

SOME ECONOMIC ASPECTS OF NATIONALIZATION

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I

THE BACKGROUND

A. The Extent of Nationalization

Nationalization did not spring out suddenly like Minerva from Jupiter's head. It had already made its appearance in Great Britain before the 1939 war, but then it was used only when the less powerful tools of state interference such as tariffs and subsidies failed to guide industry along the lines the government wanted it to follow. After the last war, the coming to power of the Labor Government changed the situation.

Since 1945, under the Labor Government, nationalization (in nearly all cases against compensation of the former owners) has engulfed various important sectors of the British economy. It has penetrated into the complicated field of "betterments"¹ in relation to land and vested in the state all development values (without actually nationalizing the ownership of land); it has swept through a large array of basic industries; it has also brought about the relatively non-controversial state ownership of the central bank and, probably more transient in character, of purchasing and selling raw cotton.²

Under the new regime, statutes (see Table 1) have nationalized the Bank of England, cable and wireless tele-communications, the exploitation of coal (with the exception of open-cast coal); electricity is generated and distributed by the British Electricity Authority and fourteen Area Boards, and gas by twelve Area Boards under the guidance of a central Gas Council. The bulk of inland transport is the concern of the British Transport Commission and its Executives; civil aviation³ and the bulk of the iron and steel industry are also run by public corpora-

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¹ The nationalization of "betterment" values of town and country lands has fulfilled a pledge given by the Labor Party during the election campaign of 1945. It was implemented by the Town and Country Planning Act, 1947, 10 & 11 GEO. 6, c. 53, and constitutes the most controversial part of this very extensive statute. The essence of the reform is that while the ownership of land remains in the hands of the proprietor he is deprived of the benefit of any appreciation of its value due to its better use or "development." Under the Act, if an owner of land undertakes major developments which cause an increase in the value of land he is obliged to pay a development charge. A Central Land Board has been set up to assess and collect these development charges on the difference in the value of land resulting from a change in its use (for instance turning a cabbage field into an industrial estate); see Part VII of the Act.

² The importation and marketing of raw cotton in Great Britain are the monopoly of the Raw Cotton Commission of Liverpool.

³ The British Overseas Airways Corporation was established as a public corporation just before the 1939 war by the government of Mr. Neville Chamberlain. It is one of those strange British paradoxes that this organization more than any other served as a model for the Socialist nationalizers.

TABLE I
CORPORATIONS, EXECUTIVES OF CORPORATIONS, AND CONSUMERS' COUNCILS, WHICH ARE REQUIRED TO BE SET UP IN GREAT BRITAIN AS A RESULT OF NATIONALIZATION ACTS. AS OF NOVEMBER 25, 1950.

Act	Date of the Act	PUBLIC CORPORATION		SEPARATE EXECUTIVE		CONSUMERS' REPRESENTATIVES	
		Name of the Corporation	Date Members Officially Appointed	Names of the Executives	Date Members Officially Appointed	Name	Date Members Officially Appointed
British Overseas Airways Act, 1939; 2 & 3 czo. 6, c. 61; see also Civil Aviation Act, 1946.	Aug. 1939	British Overseas Airways Corporation	Nov. 1940	None	.....	None (but see Civil Aviation Act, 1946)	
Hydro-Electric Development (Scotland) Act, 1943, 6 & 7 czo. 6, c. 32.	Aug. 5, 1943	North of Scotland Hydro-Electric Board	During Sept. 1943	None	.....	None (but see Electricity Act, 1947)	
Bank of England Act, 1946, 9 & 10 czo. 6, c. 27.	Feb. 14, 1946	Bank of England	Mar. 1, 1946	None	.....	None	
Coal Industry Nationalisation Act, 1946, 9 & 10 czo. 6, c. 59, and Coal Industry Act, 1946, 12 & 13 czo. 6, c. 53.	July 12, 1946	National Coal Board	July 15, 1946	None	.....	An Industrial Coal Consumers' Council A Domestic Coal Consumers' Council	July 14, 1947 July, 1947
Civil Aviation Act, 1946, 9 & 10 czo. 6, c. 70; and Air Corporations Act, 1949, 12, 13 & 14 czo. 6, c. 91.	Aug. 1, 1946 Dec. 10, 1949	British South American Airways Corporation British European Airways Corporation	Aug. 1, 1946 Aug. 1, 1946	None None	.....	Air Transport Advisory Council	By June 11, 1947
Cable and Wireless Act, 1946, 9 & 10 czo. 6, c. 82.	Nov. 6, 1946	Cable and Wireless	Jan. 1, 1947	None	.....	None	
Cotton (Centralised Buying) Act, 1947, 10 & 11 czo. 6, c. 26.	May 21, 1947	Raw Cotton Commission	Nov. 26, 1947	None	.....	None	
Transport Act, 1947, 10 & 11 czo. 6, c. 49.	Aug. 6, 1947	British Transport Commission	Sept. 8, 1947	Railways Executive Road Transport Executive** London Transport Executive Docks and Inland Waterways Hotels Executive	Nov. 21, 1947 Mar. 9, 1948 Dec. 2, 1947 Dec. 23, 1947 May 13, 1948	A Central Transport Consultative Committee for Great Britain A Fresh Transport Users' Consultative Committee A Scottish Transport Users' Consultative Committee Other Users' Consultative Committees. The London Transport Consultative Committee is the only one appointed so far	Dec. 19, 1948 July 27, 1949 July 27, 1949 Feb. 22, 1950
Electricity Act, 1947, 10 & 11 czo. 6, c. 54.	Aug. 13, 1947	British Electricity Authority	Aug. 15, 1947	14 Area Boards	By Jan. 1, 1948	An Electricity Consultative Council for the area of each Board (Committees or individuals to be appointed as local representatives of these Councils) The same for the North Scotland area.	Between Dec. 7, 1948 and Feb. 7, 1949
Overseas Resources Development Act, 1948, 11 & 12 czo. 6, c. 15.	Feb. 11, 1948	Colonial Development Corporation Overseas Food Corporations***	Nov. 1947	None	.....	None	
Gas Act, 1948, 11 & 12 czo. 6, c. 57.	July 30, 1948	Gas Council	Nov. 25, 1948	12 Area Boards	By Dec. 12, 1948	A Gas Consultative Council for the area of each Area Gas Board. (Committees or persons to be appointed as local representatives of these Councils)	Between July 16, 1949 and Aug. 1, 1949
Iron and Steel Act, 1949, 12 & 13 czo. 6, c. 72.	Nov. 24, 1949	Iron and Steel Corporation of Great Britain	Oct. 2, 1950	None	.....	An Iron and Steel Consumers' Council	Not yet appointed

* Absorbed since by the B.E.A.C. ** The Road Transport Executive was divided into the Road Haulage Executive (the old Road Transport Executive) and the Road Passenger Executive, by an Order of the Minister of Transport, dated June 18, 1949, to take effect from June 20, 1949. The Road Passenger Executive was officially appointed on July 5, 1949. *** Completely reorganised in 1961.

tions. With beet-sugar production on the way to being taken over, a very large slice of Britain's economy is nationalized.

B. Facts and Figures Relating to Public Corporations

Before we discuss the economic aspects of nationalization it might be helpful to give a few sketches to guide the reader through the maze of public corporations.

1. *Who runs them.* The nationalization acts have led to the formation of a bewildering array of corporations, executives, and consumers' councils. Table 1 shows the bodies which are required by statute to be set up. All the recently established public corporations derive their authority from specific acts of Parliament. In every case the nationalization act has clearly defined the body or bodies which are responsible for running the industry. Sometimes subsidiary bodies are also provided for by statute; in other cases the creation of executive organs has been left to the discretion of the corporation. The Table brings out clearly that the creation of subsidiary bodies by law is the exception rather than the rule. Only in transport and electricity is a two tier structure a statutory requirement.⁴ In practice, of course, whatever the statutory requirements, most corporations have found it necessary to set up numerous lower formations on a functional or geographical basis. Many of these are discussed in the text. No attempt is made to show them in the Table.

It is perhaps significant that although it has not always been thought necessary to provide by law for the setting up of subsidiary executive formations, in nearly every case the statutes make provision for the formal representation of the consumers' interests. Presumably it was realized that the corporations could not be left to set up such machinery for themselves.⁵ Where no provision is made for consumer representation it can fairly be said that representation would be superfluous. Thus the Bank of England and Cable and Wireless Ltd. have little occasion to elicit the views of their customers by formal means. The Raw Cotton Commission serves a comparatively small group of businesses who have adequate means of making their views known. For the Overseas Food Corporation and the Colonial Development Corporation formal machinery for consumers' representation would obviously be very difficult to organize. Neither the British Overseas Airways Act, 1939, nor the Hydro-Electric Development (Scotland) Act, 1943, provided for consumers' representation, but these omissions were made good by subsequent legislation (the Civil Aviation Act, 1946, and the Electricity Act, 1947, respectively). Strange as it may

⁴In the gas industry the method of administration is quite exceptional. The primary units are the Area Gas Boards; the Gas Council is merely the apex of a federal structure.

⁵Although the British Broadcasting Corporation is not under discussion here, it is interesting to note that this corporation has gone to great lengths to establish means to learn the preferences of its consumers. This is closely related to market research. It runs an elaborate Listener Research organization which canvasses listeners' views both by questionnaires and interviews. It has advisory panels for the major branches of broadcasting—schools, religion, etc.—and it appears to be willing to use any other device for obtaining opinions of its "customers" on programs, though not of course on costs, etc. The North Thames Gas Board operates a consumers' market research.

seem, by July, 1951, the machinery for consumers' representation was still not fully set up and not all the councils have been appointed.

TABLE 2
THE MAIN ACTIVITIES OF PUBLIC CORPORATIONS

Corporations and Executives	Activities Carried Out
British Electricity Authority	Generation, purchase, and transmission of electricity Sale of electricity to Area Boards and railways
Area Electricity Boards	Purchase and sale of electricity Distribution of electricity Renting of meters, apparatus etc. Hiring, selling, repairing, and maintaining electrical fittings
Gas Council	The manufacture of plant required by Area Gas Boards. Selling, supplying, installing, repairing, maintaining, and removing such plant Manufacturing, selling, and supplying gas and coke fittings (except for export)
Area Gas Boards	Acquiring gas in bulk from other Area Boards and other persons Manufacturing and distributing gas in their areas Manufacturing and selling coke, other solid fuels, and by-products obtained by carbonization Making available and installing gas and coke fittings for sale or hire
British Overseas Airways Corporation, and British European Airways Corporation	Providing scheduled air services for passengers, mail, diplomatic bags, and commercial freight Engineering, aircraft, route and flying conditions research (N.B., they cannot manufacture air-frames, aero-engines, or airscrews) Providing charter services
National Coal Board	Mining coal Distribution of coal wholesale and retail, at home or overseas Producing coke, gas, manufactured fuel, brickettes, bricks, and tiles Refining benzole Distilling tar Repairing railway wagons Managing housing estates Operating farms Licensing mines to private operators

	Transmitting and distributing electricity
	Selling electricity to ordinary consumers and to the British Electricity Authority
North of Scotland Hydro-Electric Board	Promoting the construction of hydro-electric schemes and a Highland grid. Operating diesel generating stations and gas turbine generating plant
	Selling and hiring electrical apparatus
	Wiring consumers

Carrying Activities

	(a) British Railways:
	Passenger and freight services by rail and ship
	Collection and delivery of goods
	(b) British Road Services:
	Road haulage
	(c) Provincial and Scottish Group:
	Road passenger services
British Transport Commission	(d) London Transport:
	Road and rail passenger services

Non-Carrying Activities

	Docks, harbor, and wharfs
	Inland waterways
	Hotels and refreshment rooms
	Commercial advertising
	Letting sites, shops, etc. on premises and property used by the Commission

2. *What they do.* Table 2 sets out the principal activities in which the British public corporations engage. The list is by no means complete. None of the younger corporations have been established to develop an entirely new line of economic activity; they have all been formed to take over and control businesses which had already been in existence for a number of years. They thus found themselves in control of a range of ancillary products and services which had been developed by private owners.

There are four main reasons why private firms engulfed by nationalization had developed such activities. It was often profitable to enter into lines of business nearer the ultimate consumer. This was particularly true of coal mining where forward-integration into coke production might secure a market in times of bad trade. Secondly, there was integration backwards which was even more attractive. By building their own locomotives and rolling stock the railways could foster technical developments and keep a check on the prices charged by outside suppliers. Thirdly, the need to develop outlets for by-products was a potent reason for branching out into new lines. Gas undertakings developed plants for producing sulphate of ammonia, pitch, and creosote. Colliery companies operated brickworks to utilize

TABLE 3
PUBLIC CORPORATIONS: PARENT MINISTERS AND EMPLOYEES

Parent Minister	Corporation	Approximate Number of Employees employed as of September 1949	Approximate Number of Employees of Public Corporations under each Minister	Gross Revenue per head per Employee £
Minister of Fuel and Power	National Coal Board	800,000	1,086,000	598
	British Electricity Authority	156,000		1,367
	Gas Council	130,000		
Postmaster General	British Broadcasting Corporation	12,000	22,000	1,288
	Cable and Wireless	10,000		
Minister of Food	Overseas Food** Corporation	30,000	30,000	
Minister of Supply	Iron and Steel Corporation of Great Britain	None***		
Colonial Secretary	Colonial Development Corporation	Figure not available		
Minister of Transport	British Transport Commission	900,000	900,000	577
President of the Board of Trade	Raw Cotton Commission	1,000	1,000	114,000
Minister of Civil Aviation	British Overseas Airways Corporation	19,000	25,000	1,132
	British European Airways Corporation	6,000		1,267
Secretary of State for Scotland	North of Scotland Hydro-Electric Board	14,000	14,000	250
None	Bank of England	6,000	2,097,000	
Total			2,103,000	
Approximate number of persons employed overseas, during September 1949		36,000		
Total at home....			2,067,000	
Estimated number of persons in civil employment during September 1949*		22,230,000		
The percentage of the persons in civil employment during September 1949 employed by public corporations		9 per cent****		

*MONTHLY DIGEST OF STATISTICS NO. 57 (CENTRAL STATISTICAL OFFICE, LONDON) 4 (Sept. 1950).

**Early in 1951 the situation here changed completely.

***On May 5, 1951 the Iron and Steel Corporation of Great Britain employed 229,000 workers, see Monthly Statistical Bulletin of the British Iron and Steel Federation, June, 1951, p. 26.

****This figure does not include the employees of the Iron and Steel Corporation of Great Britain which came into being in 1951.

the clay which would otherwise have accumulated in embarrassing quantities on the surface. Electricity undertakings sought profitable markets for surplus steam and the railways and buses became major providers of advertising space. Railways ran hotels at their terminal stations and elsewhere. Finally there was a tendency to avoid competition by buying up rivals. The bad state of British canals is largely due to their handling by the railways which bought them. The railways acquired considerable interests too in the road and passenger haulage fields.

As a result the public corporations are engaged in an extensive range of subsidiary activities. To some extent nationalization has provided an occasion for breaking up the different economic interests and sorting them out administratively by classes of activity. Thus inland waterways have been placed under the control of a separate Executive of the British Transport Commission and the National Coal Board has acquired all large coal mines, including those formerly owned by steel companies. Nevertheless the range of activities covered by the National Coal Board in particular is wide and these ancillary interests are a potential cause of conflict between the corporations and a worry to the Board.⁷ The balancing of their accounts overall is accidental, while the range of activities is so heterogeneous.

3. *Their Manpower.* The public corporations have a great responsibility to a large section of the working population and to the community as a whole. They employ about 10 per cent of the nation's total civilian labor force and a very much larger proportion of manual workers. Upon their success or failure as employers depends the profitable use or misuse of a considerable productive force, and the contentment or discontentment of thousands of workers.

