverse shift in the market, a point buried in the National Plan of 1965,
which like so much post-war policy rhetoric highlighted productivity as the holy grail, while conceding that higher productivity in coal would not prevent its further decline. (26)

Achieving higher productivity was a key goal of the Attlee years, and the government certainly saw the nationalised industries as central to this campaign. The aim was to be achieved by a wide range of measures. Rationalisation and technological improvement of the productive apparatus was one route. While in part compromised by the competing demand for higher output, this aim was seriously pursued, and the National Coal Board, for example, pioneered a range of new techniques. (27) Other examples(28) The industries could not only pursue such policies within themselves, but because of their vast purchasing power could seek to impose technical change on their suppliers—as for example in electricity in the purchase of generating sets (29). Such state-directed activity became less evident under the Conservatives, as they backed off the interventionist productivity agenda of their predecessors. But this use of the nationalised industries saw some revival in the 1960s, driven by perceived successes in the armaments sector. (30)

In the 1940s the productivity agenda had a distinctively social democratic tone, and this is most evident in the focus on what were called ‘human relations’ where the core belief, crudely but accurately summarized, was that ‘the happy worker is the productive worker’. (31)

The Attlee government sought to apply such a notion in both the private and public sectors, but it perhaps found most resonance in the nationalized industries, where it co-incided with a separate agenda of seeking to improve industrial relations, and ‘democratising’ the work place. Improved human relations could be sought in a number of ways. Part of what was seen as necessary was to narrow the ‘us versus them’ attitudes which surveys showed were prevalent in much of industry, and within the nationalised sector, especially in coal.(32) One way of approaching this issue was to improve the quality of management in general, but especially to give a new focus on welfare management—though this concern acted to further centralize management in the coal industry, where colliery level management was technically-based. Another part of this strategy was to open up management to internal pathways of recruitment.(33)

Human relations had an ambiguous relationship to ideas of industrial democracy. Such democracy was an important objective in most mid-century discussions of public ownership, but in the great Labour party debates of the 1930s it was decided that this did not mean workers control, rejection of which was a key basis of the Morrisonian corporation.(34) Paradoxically, one reason for opposition to workers control was opposition to ‘syndicalism’ which would cut across sovereignty of government, but the resolution of this argument in favour of the Morrisonian corporation created an insurmountable obstacle to such sovereignty. Nevertheless, the newly
nationalised industries built on wartime experiment with Joint Production Committees and Joint Colliery Committees to expand ‘democracy’ in the form of joint consultation. (35) These committees had an important role in some industries eg coal and electricity supply, though enthusiasm at all levels tended to wane in the 1950s (36) However, in the context of a broad revival of interest in democracy in Labour circles in the 1960s, the renationalisation of steel was accompanied by a radical experiment in worker representation at board level(37).

The improved industrial relations aim of nationalisation meshed with the goals of improved human relations and the productivity agenda. Strengthening unions was seen as key part of improving these relations, and led to the appointment of union men to boards and a stress on collective bargaining rights. Union membership became significantly higher in the nationalised sector than outside, though in part this followed from public ownership of traditionally highly unionised sectors like railways and coal. (38) Industrial relations in the industries were improved if this is measured by strike incidence. Coal for example, while never free of strikes, was much less prone to these down to the late 1960s, compared with the pre-nationalisation decades, and this was despite the huge job losses which came from the mid-1950s. Only in early 1970s, as part of the new nationwide labour militancy evident from the late 1960s did this change. (39)

Redistribution of income and wealth was not normally articulated as direct aim of public ownership. Within the industries there tended to be more resistance to very high managerial salaries, but the ratio of these to average wages probably varied little from those in the private sector. (40). One undoubted success of the nationalised industries was in equalising pay between the sexes (41), and this may be seen as part of the general role of public industries as ‘model employers’. As regards wealth, the direct effects of nationalisation were very small, as compensation was paid, and arguably in some cases this was generous. However, nationalisation obviously did remove significant parts of the economy as places where wealth could be accumulated by ownership rights. Redistributive effects also rose from the pricing strategies of the industry—but these are difficult to generalise about, beyond saying common prices for such as coal favoured rural consumers over urban. Certainly, as Hannah rightly insists, there is nothing inherent in nationalization which will favour the production of goods especially purchased by the poor. (42) But equally, one could say that given the powerful tendencies to inequality, the traditional economist’s argument that tax policy is always the best option for redistribution is problematic; if reducing inequality is an important objective it may be necessary to use ‘second best’ instruments, and nationalised industries did pursue some policies with that effect, such as cheap coal.

As noted at the beginning of this essay, public ownership was initially implemented at a time when it was expected that the new post-war economic order would be characterised by national
economic planning, but this proved short-lived. Instead, the policy regime that emerged from the late 1940s, can best be described as national economic *management* rather than national economic *planning*, where the instruments of economic control were much less direct, and focused on fiscal and monetary instruments and other macroeconomic, demand side, policies, though always accompanied by as substantial amount of supply-side measures via subsidies, tax breaks etc. This created a major unexpected role for nationalized industries, in price and wage or ‘incomes’ policy. Price and wage or incomes policy was a policy new invention of late 1940s. (43) It recurred down to 1970s, and almost always involved an attempt to strike a bargain with organized workers. The precise nature of the bargain changed over time, but commonly involved some measure of regulation of prices. Given the high visibility of some nationalized industry prices (coal in the 1940s and 1950s, electricity and gas throughout), plus political sensitivity over the idea of nationalized industries (especially the monopolistic ones) exploiting their consumers, led to control of prices—a policy pursued as much by Conservative and Labour governments (44). This led to losses in nationalised industries—for example in coal, which cut across financial stability of the industries. (45) Such policies, it may be noted, were also used in the 1960s to leverage efficiency audits. (46)