It is extremely difficult to judge accurately the corporations' success as employers; indeed to be able to do so, one would have to be a psychologist as well as an economist. For example the impact of official strikes⁸ in the nationalized industries cannot be compared simply with pre-nationalization conditions for there is at least one new factor at work—the trade unions' support of the government which reinforces the anti-strike policy. Although the men and women working for public corporations can be affected by decisions taken by the corporations' parent ministers they are not government employees or civil servants (see Table 3).

Some public corporations, *e.g.*, the British Overseas Airways Corporation, the British European Airways Corporation, and British Railways, are at present reducing the amount of their manpower as an act of policy. Others are losing men despite frantic efforts to keep them or to recruit new ones. One of the criteria of success of coal nationalization in the short run is the ability to retain and to recruit the necessary number of miners. Most corporations however seem to increase their office staffs at one stage or another.

⁷ The National Coal Board has disposed of its mainline wagons to the British Transport Commission but in the distribution of electricity and the production of gas it may yet prove a thorn in the flesh of the British Electricity Authority and the Area Gas Boards.

⁸ Official strikes are strikes authorized by trade unions. As unions have tended to refuse authorizations to strike, a more accurate estimate of labor discontent can be gained from the unofficial strike figures.

4. *Their Profits and Losses.* The losses of the British Overseas Airways Corporation and British European Airways Corporation have caused little surprise. It is not anticipated that these corporations will make a profit as long as prestige flying is in fashion. Indeed, the Civil Aviation Act, 1946, provides for subsidies to be paid until 1956.

The British Transport Commission's deficits were also anticipated, mainly because the railways had been losing money. In most corporations which recorded credit balances, profits so far registered have not been large. Their size was not so much due to their inability to increase charges, as to the government's anti-inflation policy. If costs continue to rise and the Trades Union Congress no longer effectively supports the government's "wage freeze" policy, it would be too much to expect that all these increases could be countered by savings resulting from economies (see Table 4).

TABLE 4
APPROXIMATE GROSS INCOMES, PROFITS, AND LOSSES OF PUBLIC CORPORATIONS FOR THE YEAR 1949.

Corporation	Approximate Gross Incomes for 1949	Approximate Losses for 1949	Approximate Profits for 1949
	£	£	£
British Broadcasting Corporation.....	15,458,000	.....	1,035,000
North of Scotland Hydro-Electric Board.....	3,485,000	.....	97,000
National Coal Board.....	478,360,000	.....	9,467,000
British Overseas Airways Corporation.....	21,515,000*	9,213,000	
British European Airways Corporation.....	7,603,000†	1,311,000	
Raw Cotton Commission.....	113,869,000	7,357,000‡	
British Transport Commission.....	518,899,000	20,761,000	
British Electricity Authority§.....	213,141,000	.....	4,392,000‡
Total £.....	1,372,332,000		
Gross National Income for 1949.....	11,076,000,000		
Approximate total of the 1949 Gross Receipts of the Public Corporations as a percentage of the 1949 National Income.....	12½¹		

*This figure does not include the £8,350,000 Exchequer Grant received by the Corporation for this period.

†This figure does not include the £1,535,000 Exchequer Grant received by the Corporation for this period.

‡This figure was reduced to £707,000 by appropriation from Reserve Fund. In the year ended July 31, 1950 (second full year) the Raw Cotton Commission made £10 million profit before taxation and other appropriations.

§The British Electricity Authority made a surplus of £7,163,000 in the year ended March 31, 1950.

‡Year ended March 31.

¹The inclusion of Gas and Iron and Steel would raise this figure to the region of about ½ of the National Income.

Electricity is a great expanding industry and one earning profits. Between the operational years 1947/48 and 1949/50 the number of units generated rose from 41.3 million to 48.6 million. Maximum output capacity of plant rose by about 9 per cent in two years.⁹

⁹ REPORT OF THE BRITISH ELECTRICITY AUTHORITY FOR THE YEAR ENDED MARCH 31, 1950 App. 23.

C. Neglect of Theoretical Discussion

For the purposes of this essay I accept nationalization as a fact and propose to discuss a number of economic problems facing the public corporations. It is not my intention to discuss the perennial question whether nationalization is the road to serfdom or the road to a new freedom. Nor do I wish to moralize. It is easy to discourse on the virtues or the vices of nationalization, and according to one's stand to demonstrate that either it has bloody hands or that it is simon-pure and snow-white.

Unfortunately most literature about the British nationalized industries has been polemical. There is little that is constructive and well informed. Polemics do not help to reverse the verdict, of what, at least at present, is a democratic and constitutional wish of the majority nor do they contribute much towards the understanding, critical appraisal, or undertaking of remedial action where the economic planning, efficiency, or administration of the nationalized industries have gone wrong. Thus the public knows very little of the economic problems and difficulties facing the public corporations in Britain or the errors already committed by their boards and on the other hand, the boards of public corporations labor under a sense of isolation and are without guidance from enlightened public opinion. There are innumerable writers passionately opposing¹⁰ or supporting nationalization, whose arguments are based on a purely emotional aprioristic approach to the subject. If pressed to define the changes that nationalization has brought about, they would be unable to put their finger on the essential features.¹¹

Few academic economists were at the time of the Socialist victory in Britain in a position to offer guidance on practical pricing, costing, and planning of big units. The administrator, instead of being given advice by the academic economist, is served with voluminous non-factual writings on "ought-to-be's." He is thus bound to endorse the words of Mr. Chester, who writes not without sarcasm that "so much has been written by economists about the theoretical considerations which should govern the price policy to be followed by the managements of the various nationalized industries that it will at least be a change to look at the actual legislation and see what is contemplated in practice."¹²

¹⁰ Here is a typical example of an attitude towards nationalization: "Nationalization—that cretin conceived by long-haired Bloomsbury out of envy and greed with timid capitalism as its midwife—is standing in the market place with its foolish tongue hanging out and wagging its monstrous head for all to jeer at. It has not only let down the consumer but it has failed where it cannot afford to fail, and that is in its labor relations. Most of the strikes today are in the nationalized or Government-controlled industries. Now is the time for industry to pluck up its courage and knock out this alien monster." Mr. L. D. Gammans, M. P., *Does Industry Lack Courage?*, *The Financial Times*, Nov. 15, 1950, p. 4.

¹¹ It is probable that those who saw in nationalization the embodiment of their party's creed were actuated by such fervor that they never paused to think that nationalization (of which in Britain the only common feature is the paying-off of the private owners) could take a large number of forms, some of them not at all to their liking. When victory of the Labor cause was suddenly assured, they stood in awe, unready to implement their ideals and without a clear plan of action. Mr. Shinwell admitted this in his Edinburgh speech of May 2, 1948; see also 478 H. C. DEB. 2824 (5th Ser. 1950). The opponents of nationalization, on the other hand, piled scorn upon contempt on it and failed to see that nationalization worked differently when applied to various industries.

¹² D. N. Chester, *Notes on the Price Policy Indicated by the Nationalization Acts*, 2 OXFORD ECONOMIC PAPERS 69 (Jan. 1950).

D. The Real Problem

It is not in the economic, but in administrative, accounting, and professional journals that fragments of real problems are scattered here and there. The British press, always watchful and alert, has certainly given much attention to the nationalized sector of industry. This interest is very valuable. But facts which make good news in the press are often not those which influence crucial developments,¹³ or which help the formulation of problems.

The voice of the consumer was not properly heard. Nearly all the nationalization statutes provide for the representation of the consumers. In most cases, the machinery was not called into being until the formative stages of the boards were completed. Thus consumers too could not, and still do not, influence the style of economic thinking and administration of the public corporations.

The supervising ministers and their advisers were torn between two desires. They wanted the nationalized industries to be commercially and administratively independent, but on the other hand wished to keep themselves informed of various details and to direct by informal advice and "boudoir politique" rather than by open directions so as to reduce the amount of external criticism and to ensure success at whatever the cost to the economy.

As the number of nationalized boards increased, there must have been a strong tendency for them to seek to regulate their mutual relations, attitudes to staffs, etc., and to settle their differences privately whenever their economic interests clashed, e.g., the British Electricity Authority always wants better and cheaper coal and the National Coal Board wishes to generate its own electricity and to make small coal more remunerative. The British Transport Commission wants cheap and good coal, while coal needs cheap transport. Mutual arrangements had to be made as nationalization advanced (e.g., private railway wagons were compulsorily bought by the National Coal Board from the owners, but when the British Transport Commission was formed, Transport expropriated the rolling stock of the National Coal Board; when the Ulster Transport Authority was formed it bought out some assets from the British Transport Commission). Matters requiring payments are publicly known, others applying to methods and functions are less easy to ascertain. The ministers and their servants may not be as well informed of what is going on in the boards as they would like to be or indeed the public may think they are, while at the same time the ministers have the task of shielding the corporations from the in-

¹³ Thus, for instance, Mr. J. Latham, the able Director-General of the National Coal Board's Finance Department, complained not without justification: "Before the accounts were published, considerable apprehension had been expressed as to the standard of disclosure which might be adopted," but when the accounts were published there was, however, "little informed discussion or criticism of the accounts in the professional press." And he goes on a little later, saying "I am not aware of any important information which would be of real value to economists which is not disclosed, for example, by the National Coal Board. This is perhaps a rash statement which I may regret, but if it leads to indications of the nature of the information which accountants, particularly those in nationalized industries, have in their possession and are not disclosing, I shall be satisfied." In *The Accounts of Nationalised Industries*, The Accountant, June 11, 1949, pp. 487, 489, 490.

quisitive public and of approving their investments. In such conditions haphazard and arbitrary behavior has an ideal climate in which to thrive.

In the circumstances the design and progress of nationalization was left to the administrators.¹⁴ No doubt the boards, with such various resources of means and talents as they have been able to muster, have been trying in their own way to make a success of the job, although much could be said about their consistency and choice of criteria of success, and the all pervading tendency to foster monopoly by eliminating competition.

E. Control and Supervision

In the absence of enlightened leadership from those qualified to analyze and to ask questions it is not surprising that the standard of discussion on the nationalized industries is by no means elevating. It is astonishing, says the journal *Public Opinion*,¹⁶ how many people discuss nationalization without reference to the problems of the nationalized industries. Yet such problems demand urgent consideration. Many things need to be made clear. To what extent are the boards real policy makers and economic planners?¹⁷ Or is the final decision always to come from the ministers?

Parliamentary debates on public corporations are infrequent and when taking place, do not always probe into essentials. Techniques of approaching the problems have not been evolved as yet. The debates are nearly always disjointed, everyone tackling a different point,¹⁸ or applying standards of comparison of pre-nationalization days.

Dissatisfied with the existing machinery of supervision and present economic accountability, many politicians and pamphleteers are searching after a new machinery of accountability, asking for an inter-party Committee of Parliament on public corporations or similar investigating bodies. But even the best Committee, if not given the criteria by which to judge the results and without the access to facts, can only be of very limited use. Without detailed knowledge of the background and of basic facts, debaters can only beat the air and plough the sand.¹⁹

¹⁴ Even now there is little literature dealing with the economic problems which confront the managers of public corporations. This is also partly the reason why the so profusely mentioned national plans of our publicly owned industries are still in major parts unready or not fully opened to public inspection; such releases, when made, are rather vague.

¹⁶ Oct. 16, 1950.

¹⁷ Certain decisions are reserved to the ministers concerned because (a) the nationalization acts say so; (b) the decision rests with the minister for some other reason, e.g., the board wants him to use his powers, e.g., to train recruits or requisition land; or (c) the minister has powers under some other act, e.g., to prevent river pollution.

¹⁸ Some members of Parliament on both sides of the House are aware of this failing. Mr. H. Molson did not exaggerate when he said that the debate on October 18, 1950 on nationalized transport moved quickly from coal prices to restaurant cars, to C licenses for road transport, to steamers to Ulster, to interest rates, to hotel executives. See 478 H. C. DEB. 2849 (5th Ser. 1950).

¹⁹ The main sources of information at present about the public corporations are their annual reports and accounts which are laid before Parliament. These are generally laboriously prepared, voluminous, rather expensive, and published with considerable delay. Although full of less important *detail*, historical facts, ex-post-organized *politique raisonnée*, etc., they are as a rule singularly non-committal and

It must be remembered that the field of free action left to the public boards is more limited than is generally realized. Price changes must nearly always be approved by the ministers, investments are subject to limitation and have to be fitted into the national pattern, output targets are given by the government. Certain other matters such as recruiting of labor, welfare, education, housing are often a joint responsibility of a board and one or more ministers. Thus, *e.g.*, the Minister of Labor and National Service and the National Coal Board are together primarily responsible for recruiting men into the mines.²⁰

F. Formulation of Objectives

No doubt the boards of the various corporations have been doing their best. But do they know where they are trying to go? Aids to navigation are useless if the captain of the ship is not told his destination. The nationalization acts give the corporations a variety of directives. We shall analyze them later. Some of them are conflicting; none give a clear guide to economic action.²¹ To be "efficient" and "economical"; to "co-ordinate"; to "provide . . . an adequate . . . and properly integrated system"; to "further the public interest in all respects"—these are some of the ends. It has been the task of the boards of the public corporations to find the means to secure them. What institutional arrangements and economic policies do such objectives indicate? Is it the maximization of profits (or minimization of deficits); a "tidy" selling organization, *e.g.*, with uniform or zone-delivered prices; or the avoidance of deficits and hence subsidies at all costs;²² high wages; or a unit of high technical efficiency; an intensely happy corporate organization; maximum service; cheap products; immediate gains or conservation of national resources? One could ask many questions, each of the utmost importance. The ends are numerous and if all could be satisfied simultaneously there would be no problem. The difficulty is that not only are many of those objectives imprecise or incapable of quantification but they also conflict with each other. Many of them are aims which can be solved only by political economy. They involve value-judgments. In considering the

vague on the essential facts of policy, marketing, and planning. The authors of the corporations' reports often assume in their readers a level of intelligence which is not too high. By contrast, the chapters on accounts are usually of a high calibre and have earned well-deserved praise. But the chapters and statistics dealing with prices, charges, investments, financial policies, wage policies, labor policies, etc., are less satisfactory.

²⁰ 478 H. C. DEB. 375 (written answer) (5th Ser. 1950).

²¹ In this belief I am strongly supported by D. N. Chester who writes: "The National Coal Board, for example, has among its duties 'making supplies of coal available, of such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage.' This is a very large umbrella capable of covering many different schools of thought, for all are concerned with furthering the public interest in all respects, though those who wish to take special advantage of different elasticities of demand may be a little chilled by the last eleven words. There is thus not much guidance here." *Notes on the Price Policy Indicated by the Nationalization Acts*, 2 OXFORD ECONOMIC PAPERS 69 (Jan. 1950).

²² There is little scope for state subsidies under the acts. But the subsidization of one branch of a corporation's activities by another goes on and hence of one class of consumers by other classes (rail by road, Atlantic by internal trips, coking coal by house coal); see p. 739 *infra*.

economic problems of public corporations one arrives at the same conclusion as Mr. Colin A. Cooke of Magdalen College, Oxford, *e.g.*, that "to be real economics must be political; it must become *POLITICAL ECONOMY*."²³ Running a nationalized industry is a problem. In theory Parliament, on behalf of the community, makes the political decision; it selects the ends. It is for their agents, the public corporations, to devise the economy to achieve those ends. As we shall see later, the failure of Parliament to make its political decisions precise makes it difficult for the corporations to select the appropriate "style" of economy.

We have numerous chairs in universities and various institutes, but to the best of my knowledge, there is no senior lectureship, let alone a chair or an independent institute, with sufficient means for studying the nationalized sector of industry from the economic or social viewpoint.²⁴ A non-political institution for the study of nationalized industries could do much to fill the gap, and to help the consumers' representatives in the nationalized industries to perform their functions more efficiently than at present.

G. Bureaucracy

The supply of talent being limited in the administration of public corporations, whose "style" or pattern of economic action is not determined, it is not surprising that in spite of all disclaimers or professions of best intentions not to behave otherwise but commercially, people with civil servants' traditions and "civil service" methods of administration are winning the day everywhere. The passion for unification, standardization, co-ordination, in many cases encouraged by the law, as well as the rule of precedent, are establishing themselves everywhere, be it transport charges, passengers' fares, charges for gas and electrical fittings, or internal relations of the corporations. We see such pictures as the Chairman of the Colonial Development Board (Lord Trefgarne) resigning on the ground that his corporation is given no guidance as to the "pattern" of behavior. It is easy to say that the pattern is "commercial," that the corporations are to pay taxes or follow the most progressive methods of presenting their accounts; in fact, nothing is more distant from the minds and the actions of the boards than a commercial outlook.

Because of the constant stonewalling by the ministers when serious parliamentary questions are asked, facts are not known to the public. Public corporations are very responsive to such informed criticism as is forthcoming, although this is often vague and doctrinaire; while as a rule the boards' headquarters prefer to keep facts to themselves, although here too the more progressive boards are more communicative than others.

²³ See Colin Cooke, *Economics or Political Economy*, District Bank Review, June, 1948, p. 8. "Today practice is ahead of theory. . . . The debate is not on what means would be employed to bring about a given end, but on the more decisive, prior question 'what is the end that should be chosen?'" *Ibid.*

²⁴ The Acton Society has been studying nationalization from a political viewpoint and has issued an interesting series of publications on problems of nationalization of which public accountability is the most important.

H. Is Nationalization a Success?

It is very easy to praise or to blame the nationalized industries. The controversy cannot in fact be settled. Without some criteria of judgment we would have something like the mad race of *Alice in Wonderland* in which everyone won or everyone lost.

There is little real help forthcoming from the world of statistics, for as Mr. Seers pointed out:²⁵

The fully trained graduate can produce within a morning a statistical memorandum supporting or destroying any proposition. . . . As a very elementary example, he will readily show that less coal is produced or exported than in 1938, *ergo* nationalisation is bad; or alternatively that there has been an upward trend in coal-mining productivity since vesting day, *ergo* nationalisation is good. .

Even if all evidence points in one direction (say against nationalization), long runs (which irritated Lord Keynes so much) may go into action or the argument be switched into the elusive path of what worse things would happen had nationalization not been applied. The ministers have often painted the gloomy picture of calamities that would have befallen the nation had, *e.g.*, the coal mines been left in the hands of private owners.²⁶

The apparent success or failure of public corporations depends on the criteria by which they are judged. The Conservatives have blamed nationalization whenever the corporations have shown losses, while some Socialists maintain that success should not be judged by the ability of a nationalized industry to show a surplus; the wheels should run without the grease of profit.

The British Electricity Authority has commissioned Royal Academy style artists to design posters for their series, "Portraits of Power Stations," showing to the public the beauty of new power stations. Controversy immediately started in the press over whether the users' money should be spent on those posters, especially at a time when the utmost economy of electric current was necessary to reduce the danger of electricity breakdown. The school of economizers and the school of public relationship of nationalized industries found themselves in headlong collision.²⁷

Dissatisfaction is not confined only to the Opposition. Supporters of the Labor Government criticize many aspects of nationalization. Some say that it has not solved the problem of monopoly, others that the workers are not allowed to play a

²⁵ D. Seers, *On the Dangers of Reading Statistics*, 60 *Econ. J.* 622 (Sept. 1950).

²⁶ See, *e.g.*, Mr. Noel Baker's pamphlet, *COAL* (Labor Party, London, 1950) in which he chooses to quote the opinion of the Chairman of I.C.I. (p. 4).

²⁷ The following is typical: Miss Ethel M. Jones, in a letter to the *Evening News* of Nov. 19, 1950, criticized the posters announcing "Another New Power Station!" She said: "Whether the posters are intended to give the impression of affluence, or to make clear the achievement of the Socialists alone, I know not, but it is one more example of the careless abandon with which the Government spends our money in financially hard times." The B.E.A. says it is not intended to convey that the nationalized industry is taking credit for these power stations. The object is to show that something is being done to meet electricity demands. Something clearly to gladden the hearts.

sufficiently active part; some that the consumers' interests are not well looked after; and others that civil servants have gained ascendancy in the administration of the boards and that centralization²⁸ and arbitrariness of decision have increased everywhere. There is a group who resent compensation to the former owners having been made a charge on individual corporations' earnings thus making it more difficult for them to show profits and grant substantial wage increases to their employees. These are only some of the issues on which opinion is divided within the same party. Can one conceive a more violent condemnation of the way nationalized transport is administered than the words of the Labor member, Mr. Poole, in a debate on transport in the House of Commons,²⁹ when he declared that the Minister of Transport "has not the remotest conception of what is required in a nationalized transport undertaking to make it successful"? The numerous district resolutions on the Agenda of the forty-ninth Labor Party Conference of 1950 show how wide is the array of objections to the present forms of nationalization. Some of the conclusions would have far reaching economic consequences,³⁰ in so far as they would destroy the

²⁸ In the first general debate on nationalization in the House of Commons, Mr. Albu, M.P. (Labor), made this point very clear when saying: "Here I would like to scotch another myth created by the Opposition. They are trying to make the case that they alone are the decentralizers, that they alone believe in the decentralization of management to the lowest possible level. That is untrue, Hon. Members on this side (labor) are as interested as Hon. Members opposite that management shall be decentralized as far as possible. That is evident from the changing structure of the boards which have been set up under the various Acts and the changes taking place in the Coal Board." 478 H. C. DEB. 2871-2872 (5th Ser. 1950).

²⁹ He went on to appeal for the suppression of the issue of C licenses for private lorries, *viz.*, those authorizing the holders to carry exclusively in connection with their own business, in order to strengthen the Transport Commission's monopoly of road transport. 478 H. C. DEB. 2090 (5th Ser. 1950).

³⁰ The following two resolutions taken from the Agenda of the 49th Annual Conference of the Labor Party in 1950 indicate the extent of the people's interest in various facets of the problem. The first (Mitcham) resolution below received much support from the delegates:

"This Conference agrees that the nationalization measures now on the Statute Book are important steps in the social development of the people but declares that it is necessary to bring home to those employed in the industries and the general public the importance of social ownership.

"To this end it is necessary:

(a) That the present capitalist method of judgment—namely, the Profit and Loss Account—should be ended, and further to this the sums paid to former owners as compensation should be placed as part of the National Debt and not retained as a drag on the industries.

(b) That in order to obtain the wholehearted cooperation of the employees and consumers the various advisory and consultative committees, representing these interests, should be integrated and given important duties at all points of the managerial apparatus, subject to the overriding authority of the Minister involved.

(c) That the emphasis should be altered from competing commercial concerns, each operating as a separate unit, to organization based on service. To this end, joint gas and electricity showrooms, joint billing, joint transport repair service and bulk purchase of manufacture should be normal practice and savings obtained by ending complicated and costly separate accounting systems.

(d) That this Conference recognizes that much development work to be undertaken is of a non-profit nature, such as rural electrification, railway electrification and modernization and other works of similar nature; also the meeting of consumer demands of a special type such as cheap fares.

This Conference therefore declares that the whole purpose of the national undertakings must be that of serving the best interests of the whole community." Mitcham Committee, Labor Party.

Price of Coal. "This Conference notes that the cost of coal has had to be increased owing to the higher cost of transport, and that such increase is to be met by consumers in this part of the country to a greater extent than in some other areas. It expresses dissatisfaction that this is so. Conference is of the opinion that coal, as a nationally owned commodity, should be available to the entire nation at the same price and now requests that the necessary steps be taken to bring about such position." Brighton Borough, Labor Party.

financial boundaries between one state industry and another, which are at present fairly rigidly maintained. This would bring us nearer to a new kind of "functional finance" applied to inter-industrial relationships.

I. Nationalization and Various Forms of Public Agencies

In order to be able to try to answer these questions we must distinguish between nationalization with which this work is concerned, and state enterprise, and further bear in mind that a public corporation may be the instrument for administering one or the other. Hence public corporations should not be associated solely with nationalization, or state enterprise expected always to take the form of public corporations. Nationalization, to start with, need not always take the form of an enterprise. The nationalization of development rights under the Town and Country Planning Act, 1947, does not associate itself with an entrepreneurial form of activity. The nationalization of mining royalties in 1938 vested intangible rights in the Coal Commission, which by no stretch of imagination could be regarded as an entrepreneur but rather as a regulatory or licensing body. On the other hand, a state brewery at Carlisle (with its origin back to the first World War), or the Forestry Commission, which operates under the Forestry Act, 1919,^{30a} as amended, cannot be regarded either as public corporations or as a form of nationalization, any more than can a factory or workshop acquired or started during the 1939-45 war or the exploitation of opencast coal which is under the Opencast Directorate of the Ministry of Fuel and Power.³¹ Nor should nationalization be laid exclusively at the doorstep of any one political party. In 1928 in *Britain's Industrial Future*, the Report of the Liberal Industrial Inquiry, which was largely inspired by Keynes, advocated the further development of public boards (p. 458). The nationalization of coal royalties in 1938^{31a} and the establishment of the British Overseas Airways Corporation of 1939 were largely of Conservative ancestry. The London Passengers' Transport Board was of mixed parentage, fathered by Mr. Herbert Morrison but brought forth in 1933 by a National Government.^{31b} The prime motive in all these cases was the fostering of efficiency by means of unification, size, and elimination of competition in an economic background which was said to show excessive productive capacity.

The protection of the domestic sugar beet industry was the motive behind the formation of the British Sugar Corporation in 1936^{31c}—a semi-public board of which

The protection of the domestic sugar beet industry was the motive behind the a large bloc of stock is held in the Treasury's portfolio. The current plans for

^{30a} 9 & 10 GEO. 5, c. 58.

³¹ For a detailed account of the production and marketing of opencast fuel which started in earnest during the war in 1941 as a state enterprise (run by a government department) and on the relations with the National Coal Board, see PRODUCTION AND MARKETING OF OPENCAST COAL, SIXTH REPORT FROM THE SELECT COMMITTEE ON ESTIMATES WITH MINUTES OF EVIDENCE AND APPENDICES (No. 142, Session 1948-1949).

^{31a} Coal Act, 1938, 1 & 2 GEO. 6, c. 52.

^{31b} London Passenger Transport Act, 1933, 23 & 24 GEO. 5, c. 14.

^{31c} Sugar Industry (Reorganisation) Act, 1936, 26 GEO. 5 & 1 EDW. 8, c. 18.

nationalizing the Corporation will only complete the process started fourteen years ago.

The earlier public corporations were designed to meet limited economic needs but for the Labor Party nationalization is an end as well as a means. It is not therefore surprising that after their coming to power in 1945 there appeared a profusion of new public corporations and fresh regulatory devices. It is however open to argument whether a Liberal or Tory government would not, in the circumstances of the post-war years, have been almost as prolific in setting up new forms of state activity in the industrial field.

J. The Essence of Nationalization

Nationalization then and now can be defined as vesting by law the ownership in certain instruments of production, industry, or commerce in the nation (whether by means of public corporation in form or not), through expropriation in most cases against compensation of the former owners, whether private or public,³² or by limiting and excluding of future ownership of productive assets. Hence two aspects of nationalization: as the name indicates, under nationalization the nation as a whole becomes the owner; moreover, the doctrine requires that the profit motive should give place to another motive referred to sometimes as "service," sometimes as "national interest," "public interest," "social instinct," "negation of private interest," "social responsibility,"³³ or "public service."

Under nationalization there is no cushion to bear the impact of losses. In a public company limited by shares there is the shareholders' capital to bear losses. In the absence of reserves under nationalization a loss is borne either by the buyers of nationalized products or by the state which grants a subsidy. Writing off capital is well nigh impossible especially if it involves cutting down market stock. The shock to national credit would be too big. We must, however, not allow ourselves to fall into the trap of imagining that because an industry is nationalized the losses are therefore necessarily borne by the whole nation. This is only so if a subsidy is paid. A loss of an Area Gas Board is recouped by a rise in the local price of gas.

It is the Socialists who have been responsible for the great extension of nationalization and it is their motives which must now be studied. Some of those motives have perhaps to some extent been rationalized ex post facto, others have been clearly present at the time when the original decision was taken.

The following guide to nationalization, which appeared in a semi-official London Party publication in 1948, is intended somewhat to stem the ardor of the nationalizers.³⁴ Industries are ripe for nationalization because they are:

³² A colliery belonging to a cooperative may pass from social hands to the nation as a whole.

³³ See *LABOR AND THE NEW SOCIETY: A STATEMENT OF THE POLICY AND PRINCIPLES OF BRITISH DEMOCRATIC SOCIALISM 19* (London, August 1950).

³⁴ *PUBLIC OWNERSHIP: THE NEXT STEP* (London, 1948). The pamphlet is the second of the discussion series entitled *TOWARDS TOMORROW*.

- (1) basic to other industries, to human life, health, or defence;
- (2) monopolized;
- (3) inefficient, because unable to find capital for development, split up into units too small for economic co-operation, or burdened with very low standards of management;
- (4) very large investors of capital and therefore particularly important as investment-leaders, in the combat against trade depression. [Let us observe, *en passant*, that the argument is based on the belief in the efficacy of counter-cyclical investments of resources.] Those industries have much influence on the level of employment;
- (5) industries suffering from bad industrial relations.

But even if some industries qualify for nationalization, they should be subject to five tests:³⁵

- (a) Will it increase the people's power over their own destinies?³⁶
- (b) Does it lead to a higher standard of life by enabling industry to perform a better and more economical service to the nation?
- (c) Does it lead to a more equal standard of life?
- (d) Does it lead to a more stable standard, by promoting full employment?
- (e) Does it extend industrial democracy?

These are nothing else but the well known "welfare criteria": maximization, stability, equality, and freedom.

In April 1949, the Labor Party published *Labor Believes in Britain*, a program of action, which officially adopted a brand of *Etatism*, consisting in competition between private and state enterprises in the same trade.³⁷ Much of the earlier case for nationalization was repeated in August, 1950, in *Labor and the New Society*, which further maintains that public ownership makes an industry directly "accountable to the people," that it extends opportunity for promotion; and that by discarding "the bad old incentives of fear and greed," by providing better motives it opens the way to the better incentives of responsibility and service to the community (p. 20).³⁸

³⁵ Mr. S. J. Langley in an interesting article, *The Iron and Steel Act, 1949*, 60 *Econ. J.* 311 (June, 1950), subjects the nationalization of steel to various tests of which he listed four economic (efficiency, capacity, full employment, and availability of finance), and three political ones (breaking private monopoly power, regard to social capital requirements, fulfilling voters' mandate).

³⁶ When in 1848 the French railways were finally to be "assumed" by the state, one of the main arguments of the nationalizers was that private holding of railways tended to "establish an aristocracy, and that it was not possible to maintain it under democratic government." This was violently opposed by *Le Journal des Debats*, May 25, 1848, and other journals. See reports, *The Times*, May 27, 1848.

³⁷ Cf. A. M. DE NEUMAN, *ECONOMIC ORGANIZATION OF THE BRITISH COAL INDUSTRY* 233-234 (London, 1934), Section on the Methods of Government Interference.