The debate about nationalised industries prices which has received most attention has been that over marginal cost pricing. (47) This focus derives from the economist’s concern with allocative efficiency, and the belief that such efficiency flows from matching prices to marginal costs. Such ideas about pricing were strongly resisted in many nationalised industries, partly because where long run costs are continuously declining, as in most network industries, such rules lead to loss-making and therefore the loss of ‘financial responsibility’ in the industry’s management (48). Such rules also conflicted with powerful ideas about the national mission of the industries, particularly the notion that they should supply at uniform prices—what may be called the post office model. Nationalised industries did slowly adopt marginal cost pricing, getting round the loss-making issue by devices such as two part tariffs, but the pace of implementation was notably slower than in some other countries, notably France. (49) Interestingly, this slow adoption did not lead to any obviously ‘uneconomic’ hoarding of labour, as critics alleged. (50)

Attempts to use public ownership as a weapon of wage control could plainly conflict with the desire to achieve good industrial relations. There is little evidence on overall trends in nationalised industries wages, but what there is suggests that they were not held down in pursuit of macroeconomic goals, unlike much of the rest of the public sector, where government had more direct control of the purse strings. (51)
Alongside the unexpected if marginal role in macroeconomic management the nationalised industries failed to play the central role in ‘planning’, not only because planning itself was sidelined, but also because of the limited scope of the industries brought into public ownership. British nationalization was not particularly extensive compared with other European countries. But even more important was the pattern of nationalization. Alongside the utilities, British nationalization comprised mainly transport, energy and (intermittently) iron and steel. Manufacturing and finance (outside the largely notional nationalisation of the Bank of England) remained in private hands. This range of industries could perhaps be plausibly called the ‘commanding heights’ of the inter-war economy, but by the 1950s it was clearly evident they were no longer playing that role. Rather, they were in the main declining industries, responding to adverse shifts in demand rather than in any sense the ‘leading sectors’ (only electricity would be a serious exception to this generalization).

Therefore, rather than playing a key role in sustaining full employment against deflationary tendencies, as envisaged in the 1940s, the general climate was one of full employment, but also one in which, from the mid-1950s, the nationalized sector shrank enormously in terms of employment. This had the important consequence of improving labour productivity in most of the affected industries. Even more important, however, was that it gave the industries a key place in managing the very rapid structural change which was, contrary to many declinist assertions, such a feature of the 1950s and 1960s. Structural change in manufacturing, measured as the ‘weighted average dispersion of the rates of growth of output in individual industries around the overall growth rate’ was clearly significantly above the peace-time average in 1951-1973: ‘The generally high rate of expansion and pressure of demand in the post-war period made structural changes less conspicuous and less disturbing than they were in the interwar period’ (54). These structural shifts were facilitated by enormous movements of labour out of the ‘old staples’ of coal, railways, plus agriculture and textiles and clothing, which shed around a million workers between 1959 and 1969, and with practically no resistance. (55)

This reallocation of labour out of the nationalized industries was hugely important for the political economy of Britain in the 1950s and 1960s. Ashworth describes it as the ‘outstanding achievement of maintaining industrial peace during great contraction’. (56) It suggests that overall there was little ‘labour hoarding’ in the nationalised industries. Some explicit subsidies to slow redundancies were introduced in coal in 1960s, but these seem to have been very limited in general implication. (57)

Of course, ‘managing sectoral decline’ was not part of the original remit of nationalised industries, but here as elsewhere the national economic context hugely changed their role. By so
changing they were able to play an important part in ‘humanising’ the enormous volume of redundancies that were part of the strategy of encouraging labour mobility, which have recently been seen as an important part of the policy concerns of post-war governments. (58)

Nationalised industries did not become the foundation stones of a socialist planned economy. At a slightly more pragmatic level, they were not required as instruments to counteract deflation and mass unemployment, as envisaged in the 1930s. Macroeconomic instruments alongside booming investment world trade meant no such problem emerged until the 1970s. But they did play a role in ‘social democratising’ Britain, by easing the pains of structural change and therefore aiding economic growth, and at the same time doing something to underpin good employment practices by often acting as model employers.

Footnotes

1) P. Clarke and C. Trebilcock (eds), Understanding Decline (Cambridge, 1997)


7) Ibid., pp101-2


13) H. Morrison, *Socialisation and Transport* (1933). A paradox of these debates was that while a key argument against workers control was that it would obstruct the exercise of parliamentary sovereignty, the Morrisonian corporation very effectively prevented subordination of the industries to political will.


24) TNA:PRO PO37/77 ‘Note on NUM meeting with Attlee’ 18 April 1947.


27) Ashworth, *History*


29) L. Hannah, *Engineers, Managers and Politicians. The first fifteen years of nationalised electricity supply in Britain* (1982), pp.23-8, 101-110,


33) For the emphasis on personnel management within this approach, TNA: PRO CAB 134/687 ‘Workers Assistance in the Management of Socialized Industries’ 26 March 1946. For internal recruitment of management, TNA:PRO CAB 134/691 ‘Speech by Ernest Davies’ November 1950.


38) G. Bain, *Trade Union Growth and Recognition*. Royal Commission on Trade Unions and Employers Associations, research paper no. 6 (1967).


41) Hannah, ‘Failed Experiment’ p105.

42) Ibid., p.106.


49) Chick, ‘Marginalist approach’

50) Ibid., pp.146-7.


55) Tomlinson, Economic Policy, p.221


57) Ibid. p.280.