³⁸ Mr. Herbert Morrison, then Lord President of the Council, in a speech read for him at Battersea on Nov. 16, 1950, said that there was no need to nationalize everything; ". . . three categories of industries should be brought under public ownership: (1) the national or inevitable local monopolies, like electricity, gas or postal services; (2) certain basic industries, vital to the well-being of the whole community, like coal mining, transport, iron and steel; (3) industries, the private ownership of which have proved incapable of managing their affairs in an efficient way." *The Financial Times*, Nov. 27, 1950, p. 1, col. 3.

K. Nationalization and Socialization

As nationalization was advancing in a country with as complex a structure as the United Kingdom it soon became clear that the expansion of national ownership was bound to encroach on a field which was already serving public interest in one way or another, *i.e.*, municipal and cooperative enterprise. In the early days the words nationalization and socialization were almost synonyms in the Labor vocabulary. Seeing where things were advancing, the cooperative movement became apprehensive of its prerogatives and insistent on the difference between cooperative enterprise and capitalist enterprise and on the equality of the cooperative movement with Labor.³⁹ The word socialization acquired a new meaning, which was wider than nationalization. It meant either government supervision of an industry or enterprise or providing a motive of action which took some public criteria into account. Thus, in addition to the public corporations, an industry which has a development council, or the cooperatives which directly serve the interests of a large section of the community, can "in varying degrees" be regarded as socialized. Whereas one should in theory regard all nationalized industries as socialized, not all socialized industries take the form of public corporations nor is the absence of the private profit motive restricted to public corporations. "Socialization," said Dr. Edith Summerskill, the then Minister of National Insurance, to the West Midland Labor Party, "is synonymous with planning which does not necessarily mean nationalization."⁴⁰

L. Public Corporations in Great Britain

What then is a public corporation? It is a form of state entrepreneurship which has not yet solidified. Sir Arthur Street, the late Deputy Chairman of the National Coal Board, has defined the public corporation as⁴¹

a financially autonomous non-profit making body created by an act of state to provide a monopoly of goods or services on a commercial basis, ultimately responsible through the minister to Parliament and the public, but free from full and continuous ministerial control.

Comprehensive definitions are always difficult and must change with time. His definition, however, does not fully apply even to the National Coal Board. The financial autonomy which it stresses exists only partially—the Board cannot take recourse to the long term capital market, it has to borrow investment capital from the Minister of Fuel and Power. As to non-profitability, there is nothing in the statutes or in the behavior of the boards to stop them making profits, either annually or over a period.

³⁹ See PROCEEDINGS OF THE COOPERATIVE CONGRESS AT SCARBOROUGH (May 4, 1949) especially the motion of Mr. J. M. Peddie of the Cooperative Wholesale Society, which stressed that "Cooperation must be an equal partner with Labor, and not a docile supporter. It was not willing to sacrifice itself upon the altar of nationalization."

⁴⁰ See *The Times*, Oct. 16, 1950.

⁴¹ Sir Arthur Street, in his address to the Royal Institution of Chartered Surveyors on Mar. 8, 1948, on *The Public Corporation in British Experience*, TRANSACTIONS OF THE ROYAL INSTITUTION OF CHARTERED SURVEYORS (London, 1948).

The monopoly⁴² factor is by no means always present. The National Coal Board operates brickworks, owns farms, carbonization plants, etc.—activities in which it has no monopoly at all; even in coal production the monopoly is incomplete owing to the existence of opencast coal production outside the Board's jurisdiction and, to a lesser degree, owing to the existence of a small output in the hands of private owners, who are licensed by the Board.⁴³ Most public corporations are attempting to establish such monopolies and monopsonies as they can. These monopolistic tendencies are probably amongst the main problems of the future remaining to be solved. One day the possibility that better results may be secured by a more competitive setup within the public corporations (or perhaps by the breakup of the present giants) may have to be reconsidered. The interests of efficiency, the consumers, and the workers might be better served that way.⁴⁴ That this issue is not only of academic interest but one on which Britain's industrial future may well depend is realized by the Cooperative Party (which supports the Labor Government). They demand that "where the administration of production and distribution can be conveniently separated, this could be done without any sacrifice of the principle of social ownership."⁴⁵ In other words, in industries like coal, iron and steel, etc., where the separation can be done, the boards in charge of production should not be the same as the boards in charge of distribution of the products. This may not suit the administrative routine of some of the present boards, but the reform is practicable.

In discussing the economic "style" of public corporations we must distinguish between their shape which is largely given to them by law, and their economic behavior in administering their resources. The public corporations as shaped at present cannot fully conform to a commercial pattern of behavior. Is it not a duty of the British Electricity Authority to supply electricity to the country dwellers at uneconomical prices? The duty is the result of its constitution, and not of a decision of the Authority.⁴⁶ Moreover, the blend of elements of commercial and the

⁴² The word monopoly has so many meanings as to be almost vague. Monopoly can apply to the right of exclusively operating some activities or handling some products, it can also apply to a style of economic behavior, e.g., not allowing the various plants or units to compete, or fixing prices, above average costs.

⁴³ Small operators' licenses can be withdrawn or the operators may be asked to pay a high royalty.

⁴⁴ The problem of a more competitive policy for public corporations has been raised already in the first year of the National Coal Board's existence (see *Coal Corporations*, my letter to *The Times*, Sept. 20, 1947). The subject has been taken up again in a thoughtful article on *Controlling the Giants*, in *The Economist*, Nov. 4, 1950, pp. 680-681.

⁴⁵ See *BUILDING THE NEW BRITAIN* (REPORT SUBMITTED AT THE ANNUAL CONFERENCE OF THE COOPERATIVE PARTY) 7 (1950).

⁴⁶ The clash between the North of Scotland Hydro-Electric Board and the British Electricity Authority over the terms on which the latter should buy electricity from the former's new generating station at Loch Sloy is a good example. Both corporations wished to exercise their powers in a commercial sense; the Authority wished to buy electricity only in peak hours spread over the whole week, thus treating the supply as an emergency reserve, whereas the Scottish Board wanted to manage supply in a way which would secure the highest revenue. The dispute was settled in November, 1950, but not until some consumers were deprived of electric current (see *The Times*, Nov. 13, 1950).

public interest in the actions of the public boards has never been clearly gone into by the legislator or defined.⁴⁷ It is already giving much trouble, especially when the conflict concerns two or more nationalized undertakings.

Bearing in mind all these reservations, we can define the new public corporation, of the "classical" type, *i.e.*, one which does not allow for the representation of interests, as:

A statutory, minister-appointed entrepreneurial administration by a non-representative board of a branch of the economy vested in the Nation, actuated to some extent by motives other than private gain, operated as an autonomous accounting unit, enjoined to avoid making losses, and to a point responsible to a minister and free from day-to-day questioning in Parliament.

This defines the modern "classical" public corporation. The boards of some of the older corporations were composed of representatives of particular interests. Practically all corporations formed since 1945, including the Ulster Transport Authority (which is independent of the British Transport Commission) are of this "classical" style in so far as the general formula of management is concerned. We do not include here a galaxy of semi-public corporations, nor organizations directly under government departments, such as administer most of the bulk buying and selling of commodities, nor such institutions as the old British Sugar Corporation, the Agricultural Mortgage Corporation of 1928, etc., all of which fall outside the orbit of our subject.

M. Public Corporations and Nationalization

The new public corporations have been given different names such as boards, authorities, councils, commissions, and corporations. There is probably little logic in the use of these names. The various public corporations differ considerably in their constitutions, methods of administration, extent of their power, and degree of monopoly, but they have certain common features. They are all nominally supervised *loco parentis* by their respective minister who has the right officially to issue to them directives of a "general character."⁴⁸ They nearly all have to act in the "public interest," which is a criterion not easy to establish in theory or in practice. They are enjoined not to use discriminatory practices, but this mandate is left rather vague. They are obliged to account publicly for their activities, but their annual reports and other channels for disseminating real information vary in size, form, and contents, and the material published is not always informative although standardization

⁴⁷ As a result, one of the main tasks of the boards is to work out how they shall achieve the ends which they regard to be in their own and the public's interests, in a way which they think economical. Thus usually (though not always) they disregard the external diseconomies of their actions and make room for unpredictable and arbitrary decisions. To say, as some people do, that the corporations are best qualified to appraise the diseconomies which they impose on the outside world is sheer pipe dreaming.

⁴⁸ The number of ministers who act in a parental capacity is large and includes the Secretary of State for Scotland and the Minister of Fuel and Power, who has to nurse coal, gas, and electricity (with the exception of the North of Scotland Hydro-Electric Board), the Minister of Transport, the Minister of Civil Aviation, the Colonial Secretary, the Minister of Food, and the Minister of Supply. See table 3, *supra*.

of reporting is being introduced. The corporations must avoid making losses (at least over a number of years), but there is nothing to stop them building up reserves out of profits. They are all to be "efficient," although there is little in the statutes to guide them in finding the proper criteria of efficiency. None of the recently formed public corporations include consumers' or workers' representatives charged with the task of defending the consumers' or workers' interests (although the Area Electricity and Area Gas Boards each include an *ex officio* representative of the users; active trade union leaders have been appointed as part-time members of the boards, but they rarely serve on the boards of industries whose workers they currently represent). The syndicalist solution was thus avoided.⁴⁹

From the point of view of the workers, consumers, and users of the nationalized sector of industry, it is most important that the corporations' emphasis is on the removal of all remnants of competition and on the reenforcement of monopoly, and that these objectives should be carried out as speedily and thoroughly as possible. Competitive elements are being eliminated in favor of unification, coordination, uniformity, equalization of charges,⁵⁰ and centralized financial responsibility.

As experience accumulated with time, each successive public corporation was built on a less centralized model, and under the pressure of public criticism a small dose of decentralization has been introduced into such earlier bodies as the National Coal Board. The shadow argument however over centralization *versus* decentralization has diverted attention from the more fundamental issue of whether a monopolistic (or cartel-like) solution of the style of commercial behavior in the British corporation⁵¹ is really better than a competitive solution. Let us not be misled by side issues. The fact that, *e.g.*, the Iron and Steel Act, 1949, retains the old companies and lays great stress on decentralization while the Coal Industry Nationalisation Act, 1946, leads to centralization does not mean that the former industry will be any more competitive than the latter. The absence of effective consumers' representation *vis-a-vis* the boards of public corporations, and administrative convenience, together with the fear of making losses and thus incurring the criticism of the opponents of nationalization, have pushed the state industries in the direction of monopoly, thus weakening the position of the consumers. It is, however, an open question whether the interest of the consumers would be better safeguarded by an extended participation of consumers' delegates in running the nationalized industries. Nor would this solution necessarily be conducive to efficiency.⁵² Efficiency, let us not

⁴⁹ See HUGH CLEGG, *LABOR IN THE NATIONALIZED INDUSTRY 6* (Fabian Publication No. 141) (London, 1950).

⁵⁰ See case of London fares, Transport Tribunal, May, 1950.

⁵¹ During the first general debate in the House of Commons on nationalized industries for which the Government allowed time on Oct. 25, 1950, in its sixth year of office, the need for decentralization was raised from all sides of the House, but very little has been said about the real issue of a competitive versus a monopoly solution. See 478 H. C. DEB. 2879-2880 (5th Ser. 1950).

⁵² On this matter, we in Great Britain have much to learn from the French pattern of nationalization in which the consumer has, at least theoretically, a big and direct share in the administration.

forget, is one of the consumer's allies, although not the only ally.⁵³

The public corporations have so many facets, ramifications, and deviations from any common pattern that to understand their economic nature and significance one must resort to hard facts. These are considered in the pages that follow first by analyzing the main economic functions of each corporation and then by studying the way in which those functions are discharged.

II

PRIMARY ECONOMIC FUNCTIONS OF PUBLIC CORPORATIONS

The economic functions of public corporations are determined, to a large extent, by the authorization given by the statutes which have created them.⁵⁴ But the really important points depend on their own interpretation of their rights and duties. As the economic functions set by law are frequently very sketchy or imprecise, it is imperative in order to obtain a full picture to turn to pronouncements of ministers and also of lawyers and persons occupying responsible positions in the public corporations. With time, as economic problems of pricing, marketing, and planning emerged, solutions had to be sought and with them came a delineation of spheres of influence of particular corporations and a pronouncement on attitudes towards matters which can best be described as "style" of economic behavior. Of these the two extremes are a competitive behavior and a cartel behavior. It seems that the latter has, at least at present, completely swept the deck⁵⁵ in the British nationalized sector, and, as seen at present, the cartel behavior is still on the ascendancy.

In this section the corporations will be first dealt with seriatim in order to discover what the statutes say their primary economic functions should be. We shall see that although vaguely designed, those primary functions which are laid down are generally soundly outlined. Then we will attempt a more general analysis of how some of these economic functions are interpreted in practice. Finally there is the corporations' own interpretation. This accumulates day by day. Those powers of interpretation of their economic prerogatives are enormous and in many cases cannot effectively be questioned.⁵⁶ Thus an effective *cordon sanitaire* is established around the corporations' economic decisions. In the next section we will

⁵³ This problem has been very neatly analyzed by Mr. I. J. Pitman, M.P., in his thought-provoking pamphlet, *MANAGEMENT EFFICIENCY IN NATIONALIZED UNDERTAKINGS* (British Institute of Management) (London, 1950).

⁵⁴ There is also in existence a considerable body of statutory instruments regulating various legal details.

⁵⁵ The persistent attempts of the National Coal Board to establish a system of zone-delivered prices are pointing in this direction. The principle has been repeated recently although rather timidly in a document called *PLAN FOR COAL—THE NATIONAL COAL BOARD'S PROPOSALS*, dated Oct. 1950, and issued on Nov. 14, 1950; see e.g., §§159 and 160. Finally zone-delivered prices were introduced in household coal with the support of the Domestic Coal Consumers' Council.

⁵⁶ Some of the statutes, e.g., the Transport Act, 1947, §3(5), expressly state that although the Act imposes general duties on the corporation, nothing in the section that lays down the functions shall be construed as imposing on the corporation, either directly or indirectly, any form of liability enforceable by proceedings before any court or tribunal to which it would not otherwise be subject. An identical cocoon surrounds the decisions of the Iron and Steel Corporation as to the extent and character of its duties.

discuss the provisions relating to the way in which the primary functions should be carried out which are common to most corporations.

A. The Fuel and Power Trinity

1. *The Coal Industry.* According to statute, the primary economic functions of the National Coal Board are to work and get the coal in Great Britain, to the exclusion of any other person;⁵⁷ to secure the efficient development of the coal-mining industry; and to "make supplies of coal available" of such qualities and sizes, in such quantities and at such prices, as may seem to it best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage.⁵⁸

Almost every passage here lends itself to a large number of interpretations. The economic "style" in which those primary functions are carried out and interpreted, will decide what type of economy will prevail. What is the meaning given by the Board to "making supplies of coal available," to "the avoidance of any undue or unreasonable preference or advantage," and to many such fundamental concepts of economic behavior? It is those meanings and the action which follows them, that consumers, traders, and workers will have to face.

A representative of the National Coal Board maintained before the Transport Tribunal Consultative Committee that "making supplies of coal available" means ". . . available for use. . ."⁵⁹ This would seem to imply that the National Coal Board should take over the wholesale and retail distribution of coal. Indeed, Mr. Shinwell, when Minister of Fuel and Power, said in Parliament that the Board would be concerned to see that distribution was carried on as efficiently and as economically as possible, and explained that there was nothing to prevent the National Coal Board engaging in all those activities which were undertaken by the former colliery companies.⁶⁰ These activities included the wholesale and retail distribution of coal. Actually the then Minister of Fuel and Power did not seem to have made up his mind on this question, for later on he said in Parliament that the Board would not be responsible for the retail distribution of coal, as for the most part the activities of the colliery undertakings before nationalization were confined to sales from the pithead.⁶¹ The very next day he said that as some of the colliery undertakings had engaged in retail distribution, it may be that the Board might want to promote further activities in this sphere, and should not be hindered.⁶² In fact, the Board acts, in many cases, as retail as well as wholesale distributor. The Board has an extensive coal distribution business in Lancashire; it also owns ships and land-

⁵⁷ The Act makes room for some exceptions to this fuel monopoly.

⁵⁸ Coal Industry Nationalisation Act, 1946, §1(1).

⁵⁹ See PROCEEDINGS OF THE PERMANENT MEMBERS OF THE TRANSPORT TRIBUNAL SITTING AS A CONSULTATIVE COMMITTEE 168 (Jan. 4-Feb. 8, 1950).

⁶⁰ 418 H. C. DEB. 714 (5th Ser. 1946).

⁶¹ Standing Committee Report, House of Commons, Feb. 12, 1946, col. 31.

⁶² *Id.*, Feb. 13, 1946, col. 56.

sale depots. It has been prosecuted for giving short weight just as are other coal merchants.

It would then seem that the question today is, must the Board in order to carry out its task of "making supplies of coal available," squeeze out existing merchants and so extend its already not inconsiderable stake in distribution? Under the original nationalization statute the National Coal Board had no power to extend its activities (principally its overseas marketing) outside Great Britain. In 1949 this limitation was removed.⁶³ In the winter 1950-51 the Board has been instructed to buy coal abroad for import to Great Britain.⁶⁴ Subject to the Minister's authorization the potential sphere of the Board's activity has thus been enormously extended in the field of overseas activities.

By now, "making supplies of coal available" is already persistently interpreted by the Board as available in the zones of consumption, and the price is thought of as the cartel price or zone-delivered quotation with all the paraphernalia of positive or negative freight absorptions and a departure from the competitive structure of pit-pricing. It is surprising that of the numerous commentators on the Board's Reports and its "*National Plan*" scarcely anyone has passed any opinion on the proposed scheme of zone-delivered pricing although this is probably one of the few really definite suggestions emanating from the industry and more and more insistently repeated.⁶⁵

With regard to "furthering the public interest," Mr. Shinwell, when Minister of Fuel, said in 1946 that its meaning depended upon the circumstances. It might be appropriate, in certain circumstances, in order to further the public interest not to export coal but to utilize it in such a fashion as would enable us to export other commodities. Such circumstances have indeed arisen in the second half of 1950 owing to the coal crisis. On the other hand, there might be such an abundance of coal in given circumstances as would enable the industry to supply more than adequately the overseas consumers. The Board has, it would seem, the duty of analyzing the circumstances, for the Minister said: "Who are better fitted to judge than the people who are running the industry?"⁶⁶

The statutory duty of "avoidance of any undue or unreasonable preference or advantage" appears to imply that the Board must offer similar terms to all customers,

⁶³ Coal Industry Act, 1949. This Act also allows the National Coal Board to terminate certain contracts if they are of opinion that they are likely to hamper the efficient performance of their functions. The same Act makes an administrative provision by authorizing the appointment of a second deputy chairman of the Board. This important prerogative of the Minister was not exercised until the middle of 1951.

⁶⁴ 481 H. C. DEB. 39-42 (5th Ser. 1950). The buying is done through private firms acting as agents.

⁶⁵ On the subject of the National Coal Board's desire to see a system of zone-delivered prices instead of pithead prices, see, e.g., its ANNUAL REPORT for 1949, p. 167 (as yet put forward very tentatively). Also the PLAN FOR COAL—THE NATIONAL COAL BOARD'S PROPOSALS (Nov. 14, 1950), §§159 and 160 commit the Board to zone-delivered pricing and to "meeting-consumers' demands most economically" whatever this may mean. It is not clear what will be the attitude of the Industrial Coal Consumers' Council to zone-delivered pricing.

⁶⁶ See Standing Committee Report, House of Commons, Feb. 13, 1946, col. 16.

including public corporations. This impression is strengthened by the Lord Chancellor's statement that it would be highly improper to supply coal to steel works taken over by the government at a price different from that at which coal is supplied to steel works remaining under private ownership.⁶⁷

The avoidance of preferential treatment is one of the primary economic duties of the coal industry. But what is it that the legislator requires? There are at least two points to which attention should be drawn. In the first place, the avoidance of undue preferential treatment applies to the whole field of coal supplies, it covers all the commercial levels, unlike electricity or gas (or gas coke), where it is referring only to activities on an area level. In the second place there seems to be inherent in the approach to the avoidance of preference a fundamental distinction between the coal industry and the other nationalized fuel industries. The National Coal Board is to avoid what seems *to it* a preferential treatment whereas electricity and gas have to avoid preferential treatment as it appears *to others*. The latter fact may be established on objective criteria, the former is subjective and presumably cannot be questioned beyond the fact that it has been duly considered by the National Coal Board.

The Board alone determines the prices, although at present increases at home have to be sanctioned by the Minister. It is presumably in the public interest for the Board to build up reserves, but it is not clear from authoritative statements whether the phrase "making supplies of coal available . . . at such prices, as may seem to them best calculated to further public interest . . ." could be used as a justification for building up large reserves by charging high prices. The gas industry has a clear mandate to reduce prices of gas and coke to the minimum. There is not such a strong directive in the case of coal, electricity, or indeed scarcely any public corporation. The demand for "reasonable charges" in Civil Air transport and for selling raw cotton by the Raw Cotton Commission "at prices as low as may be possible" comes nearest to this requirement.

Reserves could be built as a result of reductions in cost following technical progress and reorganization, reflected in better productivity, but the National Plan for Coal commits the Board to distribute some of the promised savings to the miners.⁶⁸ This makes it more likely that if reserves are to be built up, they will have to come from high prices rather than from low costs although it should be mentioned that the Minister of Fuel, in reply to a suggestion that the Board as a monopoly would be permitted to charge excessive prices to enable it to build up a reserve, said that effective arrangements in the form of Industrial and Domestic Coal Consumers' Councils had been made to prevent the Board from raising prices unduly.⁶⁹ How-

⁶⁷ See 142 H. L. DEB. 3 (5th Ser. 1946).

⁶⁸ PLAN FOR COAL—THE NATIONAL COAL BOARD'S PROPOSALS §10 (1950). The likelihood of reduced costs is called into question by the safeguarding clause that all expectations are based on mid-1949 prices.

⁶⁹ Standing Committee Report, House of Commons, Mar. 27, 1946, col. 634.

ever, this statement might in the light of events be considered a little rash.⁷⁰

We can end with two short statements on coal by Mr. Philip Noel-Baker, M.P., the present Minister of Fuel and Power:⁷¹

Public enterprise exists not merely to sustain the national economy, not merely to give better working conditions to the miners and others, but to serve the individual consumers, the householder and industrial user. . . . Coal was nationalized on 1 January, 1947. After so short a time it would be absurd to say either that nationalization had succeeded, or that it had failed.

2. *The Electricity Industry.* In studying the statutory duties of the electricity industry it is helpful to remember that the generation of electricity is a nationwide activity whereas distribution is predominantly a local function. Moreover, as the Deputy Chairman (Administration) of the British Electricity Authority summed up with perspicacity, for electricity when nationalization came "the change was one of organization rather than of character; it did not create a new monopoly, for electricity supply had always had a monopolistic character."⁷² The same largely applies to the gas industry, whereas for coal, nationalization meant a much bigger change, where a new tradition had to be built from scratch. Unlike the Gas Council, the British Electricity Authority actually "handles" the product with which it is concerned.

The primary function of the British Electricity Authority is to develop and maintain an efficient, coordinated and economical system of electricity supply in all parts of Great Britain, except the North of Scotland.⁷³ The Authority has to generate or acquire electricity and provide bulk supplies for the Area Boards and may supply certain consumers direct. It also has to coordinate the distribution of electricity by the Area Boards and exercise a general control over their policies.

The Authority has taken over from the former owners the generating plants and associated transmission lines and the network of main transmission lines ("the Grid") from the former Central Electricity Board. Financial control over the Area Boards is summarized by Sir Henry Self as follows:⁷⁴

The Authority's responsibility for providing finance for the whole industry is matched by their related function of exercising central financial co-ordination and control. . . . It vests in the Authority the sanctioning powers necessary to secure effective control of the overall financial position of the industry.

⁷⁰ *Consumers' Representation*, *The Economist*, Oct. 14, 1950, p. 598. For further reading on the effectiveness of Consumers' Councils, see A. M. de Neuman, *La Nationalization de l'Industrie et le Consommateur Britannique*, *REVUE D'ECONOMIE POLITIQUE* 238 *et seq.* (Paris, 1950); A. M. DE NEUMAN, CONSUMERS' REPRESENTATION IN THE PUBLIC SECTOR OF INDUSTRY (Students' Bookshops, Ltd., Cambridge, 1950); L. L. FREEDMAN AND G. HEMINGWAY, NATIONALIZATION AND THE CONSUMER (Fabian Publication No. 139) (London, 1950); *Protecting the Consumer*, *The Electrical Review*, Sept. 29, 1950, pp. 497-498.

⁷¹ PHILIP NOEL BAKER, M.P., *COAL* 9, 3 (Labor Party, London, 1950).

⁷² Sir Henry Self, *The Economics of Electricity Supply*, PROCEEDINGS OF THE BRITISH ELECTRICAL POWER CONVENTION 14 (London, 1950).

⁷³ The North of Scotland is served by the North of Scotland Hydro-Electric Board.

⁷⁴ See note 72 *supra*, at par. 28.

The primary function of the Area Boards is to acquire from the Authority bulk supplies of electricity and to plan and carry out the economical and efficient distribution of these supplies to persons in their areas who require them.^{74a} In certain circumstances, an Area Board is allowed to acquire bulk supplies of current from other Area Boards or from other producers and to sell current to consumers outside its own Area.

Area Boards must promote the use of all economical methods of generating, transmitting, and distributing electricity. They must secure, so far as is practicable, the development, extension to rural areas, and cheapening of supplies of electricity. They must also avoid undue preference in the provision of such supplies, and promote the simplification and standardization of methods of charging for such supplies. Finally they have to promote the standardization of systems of supply and the types of electrical fittings.

Periodic estimates of revenue and expenditure of the Area Boards may have to be submitted to the Authority, and the Area Boards may be required to obtain the approval of the Authority for programs of development involving capital expenditure.⁷⁵

3. *The Gas Industry.* The nationalization of the gas industry followed a pattern of maximum decentralization. The primary function of the Gas Council in London is only expressed generally as to advise the Minister of Fuel and Power on questions affecting the gas industry and matters relating thereto, and to promote and assist the efficient exercise and performance by Area Boards of their functions.⁷⁶ This includes the supplying of common services and manufacturing, etc., of plants for the Area Boards and gas or coke fittings for sale (except for export). The Council is the central financial body and the decisive factor in labor negotiations.

The primary function of the Area Gas Boards is to develop and maintain an efficient, coordinated, and economical system of gas supply for their areas and to satisfy, so far as it is economical, all reasonable demands for gas within their areas. Moreover, they are to develop the efficient, coordinated, and economical production of non-metallurgical coke and efficient methods of recovering byproducts obtained in the process of manufacturing gas. In order to carry out these functions each Area Gas Board can manufacture gas, acquire gas in bulk from any person including another Area Board, supply gas in bulk to another Area Board, distribute gas in its area, manufacture, treat, render salable, supply or sell amongst other things coke, byproducts obtained in the process of manufacturing gas and coke, and any other products made or derived from gas or coke. They can also sell, hire, or otherwise supply gas fittings and coke fittings and, in some circumstances, also undertake their manufacture, or the manufacture of plants for themselves or other Boards.⁷⁷

^{74a} Some Boards have recently interpreted the words "require them" as meaning that they need provide electricity for heating only if there is no alternative method of space heating.

⁷⁵ See Electricity Act, 1947, §1(1), (2), (4), and (6); §26(2).

⁷⁶ Gas Act, §2(1).

⁷⁷ *Id.*, §1(1) and (2).

B. Iron and Steel

Many people thought that when the Iron and Steel Corporation took over on February 15, 1951, it would control the whole of the iron and steel industry in Great Britain, thus overlooking that a number of firms would not be nationalized. This belief is to a certain extent fostered by Labor Party publications, *i.e.*, we read in one of them:⁷⁸ "The Iron and Steel Industry is basic in our economy Nothing less than public ownership will do." By contrast Mr. Strauss, Minister of Supply, declared that ". . . on the morning after vesting the only difference for the companies will be that the ownership of the securities has changed hands," *i.e.*, the Iron and Steel Act, 1949, will only place the ownership of 96 leading iron and steel companies in the hands of the Corporation. The individual companies will not be dissolved as in the case of nationalized transport, gas, coal, or electricity; they will continue as separate units and will preserve their separate managements.

The primary functions of the Corporation are to promote the efficient and economical supply of the products of the following activities: the working and getting of iron ore in blast furnaces, the production of ingots of steel (including alloy steel), and the changing of cross-sectional dimensions or cross-sectional shapes of steel by hot rolling in a rolling mill. It is also the Corporation's function to secure that these products are available in such quantities, and are of such types, qualities, and sizes, and at such prices, as may seem to the Corporation best calculated to satisfy the reasonable demands of the persons who use those products for manufacturing purposes and to further the public interest in all respects.

It remains to be seen how the Corporation will interpret these requirements, whether or not it will become a wholesale and retail distributor in order to "promote the efficient and economical supply," how it will determine whether or not a demand is "reasonable," and how it will decide what is the best way to further the "public interest in all respects."

The customary non-discrimination clause is added. The Act stipulates that the Corporation must secure that neither it nor any publicly owned company shall show undue preference to any persons or class in the supply and price of products. This is, however, without prejudice to such variations in the terms and conditions on which those products are supplied as may arise from ordinary commercial considerations or from the public interest.⁷⁹ The duty to ensure no discrimination is laid squarely on the shoulders of the Corporation, which is thus likely to claim full authority in the pricing of products. After this, the provision of the Act enjoining the Corporation to secure the largest possible degree of decentralization sounds a little hollow.⁸⁰

⁷⁸ See FIFTY FACTS ON PUBLIC OWNERSHIP 41 (Labor Party, London, 1950).

⁷⁹ The whole of the paragraph in the text refers to §3 of the Iron and Steel Act, 1949.

⁸⁰ Unlike most nationalization acts, the Iron and Steel Act, 1949, states that the Corporation is to "secure the largest degree of decentralisation consistent with the proper discharge by the Corporation of their duties. . . ." Sec. 3(1)(c).

One wonders whether the phrase "public interest" would, *e.g.*, allow the Corporation to supply the National Coal Board at a lower price than the price at which it supplies other customers. This would in effect be the subsidizing of the National Coal Board from a "hidden source."

In order to carry out its functions, the Corporation is allowed to acquire by agreement interests in any company whose activities (direct or through subsidiaries) consist of any in which any of the companies to be nationalized were either engaged or allowed to carry on, before nationalization. The Corporation is also allowed to take part in the forming of any company for the purpose of carrying on any of the activities just referred to. It is given power to exercise all rights conferred by the holding of interests in companies.⁸¹ The picture of a state holding company is thus nearly complete.

C. The British Broadcasting Corporation

A few lines will suffice to sketch this earlier public corporation. The primary function of the British Broadcasting Corporation is to carry on as public services from stations in Great Britain, broadcasting by wireless telephony and television of matter for the reception of the public in Great Britain, the Dominions, territory under British protection, and in other places. It can receive by means of stations established within Great Britain, matter sent by wireless telephony or television and messages sent by other processes of wireless telegraphy (being matter, messages, and communications the reception of which the Corporation is permitted to undertake by the current license); and it may develop, extend, and exploit the broadcasting services of the Corporation.⁸²

D. Transport

The main obstacle to the proper development of public transport in Britain before nationalization was often held to be the lack of the so-called coordination of road and rail. The Transport Act, 1947, was intended, in the words of the Parliamentary Secretary to the Minister of Transport, to create "a sound structure, on which a healthy and progressive transport system can be built. . . ."⁸³ The extraordinary solution resorted to was the marriage of the two competitors.

It is not surprising, therefore, to find that the primary function of the British Transport Commission is to provide, or secure or promote the provision of, an efficient, adequate, economical, and properly integrated system of public inland transport and port facilities within Great Britain for passengers and goods with due regard to safety of operation.⁸⁴

The Commission is a policy-making body. It does not itself operate transport but it has to ensure that its transport business is conducted as a single undertaking.⁸⁵

⁸³ 431 H. C. DEB. 1994 (5th Ser. 1946).

⁸⁴ Transport Act, 1947, §3.

⁸¹ Sec. 2 of the Act.

⁸² DRAFT OF ROYAL CHARTER FOR CONTINUANCE OF THE B.B.C., CMD. No. 6974.

⁸⁵ SIR CYRIL HURCOMB, THE ORGANIZATION OF BRITISH TRANSPORT, BRITISH TRANSPORT COMMISSION 13 (1948).

The operating of transport is the task of the Executives. This separation of the policy-making and operational functions enables the Commission to supervise and criticize the Executives' day-to-day management; it is a critic with a public duty to discharge.

The Commission can *inter alia* provide within Great Britain port facilities and facilities for traffic by inland waterways, also such amenities and facilities for people using its services as may appear to it requisite or expedient to provide. By agreement with the owners it can also acquire private undertakings which are engaged in operations of the kind the Commission is authorized to carry on.⁸⁶

So far six Executives have been established under the Transport Act, 1947. The Commission is thus left free to concentrate on general policy, coordination, and planning. Before they were set up, Mr. Ernest Davies, Chairman of the Parliamentary Labor Party Transport Group, said of the Executives:

They will act as agents of the Commission, that is they will be responsible to it. In practice they will have complete responsibility in their own spheres. The Executives will employ their own staffs . . . and thereby any danger of their being regarded as civil servants is eliminated. . . .

This sounded like a magic formula for a guaranteed success. He added, however, that "the Commission have final responsibility for the finance of the Executives."⁸⁷ The Executives act, in fact, as agents for the Commission, exercising functions delegated to them in schemes approved by the Minister of Transport.

During their first years of existence, the Executives have been exercising their powers primarily in order to build up an operational apparatus which they regarded as best suited for their purpose. Some of them spent much time on regrouping a large number of small firms which, in their opinion, could not be considered efficient by modern standards.⁸⁸

E. Overseas Development

The Overseas Resources Development Act, 1948, provides for the establishment of two public corporations—the Colonial Development Corporation and the Overseas Food Corporation. The latter's groundnuts scheme has acquired notoriety and its failure led to a considerable curtailment of the Corporation's activities.

The primary function of the Colonial Development Corporation is to secure⁸⁹ the investigation, formulation and carrying out of projects for developing resources of colonial territories with a view to the expansion of production therein of foodstuffs and raw materials, or for other agricultural, industrial or trade development therein.

Its Gambia eggs scheme was almost a complete failure.

The Colonial Development Corporation is only to a limited extent the product

⁸⁶ Transport Act, 1947, §2.

⁸⁷ ERNEST DAVIES, NATIONALIZATION OF TRANSPORT II (Labor Party, London, 1947).

⁸⁸ British Transport Commission, Press hand-out, July 3, 1950.

⁸⁹ Overseas Resources Development Act, 1948, §1(1).

of the dollar famine in Great Britain, and though it realizes the need to save and earn dollars, it considers that its work "transcends the immediate aims of attaining an external balance of payments and of maintaining full employment at home."⁹⁰

The Act⁹¹ tells us that the primary function of the Overseas Food Corporation is the investigation, formulation, and carrying out of projects for production or processing in places outside the United Kingdom of foodstuffs or other agricultural products and for their marketing. The Corporation's first project was the scheme for large-scale groundnut growing in East and Central Africa; after this proved a failure, the Corporation grew sunflower seeds.

Both of these Corporations can operate either directly or through other bodies.⁹²

F. The Raw Cotton Commission

Buying, importing, stocking, and distributing raw cotton needed for manufacture in the United Kingdom and for re-export is the monopoly of the Raw Cotton Commission. The Commission is primarily concerned with the needs of cotton processors and secondarily with those of cotton re-exporters.

The Commission must sell raw cotton at prices which seem to it "best calculated to further the 'public interest' in all respects." The Act⁹³ goes some way towards raising the veil hiding the meaning of the phrase "public interest," for it requires the Commission to supply raw cotton to manufacturers

at prices as low as may be possible consistently with securing that the revenues of the Commission shall be not less than sufficient, with any appropriations from their reserve fund . . . for meeting all their outgoings properly chargeable to revenue account. . . .

The Commission can operate schemes for giving a hedge to manufacturers against the risks of fluctuations in the future prices of raw cotton.⁹⁴ It has done this by providing cover schemes which although not perfect substitutes for futures' market transactions render considerable assistance to processors carrying on any class of business in the United Kingdom that involves the incurring of price-risks. In the year ended July 31, 1950, owing to rising prices and other reasons, the Commission made a net profit of 10 million in addition to 6.6 million transferred to the Reserve Fund.

G. Civil Aviation

The British Overseas Airways Corporation and the British European Airways Corporation have to provide air transport services and carry out other forms of aerial work, whether on charter terms or otherwise, in any part of the world. They have to develop these services to the best advantage, and in particular in such a way as to provide them at reasonable charges.

⁹⁰ SECOND ANNUAL REPORT OF THE COLONIAL DEVELOPMENT CORPORATION 59 (1950).

⁹¹ Sec. 3(1).

⁹² Overseas Resources Development Act, 1948, §§1(2) and 3(2).

⁹³ The Cotton (Centralised Buying) Act, 1947.

⁹⁴ *Id.*, §10.

The Corporations can, if necessary, acquire any undertaking providing air transport services or engaging in activities which the Corporations have power to carry on. They can also hold shares, stock, or any financial interest in these. If necessary they are allowed to promote the formation of any such undertaking and to finance it by lending money or providing guarantees for its benefit. This gives the Corporations much financial elbow room abroad where they have no monopoly. The Corporations can appoint advisory or executive committees, *e.g.*, to look after requirements of particular areas.⁹⁵

We close our survey with a brief reference to the nationalization of the Bank of England and of Cable and Wireless Ltd. The Acts which nationalized these two companies do not state the function of the Boards set up to run these two old, established enterprises.

H. Bank of England

By the end of the 1914-18 war the Bank of England had assumed all the characteristics of a central bank. In the years that followed the Bank gradually gave up ordinary competitive business. It continued to manage the national debt—in volume its greatest task—to handle government finance in general, and to manage its own and the governments's relations with the money market.

It was constantly engaged in estimating the effect of government and other requirements and disbursements on the supply of money, and in cushioning them by its own operations, so that the supplies of liquid media of the community should not be seriously disturbed. It acted as a banker for the commercial banks, and with their full and willing cooperation, as their supervisor and controller. It issued notes for which the Treasury gets nearly all the profit. It continued as a crisis lender of the last resort, and in the decade before the 1939-45 war it became the sole instrument of national monetary policy and credit control.

When as a result of the Bank of England Act, 1946, the share capital of the Bank passed into public ownership, and the Bank came under public control, the Bank had already for many years been fully committed to implementing the policy of the government of the day. Nationalization was not intended to enable the government to interfere with the Bank's unique position. There was rather the desire, in the words of the then Chancellor of the Exchequer, "to bring the law into relation with the facts as they have been gradually evolved over the years."

I. Telecommunications

The Commonwealth Telecommunications Conference decided in 1945 that some fundamental change in the organization of Commonwealth telecommunication services was essential. One of the proposals was that private shareholder interests in the overseas telecommunication services of Britain and the Dominions should be acquired by the respective governments. This was accepted by the Commonwealth govern-

⁹⁵ Air Corporations Act, 1949, §§3 and 4.

ments represented at the Conference. The Cable and Wireless Act, 1946, which brought Cable and Wireless, Ltd. fully into public ownership was the United Kingdom government's first step towards full implementation of the agreed policy. Some shares were held already by the Treasury nominees prior to nationalization.

As in the case of the Bank of England, nationalization of Cable and Wireless, Ltd. meant little change from the operational point of view.

III

PROVISIONS AS TO HOW PUBLIC CORPORATIONS SHOULD CARRY OUT THEIR PRIMARY FUNCTIONS

In the previous section we have considered the primary economic functions of each public corporation separately. Next let us compare those provisions in relation to the way in which those functions should be discharged.

A. Items Chargeable to Revenue

Many corporations, while not forbidden to make profits, are obliged by statute to ensure that over a period their revenue is sufficient to meet outgoings properly chargeable to revenue account.⁹⁶ Some of the acts prescribe the items chargeable to revenue. Thus the gas, electricity, and transport industries must charge among other things, proper allocations to general⁹⁷ reserve,⁹⁸ provisions for depreciation or renewal of assets, and, in addition, the redemption of capital.⁹⁹ The coal industry must charge allocations to general reserve. The Iron and Steel Corporation and its companies must make proper provision for depreciation or renewal of assets, but only the holding corporation must charge allocations to general reserve. The Raw Cotton Commission is to charge to revenue sums for repayment of, and interest on, advances

⁹⁶ The rule is that revenue shall not be *less* than (not merely equal to) outgoings, *i.e.*, continuous profits are legalized but not continuous losses.

⁹⁷ The acts that nationalized coal, gas, steel, civil aviation, transport, cotton, electricity, and the act which set up the Overseas Food and Colonial Development Corporations, stipulate that the corporations shall establish reserve funds in order to provide a cushion from one year to another.

⁹⁸ Sec. 35(3) of the Iron and Steel Act, 12 & 13 GEO. 6, c. 72, says ". . . the purposes of the general reserve include the checking of undue fluctuations in the prices of products of the Corporation and of the publicly-owned companies," *i.e.*, price stabilization enshrined as official policy.

⁹⁹ In this connection it is instructive to study the view of Sir R. H. Wilson, the Comptroller of the British Transport Commission, in the inaugural issue of its Review, where he says: "Briefly the British Transport Commission are under the obligation to write off over 90 years the whole of any capital liability created. This cost is only a quarter of one percent per annum and in my view it is a reasonable requirement. If there was one weakness in the financial structure of the old railway companies it was that they regarded themselves as perpetual institutions. Little attempt was consequently made to write down the vast items of capital expenditure known as 'lines open for traffic.' In the next hundred years the pace of progress will almost certainly be faster than it has been in the last century or so, and it is no more than common sense to insist either that 'lines open for traffic' and other such fixed and unsaleable assets shall be written off over a long but a defined period, or that the capital borrowing shall be amortized." British Transport Review, April, 1950, p. 31.

The cost of this policy (which as an expression of outlook of the Transport Authority would be salutary) will presumably be imposed on the users of transport and recovered from charges, and as a result have a harmful effect. Professor W. A. Lewis arrives at a similar opinion when he condemns the redemption provisions of some nationalization statutes as being the result of "confusion and fallacy." *The Price Policy of Public Corporations*, 21 Pol. Q. 184, 187 (1950).

made by the Board of Trade, and allocation to reserve. The Overseas Food Corporation and the Colonial Development Corporation must charge to revenue sums for repayment of and interest on advances by their parent Ministers, and proper allocation to reserve.

B. Period for Balancing Accounts and Accounting

Most of the corporations need not balance their accounts over one calendar year. In some cases the period is laid down, as *e.g.*, in that of the North of Scotland Hydro-Electric Board.¹⁰⁰ Usually, however, the matter is not clearly defined, the period being variously described as "one year with another" and an "average of good and bad years."¹⁰¹ The latter phrase applies to the National Coal Board and the Raw Cotton Commission and may perhaps be intended to recognize the speculative character of their activities. The two airways corporations—which are deficitary enterprises—the Bank of England, the British Broadcasting Corporation, and Cable and Wireless Ltd., are not under a statutory obligation to balance their accounts over any period.

The acts do not explain the words "taking one year with another," or "on an average of good and bad years." From discussion on the nationalization bills, however, the impression gained is that a comparatively short period is envisaged; indeed the main stress seems to be on accounts being balanced annually. Mr. Hugh Gaitskell, when he was Minister of Fuel and Power, implied that these phrases were introduced to enable the corporations to run at a loss during the slump and so help employment.¹⁰² Sometimes one wonders whether this provision does not really follow from the unorthodox capital structure of the corporations: they cannot generally have recourse to the normal expedients of private business such as mortgages, debentures, hidden reserves, reduced dividends, special dividend-equalization accounts which can be raided, capital reconstruction, and winding-up. The corporations' losses would be immediately revealed in the accounts; therefore some provision had to be made to enable them to keep going. The anti-slump argument strikes one as a little far fetched, for the government of the day has means and ways of persuading the corporations to accelerate their capital investments.

¹⁰⁰ The following is an extract from the Hydro-Electric Development (Scotland) Act, 1943, §10(1): ". . . the prices charged by the Board shall be determined by them in accordance with regulations to be made by the Secretary of State after consultation with the Electricity Commissioners, so however that the proceeds of the sale of electricity together with the other revenues of the Board may, so far as can be estimated, equal over a *term of years to be approved* by the Electricity Commissioners the sums required for meeting any expenditure which the Board may properly charge to revenue." (Italics added.) Since then the words "Secretary of State for Scotland" were substituted for "the Electricity Commissioners," under the Electricity Act, 1947, and a non-discrimination clause added.

¹⁰¹ *E.g.*, the Coal Industry Nationalisation Act, 1946, says: "The policy of the Board shall be directed to securing, consistently with the proper discharge of their duties . . . that the revenues of the Board shall not be less than sufficient for meeting all their outgoings properly chargeable to revenue account (including, without prejudice to the generality of that expression, provisions in respect of their obligations [to pay the Minister of Fuel and Power certain sums of money, and to pay into a reserve fund]) . . . on an average of good and bad years." §1(4)(c).

¹⁰² Third Debate on the National Coal Board in the House of Commons.

On the other hand, a lawyer representing the British Transport Commission (a corporation which has so far recorded losses and is constantly fighting for higher charges)¹⁰³ has said that in the Commission's view the phrase "taking one year with another" enabled it to cover a deficit over a period, and that one would have thought that period could not possibly have been limited to two years only.¹⁰⁴

Whereas the phrase "taking one year with another" appears in the Transport Act, the expression "on an average of good and bad years" appears in the Coal Industry Nationalisation Act. Counsel for the National Coal Board offered one possible explanation for this when saying:¹⁰⁵ "If you look at the coal mining industry you take a rather long term look—perhaps a longer term look than you would in the case of transport." The National Coal Board would have to "make both ends meet" over a period of two, three or four years, for he thought that "on an average of good and bad years" meant "two, three or four years . . . having regard to the ordinary good business sense of the matter."

Mr. Ernest Davies, the Chairman of the Parliamentary Labor Party Transport Group said, before transport was nationalized, that the words "taking one year with another" were used to enable the profits or losses made one year to be carried forward to balance against losses or profits made in subsequent years, thereby giving the Commission flexibility of operation to eliminate frequent fluctuations in fares and charges, and to prevent the immediate earning of surplus revenue becoming the chief consideration as under private enterprise.¹⁰⁶

Actually the British Transport Commission need not bother about interpreting the phrase "taking one year with another," that is, if the legal representative of the Commission was right when he said, when pressed to carry forward the losses without raising the charges,¹⁰⁷ "I think that it is assumed to be a general direction" [by the Minister of Transport] that they [the Commission] "were to disregard section 3(4)"—the provision in the Transport Act stating the obligation of the Commission to make both ends meet, taking one year with another—"as something which I think we need not consider even as a theoretical possibility."

Sir John Dalton, the editor of the *Annotated Edition of the Electricity Act, 1947*, is puzzled by the phrase "taking one year with another"; he says,¹⁰⁸ "the exact meaning of this expression is difficult to understand. . . . Does it mean that a surplus must be shown, taking any two consecutive years, or is it permissible for a deficit to

¹⁰³ The Comptroller of the British Transport Commission has said that if the gap an enterprise has incurred between its revenue and expenditure is attributable to the fact that it has to pay more for its supplies and labor than it is allowed to charge under statute for its services ". . . that is not a loss-making enterprise, it is a deficit." PROCEEDINGS OF THE TRANSPORT TRIBUNAL 232, col. 2 (Jan. 1950).

¹⁰⁴ See PROCEEDINGS OF THE TRANSPORT TRIBUNAL SITTING AS A CONSULTATIVE COMMITTEE 217 (Jan.-Feb. 1950).

¹⁰⁵ *Id.* at 168.

¹⁰⁶ See NATIONALIZATION OF TRANSPORT 10 (1947).

¹⁰⁷ See PROCEEDINGS OF THE TRANSPORT TRIBUNAL SITTING AS A CONSULTATIVE COMMITTEE 6 (Jan.-Feb. 1950).

¹⁰⁸ *Id.* at p. 194, col. 1.

continue over a period of consecutive years so long as it is made up subsequently?" In short, he leaves the question open. However, if the British Electricity Authority takes the view adopted by one of its legal representatives, its interpretation of this phrase will be that "... one is not limited. . . . It is a matter to be approached on a business footing."

The Gas Council is in the same position for if it chooses to exercise the only commercial activity left to it, *viz.*, the manufacture of plant, gas fittings, or coke fittings, it must secure that the revenues from this activity are not less than sufficient to meet the "outgoings in respect thereof properly chargeable to revenue account taking one year with another."¹⁰⁹

By contrast with electricity each Area Gas Board has to be self-balancing taking one year with another without internal subsidization.¹¹⁰ This is unlike the individual Area Electricity Boards. For the Electricity Act provides that the whole electricity industry as a unit has to be self-supporting "taking one year with another." This is significant for it makes gas the only public corporation which cannot allow one or more of its areas to run at a loss, making good this loss with the profit from other areas. This is, of course, the logical outcome of the great degree of independence granted to areas.

This logic is not, however, repeated in the case of the iron and steel industry which even before nationalization was honeycombed with a cartel system of levy-subsidies. The companies whose assets vest in the Iron and Steel Corporation of Great Britain will remain the operative and administrative units of the nationalized industry¹¹¹ and will be run as ordinary companies. Individual companies will be under no statutory obligation to cover their total costs but the Corporation as a whole must balance its accounts over all its companies "taking one year with another." It remains to be seen to what extent the Corporation will interpret the following as a directive that the cost gap between individual units must be closed:¹¹²

It shall be the duty of the Corporation so to exercise and perform their functions . . . as to secure that the combined revenues of the Corporation and all the publicly-owned companies taken together are not less than sufficient to meet their combined outgoings properly chargeable to revenue account, taking one year with another.

¹⁰⁹ Gas Act, 1948, §41(3).

¹¹⁰ The internal subsidization is one of the thorniest economic problems in cartelized and nationalized industries. It deserves much more attention than it has received so far.

¹¹¹ Mr. G. Strauss, who is the Minister responsible for Iron and Steel, gave a solemn assurance to the Coke Oven Managers that (1) the transfer would be effected with the minimum break-up in the existing status of companies; (2) changes in the firms' relationships and reputation of the general standard of conduct towards employees would be as few as possible; (3) no outside body whatsoever should interfere with their authority over the sphere in which they *properly* wield it; (4) the companies will carry on and those in authority will also carry on. The only change will be that in the shareholding and ownership of the companies. (As reported by the Daily Telegraph, Oct. 27, 1950.) In the light of the balancing requirement and of the great cost disparity as between the different companies the value of the pledge will depend, no doubt, on the various meanings which could be given to the word "properly."

¹¹² Iron and Steel Act, 1949. §31.

C. Internal Subsidization

The rule about "making both ends meet" also implies that where boards engage in the supply of several products the rule about covering outgoings applies to all their activities taken together and not to each separately. There is nothing in the acts to prevent the boards from selling some of their products or services below their average costs so long as the deficit can be recouped from other sales.¹¹³

One could, of course, go to the extreme along this line and argue that it would indeed have been absurd to ordain otherwise. There are, one could say, common costs which can only be allocated to activities in an arbitrary fashion: any directive that each activity must pay its way would have been an invitation to disguise, rather than disclose, the true accounting position. Some activities such as the provision of houses for workmen, are properly regarded as non-commercial. One could aver that the grouping of production units into administrative and accounting units is a matter of convenience: and, therefore, that there is no merit in any particular unit breaking even. One could be stubborn and argue that joint products would constitute a major problem if every region, plant, or product had to cover its costs. But surely, to depart so completely from the principle of allowing costs to serve as a yardstick would be to indulge in economic nihilism. It would be a counsel of despair to admit that because on occasions difficulties may be encountered in finding true costs in terms of resources imputable to particular activities or regions, pricing on the basis of costs should be discarded altogether. Moreover, the grouping of some products in one corporation is entirely accidental.

D. The Cost Principle

The only sound method is to adhere grimly to the principle of pricing on the basis of costs and treat any rare departures from this principle as a concession which, as a rule, should always be avoided. For if once we depart from this principle of balance between cost and revenue of each existing group of activities, what are we left with as a guide? We would then have to determine policy by resorting to elusive palliatives or vague descriptions of activities, such as their physical suitability for the consumers. It is unfortunate from the point of view of efficiency, economy, and the consumers' choice that the British Transport Commission in its two statements of policy on the integration of freight service¹¹⁴ has apparently decided to develop road, rail, and

¹¹³ Sir Cyril W. (now Lord) Hurcomb, Chairman of the British Transport Commission, said on the principles of charging, "Internally, of course, any public service operating over a wide area is bound to conduct parts of its business at a lower level of profitability than it can secure from others, and on some parts perhaps to make a loss. . . . The Transport Commission cannot, and does not, say that it should not provide any service, which is not fully remunerative. On the contrary, we recognize that there are many areas of the country and sections of the population which cannot be left unserved and from which we must be content to ask less than a full return; just as there are others able to yield a return above the average without hardship. . . ." See Sir Cyril W. Hurcomb, *An Integrated Transport System*, AGENDA OF THE MANCHESTER STATISTICAL SOCIETY 20 (Mar. 29, 1950).

¹¹⁴ BRITISH TRANSPORT COMMISSION, INTEGRATION OF FREIGHT SERVICES BY ROAD AND RAIL: A STATEMENT OF POLICY (London, July 27, 1950); BRITISH TRANSPORT COMMISSION, INTEGRATION OF FREIGHT SERVICES: SUPPLEMENTARY STATEMENT COVERING INLAND WATERWAYS (London, Oct. 1950).

waterborne services almost exclusively according to their descriptive or physical properties, "suitabilities or technically described efficiencies," and not according to the principle of the lowest cost of performing the job. The Commission's apologists would probably argue that it makes no difference whether you select by costs and consumers' choice criteria or by physical criteria of suitabilities dictated by the monopolist. But this is not the case. Moreover, the approach to the problems is entirely different. Once we cease to relate prices to costs we move in the world of such almost meaningless expressions as the "economy in tractive efforts,"¹¹⁵ or the "transport specially suitable and efficient,"¹¹⁶ or "loadability,"¹¹⁷ instead of having as our beacon the well-trying and generally reliable principle of allowing the consumers to decide the selection by the lowest costs of the job and seeing that proceeds cover the costs.

It is obviously impossible that in all cases the rule about covering costs could be enforced especially in conditions of great pressure of demand in which the cost differentials tend to increase. The rule is, however, important and not merely a convenient expedient to be adopted only when it suits the board or commission.

There is one more thing to be said about the rule: it must be applied symmetrically. What is sauce for the goose must be sauce for the gander. If any board requires from its subordinate executives or areas that an investment should pay for itself in the direct activity for which it is invested without consideration of external economies which the investment produces to help other activities or other areas, it is not right for the board in presenting accounts to the nation to fall back on the principle that the balance is to be expected on a wider basis of several activities or areas, and to claim credit for external economies.

A lack of parallelism between the treatment by the board and the treatment of the board's own activities only leads to giving the board arbitrary power towards its areas or executives and must lead to frustration and inefficiency. Generally speaking the size of the balancing unit should be as small and not as large as possible, if resources are not to be squandered. And finally let us remember that resources can be squandered not only by positive mal-investments, but also by negative mal-investments, that is, by keeping open unsuitable units which should be closed.

It is gratifying that the National Coal Board is evidently committing itself to following the rule.¹¹⁸ Yet its great keenness to obtain approval for a zone-delivered

¹¹⁵ See the first of the documents cited note 114, *supra*.

¹¹⁶ See the second of the documents cited note 114, *supra*.

¹¹⁷ BRITISH TRANSPORT COMMISSION, DRAFT OUTLINE OF PRINCIPLES PROPOSED TO BE EMBODIED IN A CHARGES SCHEME FOR MERCHANDISE TRAFFIC 5 *et seq.* (London, Dec. 1949).

¹¹⁸ With regard to the interpretation by the National Coal Board of its ability as implied in its statute to run either some of its areas at a loss or sell some of its products at a loss so long as these "losses" are covered by other areas or by the sale of other products, it would seem that the Board is aware of this ability but does not want to utilize it too often. In the *Third Annual Report of the National Coal Board*, we find the following statement: ". . . the Plan [*i.e.*, the Board's national plan for the coal industry] assumes that the aim of the Board will be to avoid—except for special reasons—running any part of their business or activity at a loss." Economists will keep their eyes open to see how the words "any part" will be interpreted.

system of coal prices is a development which does not seem to harmonize with all the implications of the rule.

As regards the Iron and Steel Corporation it remains to be seen whether it will decide that its units shall work towards covering their costs. The problem here should be easier than in the case of coal since even before nationalization the coal industry was an accountants' paradise as a result of the complicated system of inter-unit subsidies and levies under the wartime Coal Charges Orders.¹¹⁹ Prior to nationalization, the steel industry maintained that there was no arrangement "for pooling profits or subsidizing the less efficient at the expense of the more efficient firms," in spite of the existence of artificial arrangements in steel prices which they claim are designed to deal with the abnormal cost factors, and which affect the firms independently of whether they are efficient, or making profits or losses.¹²⁰

Transport constitutes a complete departure from the rule and this is something that cannot be glossed over lightly. The view of both the Minister of Transport and the British Transport Commission seems to be that since the whole idea of the Transport Act is to integrate all forms of inland transport it would be wrong to require road, rail, canal, etc. each to pay its way either nationally or by areas.

E. Pricing of Products and Services

The main way in which the boards can attempt to ensure that they "make both ends meet" is by charging prices for their goods and services that will leave them with a profit. Can they do this? To what extent is this power within their control?

Unlike many nationalized industries the two Airways Corporations are held to a rigid price schedule by international regulation. The Corporations are not able arbitrarily to increase their revenue by raising fares and the British Overseas Airways Corporation claims that it would not even be its desire in principle so to do.¹²¹ The Air Corporation Act, 1949, states that the Corporations are to provide services "at reasonable charges."

Under its statute the British Transport Commission must submit its charges to the Transport Tribunal¹²² for confirmation, to determine the charges to be made for the services and facilities it provides.¹²³ The tribunal holds a public inquiry into the draft scheme, and after having heard the Commission and any persons entitled to lodge objects and representations, either confirms, amends or rejects the scheme.

¹¹⁹ For an interesting report on the working of the Coal Charges Account, see MINISTRY OF FUEL AND POWER, FINANCIAL POSITION OF COAL MINING INDUSTRY—COAL CHARGES ACCOUNT (London, 1945), CMD. No. 6617.

¹²⁰ See *Iron and Steel Prices*, in British Iron and Steel Federation's Monthly Statistical Bulletin, June, 1948, page 3.

¹²¹ See BRITISH OVERSEAS AIRWAYS ANNUAL REPORT FOR 1949-1950 21.

¹²² It is interesting to note that the Minister of Transport can appear at a Tribunal in opposition to the British Transport Commission; see, e.g., PROCEEDINGS OF THE TRANSPORT TRIBUNAL SITTING AS A CONSULTATIVE COMMITTEE 5 (Jan.-Feb. 1950).

¹²³ Mr. David Blee, a member of the Railway Executive, said: ". . . the charges scheme will, or should, relate to the Commission's undertakings as a whole—to the Commission's inland transport undertakings as a whole. They should desirably reflect the Commission's considered policy on integration. . . ." PROCEEDINGS OF THE PERMANENT MEMBERS OF THE TRANSPORT TRIBUNAL 47 (Jan. 1950).

When a charges scheme is in operation, applications can be made to the tribunal for its amendment by the Minister of Transport, the Transport Commission, or others affected by the scheme. Also the Minister of Transport may at any time require the Transport Tribunal to review the operation of any charges scheme. The tribunal may then after a public inquiry alter the scheme in such a manner as it thinks fit or decide that no alteration is necessary.¹²⁴ Thus the British Transport Commission cannot act as it pleases in the matter of charges to the public. But whereas on the revenue side it is limited, there is precious little to bind it on the method of costing, or indeed in the matter of supply of services.

The Gas Act does not provide such an elaborate method for determining prices¹²⁵ as does the Transport Act. An Area Board fixes tariffs for the supply of gas but if none of its tariffs meet the needs of a particular consumer, special terms are agreed. Moreover, every Area Gas Board must reduce, as far as practicable, the price of gas and coke.¹²⁶

What are the principles behind the tariffs? Are they the same in gas and electricity? In fixing tariffs Area Boards must avoid giving undue preferences and cannot exercise discrimination against any consumer or group of consumers.¹²⁷

Price fixing in the electricity industry is different. Here the Central Authority, unlike the Gas Council, is a producer. The Authority decides the terms on which it will supply current to the Area Boards. Different Area Boards can be charged different prices. The Authority also has the right to direct the Area Boards to modify the tariffs on which they base their charges to consumers. Like Area Gas Boards, Area Electricity Boards can, if necessary, arrange special prices for current charged to certain consumers. Electricity Boards must, however, avoid discriminating between consumers and granting undue preferences.¹²⁸

It will be interesting to see what use the Boards will make of their powers to grant special rates. The economies of electricity supply might often justify special rates to attract consumers with a good load-factor. But there is a risk that, in time, competition between gas and electricity may result in a jungle of exceptional rates similar to that which grew up in rail transport.

The National Coal Board and the Iron and Steel Corporation are required to fix such prices as may seem to them best calculated to further the public interests in all respects and to avoid undue preferences.¹²⁹ Steel prices are to be stabilized by

¹²⁴ Transport Act, 1947, §§76-80.

¹²⁵ The charge made by an Area Gas Board for the gas which it supplies is to be according to the number of therms supplied. Gas Act, 1948, §53.

¹²⁶ Gas Act, 1948, §1(8).

¹²⁷ Gas Act, 1948, §53.

¹²⁸ Electricity Act, 1947, §37.

¹²⁹ Counsel for the National Coal Board said: "The policy of the National Coal Board . . . is, so far as they possibly can, to charge everyone the correct price for coal at the pithead—no more and no less—and not to favor one consumer above another by giving him little preferences in the way of extra service, charges and so forth." PROCEEDINGS OF THE PERMANENT MEMBERS OF THE TRANSPORT TRIBUNAL 264 (Feb. 8, 1950). Mr. Shinwell, when Minister of Fuel and Power, said: "There is no reason at all why a National Coal Board should discriminate unfairly in favor of one customer against another," and

using a general reserve fund.¹³⁰

The legal and factual difficulties which can be encountered in trying to find out what is discrimination, can be gleaned from the following. The Lord Chancellor used the phrase "not within the public interest" when he said that it would be wholly improper to supply coal to steel works taken over by the government at a different price from that at which coal was supplied to exactly comparable steel works which remained under private ownership, for it would not be honest, and plainly not within the public interest. If he had said that it would not be honest, and *would be showing undue preference to a class of persons*, we would assume that the government's attitude is that no public corporation should be supplied with coal at a lower price than any other consumer. What he said however implies that in this particular case it is plainly not within the public interest to supply a public corporation at prices lower than those paid by other consumers, for some unspecified reason, not necessarily because it was showing undue preference, *i.e.*, he did not necessarily consider that supplying a public corporation at a lower price than any other consumer was showing undue preference.¹³¹ A possible explanation may be that avoiding undue preference is subsumed in serving the public interest. One of the ways a board serves the public interest is by thus avoiding discrimination.

The Raw Cotton Commission must sell raw cotton at such prices as may seem to it best calculated to further the public interest in all respects. The Commission must set these prices as low as possible, while securing that its revenues are enough, with any appropriations from its reserve fund, to meet all its outgoings properly chargeable to revenue account on an average of good and bad years.

F. State Subsidies

The Air Corporation Act, 1949, provides for Exchequer grants of up to £8 millions a year to be paid to the British Overseas Airways Corporation and the British European Airways Corporation until 1956 to meet deficits. In contrast to state grants for specific purposes such as training schemes, recruitment, etc., public corporations fight shy of accepting any subsidies which would expose them to intervention and financial control by Parliament, because Parliament might take the opportunity of discussing the policy of the corporations, formulate particular policies, and make the acceptance of those postulates a condition of the subsidy.

The legal representative of the British Transport Commission held strong views on this subject. At the Transport Tribunal hearings he put forth the following contention on behalf of the Commission:¹³²

then went on to say that discrimination might be required in favor of the export trade. (See Standing Committee of the House of Commons, Feb. 13, 1946, col. 1068). Dual pricing is also discrimination. It is dumping with the minus sign. See A. M. de Neuman and D. G. Morgan, *Some Economic Aspects of Dual Pricing*, Cartel Quarterly, July, 1951.

¹³⁰ Iron and Steel Act, 1949, §35(3).

¹³¹ 142 H. L. DEB. 3 (5th Ser. 1946).

¹³² PROCEEDINGS OF THE PERMANENT MEMBERS OF THE TRANSPORT TRIBUNAL 6 (Jan.- Feb. 1950).

The Commission are no more empowered or entitled to receive a subsidy than the Minister of Transport is entitled to give one; any proposal that the Government should subsidize the operation of the Commission is . . . actually contrary to the provisions of the Act and would be ultra vires the Minister of Transport, who could be restrained from applying public money without the consent of Parliament in a way laid down by the Act.¹³³

The Iron and Steel Corporation of Great Britain will be entitled to draw subsidies from the Minister of Supply to cover the amounts by which the cost (including transport costs and import duty) of any materials or products, the import of which he has authorized, exceeds their United Kingdom resale price.¹³⁴ This is merely the continuation of a pre-nationalization practice. Although immediately prior to nationalization the coal industry was in debt to the Coal Charges Account, no similar provision for continuing pre-vesting date subsidies was included in the Coal Industry Nationalisation Act. Nor were the high costs of importing American coal to ease the 1947 fuel crisis met by the Exchequer. Owing to the necessity of importing expensive American coal to Britain in the winter of 1950-51 the question has again become topical.

G. Borrowing Powers

The British Overseas Airways Corporation and the British European Airways Corporation are allowed, with the consent of the Treasury, to borrow by temporary overdraft or otherwise, sums they need to meet their obligations or discharge their functions. In the same way the British Electricity Authority (and each Area Electricity Board), the Gas Council (and each Area Gas Board), the British Transport Commission, the Iron and Steel Corporation, the Colonial Development Corporation, the Overseas Food Corporation, the Raw Cotton Commission, and the National Coal Board, can borrow with the consent of their parent ministers.¹³⁵ The respective acts lay down the maximum amount which the latter four corporations and the British Transport Commission may have outstanding at any given time. In addition to the Iron and Steel Corporation's power to borrow, the publicly owned steel companies can, with the consent of the corporation, borrow temporarily, by overdraft or otherwise, any sums they need.

The British Electricity Authority may, with the consent of the Minister of Fuel and Power and the approval of the Treasury, issue British Electricity Stock to redeem stock, to meet the costs incurred by the Authority, or an Area Electricity Board, on capital works, to provide working capital, and to finance other authorized expenditures which the Authority thinks should be spread over a term of years. The same applies to the Gas Council, and with slight modification to the Iron and Steel Corporation.

¹³³ The idea that railway operation should not be subsidized is not accepted by some economists or by the Federation of British Industries (Memo of Sept. 19, 1950). They consider it wrong to pay for the upkeep of some uneconomical lines, which are retained for strategic reasons, out of transport receipts. Such losses should be subsidized from the defence budget instead of being added on to the charges.

¹³⁴ Iron and Steel Act, 1949, §5.

¹³⁵ In most cases the approval of the Treasury is also needed.

The British Overseas Airways Corporation and the British European Airways Corporation can issue stock to provide working capital, promote, acquire or invest in other undertakings, make loans to, and fulfill guarantees given for the benefit of, other undertakings, redeem stock, or provide for other capital expenditures.

The British Transport Commission has powers to issue stock similar to those of the British Electricity Authority. In addition it has power to issue stock to purchase, otherwise than by way of simple investment, securities of any body corporate which is carrying on, or which directly or indirectly controls any other body which is carrying on, any of the activities the Commission has power to undertake. The total amounts of stock which these corporations can issue are limited by their respective acts.

H. Disposal of Surplus Revenue

The nationalized industries are not exempt from any liability for any tax, duty, rate, levy or other charge whatsoever whether national or local.¹³⁶ Supposing after paying their taxes etc. they find they have more than enough revenue to make both ends meet, what are they to do with the surplus?

If the British Electricity Authority has a surplus it can apply it in any way it chooses so long as it is for the purposes of the Authority or any Area Electricity Board. The Minister of Fuel and Power can, however, give directions as to the application of any such excess. If any Area Electricity Board has a surplus it is to be used for such purposes as the Board may, with the approval of the Authority, determine.

The Colonial Development Corporation and the Overseas Food Corporation can also decide, with the approval of their responsible minister (given with the consent of the Treasury), what to do with their surplus revenue. In neither case, however, does the Act stipulate that a surplus must be applied for the purposes of the Corporation. The wording in the Coal Industry Nationalisation Act is the same as the Electricity Act, except, of course, that there is no section relating to Area Boards.¹³⁷

The Transport Act states that any spare cash which the Commission does not immediately require for its business may be invested as it thinks proper. The Iron and Steel Corporation has similar authority with a provision "that the Corporation shall not have power . . . to invest money in securities of any company so as to make that company a subsidiary of the Corporation or so as to enable the Corporation to exercise an effective influence on the policy of the company." This provision is presumably intended as a safeguard against the Corporation expanding into new fields of activity.

¹³⁶ It should be noted that the British Broadcasting Corporation is not liable to pay a profit tax. See ARTHUR REZ, *THE PROFIT TAX SIMPLIFIED* (London, 2d ed. 1950).

¹³⁷ The National Coal Board's Divisions and Areas are not statutory institutions. It looks as though the first net surplus, which the Board makes, will have to be devoted to increase wages and not to reduce prices.

The Gas Act does not contain a section on surplus revenue. The impression given is that if in the long run the Gas Council and Area Gas Boards make a surplus it must be used either to reduce charges or to increase the services to the consumer, and any surplus made in the short run can be used in any way by the Council or the Boards, including the use of it for investment, so long as it is used for the purposes of the Council or the Area Boards.

Any surplus of the Airways Corporations can be applied by them in such a way as the Minister of Civil Aviation, with the approval of the Treasury, after consultation with the chairman of the particular corporation, may direct.

The Board of Trade must pay to the Raw Cotton Commission and the Commission must carry to the credit of its reserve fund, such sums as the Board, with the approval of the Treasury, may determine to represent the net profit accruing to the Commission for the discharge of its functions on or after April 1, 1946.

It is as yet too early to tell how the public corporations will interpret the provisions relating to excess revenue. Indeed, few have had much surplus revenue to dispose of; but Electricity has so far made a global profit.

I. Obligations to Employees

Like other business undertakings the public corporations have specific obligations to their employees, to the public, and to certain other social groups. Unlike other businesses the corporations have these obligations defined by acts of Parliament.

With the exception of the Raw Cotton Commission, the Bank of England, and Cable and Wireless, the corporations are required by statute to set up machinery for settling the terms and conditions of employment of their staffs. Most corporations are under a statutory obligation to secure the safety, health, and welfare of their employees, and some are required to provide training and education for them. In addition some corporations must attempt to obtain the benefit of the practical knowledge and experience of their employees.

Before 1945 many people were under the impression that under a Labor Government nationalized industries would be controlled by the workers. This has not been the case and any form of syndicalism has been thoroughly excluded from the British public corporations. Board members, appointed in their personal capacity, have included former civil servants, industrialists, former owners, accountants, and engineers, but not many representatives of the workers. The lack of workers' control has resulted in criticism of the government's form of nationalization by the left wing of the Parliamentary Labor Party and the trade union rank and file.¹³⁸

Many workers assumed that under nationalization they would share the profits made by the industries that employed them. In actual fact the only workers who now share directly in the profits of the nationalized industries for which they work are those gas workers who were members of co-partnership schemes before nationalization. The future of these schemes is problematical especially in view of the

¹³⁸ This can clearly be seen by the resolutions submitted at the T.U.C. Congress in 1950.

ruling that the Area Gas Boards are to reduce prices to the minimum, *i.e.*, to a non-profit level. Officially, they came to an end on March 31, 1951.

The fact that previous owners draw interest from government stock which they received in exchange for the shares they held in the industries before nationalization, come shower come shine, adds wind to the troubled labor relations in Britain.

J. Obligations to the Public

The corporations are under a statutory obligation to carry out their functions efficiently. The Area Gas Boards must reduce their prices to a minimum. The British Transport Commission and other corporations must give notice to the persons most likely to be affected, before they discontinue permanently any service.

An obligation to maintain freedom of choice for their consumers is imposed on some corporations.¹³⁹ Ministers have made much of the fact that nationalization is not intended to deprive the consumer of this freedom, although it has not always been made clear between what alternatives the choice will be allowed. Several statements have been made by ministers to the effect that it is not the intention of the acts to take away the right to exercise preference between such things as gas and electricity.¹⁴⁰ The choice of transport facilities has been much criticized by the public as being too limited.

To see that the obligations of the public corporations to the public are carried out most of the acts provide for the setting up of consumers' councils. So far these bodies have not been very successful in reflecting the voice of the consumer. The *Financial Times*¹⁴¹ said that they are about as effective as mesmerized rabbits. This is, of course, due not to the absence of good intentions or sense of duty, but to their extremely weak constitution and above all the absence of an independent secretariat and of an expert research organization to keep them alert and constructively critical with respect to intelligence supplied by the corporations which they are supposed to face.

The public are able to keep an eye on the way in which the corporations are performing their functions and carrying out their obligations by reading the annual reports issued either in accordance with the nationalization acts, or, as in the case of such corporations as Cable and Wireless, with the Companies Act, 1948.^{141a} But these, with the best of intentions, can only present one side of the picture. The other side of the picture should be presented in the annual reports of the Consumers' Councils.

The accounts section of most of the annual reports is good, and often distinguishes the various activities of the corporation in order that the public may see the contribution to the general pool each section makes; costs are not always presented with the same clarity.

¹³⁹ See, *e.g.*, Transport Act, 1947, §3(2).

¹⁴⁰ 447 H. C. DEB. 237-238 (5th Ser. 1948).

¹⁴¹ *Financial Times*, Dec. 4, 1950, p. 4, col. 3.

^{141a} 11 & 12 GEO. 6, c. 38.

The parent ministers of the public corporations also keep an eye on their corporations. Most corporations have to make a report to their parent minister on the exercise and performance by them of their functions, as soon as possible after the end of each financial year.¹⁴² It takes the corporations a long time to prepare their reports. Perhaps half-yearly reports are the answer.

Some acts empower the parent minister to lay down standards of products and services to be provided by the corporation.¹⁴³ In this respect the Gas Act continues a long established tradition.

The obligations to the public are not limited only to the people of the United Kingdom. The Overseas Resources Development Act, 1948, provides that the Colonial Development Corporation and the Overseas Food Corporation must have particular regard for the interests of the local populations when determining policy, and shall where they think it necessary appoint committees charged with the duty of studying and keeping the Corporations informed as to the circumstances and requirements of the inhabitants.

K. Obligations to Other Nationalized Industries

The economic actions of one public corporation often have effect on another. Coal carbonization for instance is a borderline activity. In planning or carrying out any program of capital development or reorganization of activities relating to carbonization, the Iron and Steel Corporation has a certain obligation to other public corporations; it has to consult with the National Coal Board, with the Gas Council, and with any Area Gas Board in whose area those activities are to be carried on. The National Coal Board, in carrying out any of its plans relating to carbonization, also has to consult with the Iron and Steel Corporation.¹⁴⁴ An Area Gas Board must also consult with the National Coal Board if the latter is engaged in the area of the Area Gas Board in activities relating to carbonization, and with other persons operating coke oven plants in the area of the Area Gas Board.¹⁴⁵ The National Coal Board has a similar obligation to consult with the Gas Council or an Area Gas Board, as the case may be, when planning or carrying out any program of capital development and reorganization of its activities relating to carbonization.¹⁴⁶

The National Coal Board and any Area Gas Board in whose area the National Coal Board is engaged in activities relating to carbonization, are under an obligation to each other. They have to consult together, and submit to the Minister of Fuel agreed schemes for securing the coordination in the national interest of their activities relating to carbonization. Any such scheme may provide for coordinating arrangements for the marketing of products of those activities, and for incidental

¹⁴² See, e.g., Transport Act, 1947, §4(7).

¹⁴³ See, e.g., §55(1) of the Gas Act, 1948.

¹⁴⁴ Iron and Steel Act, 1949, §47.

¹⁴⁵ Gas Act, 1948, §1(6).

¹⁴⁶ *Id.* §8.

and supplementary matters, including financial arrangements, for which provision appears to the Boards to be necessary or expedient.¹⁴⁷

The gas industry is under an obligation to obtain the permission of the British Transport Commission, except in cases of emergency arising from defects in pipes or other works, before it does such things as opening or breaking up any street or bridge which is under the control or management of the Commission.¹⁴⁸ There are other obligations which boards have to other boards.¹⁴⁹

The obligations look impressive on paper, but the acts offer no answer to the question "How are the boards to consult?" Nor do they offer an answer to the question "What will happen if for example an Area Gas Board does not agree to a request made by the National Coal Board?"^{148a} Who, one might ask, is to decide which of a number of giant organizations in dispute is to have its way? Who is to say who is to stand the loss or receive the profits? Or how the losses or profits are to be shared, when a loss or profit is made on coordinated activities of several boards? Who is to be idle and who is to be busy during an economic depression? As long as investments are controlled these matters will ultimately be solved bureaucratically by the government department concerned, and where corporations fall under different tutelages, the cabinet. There is no statutory machinery for coordinating the activities and interests of various corporations, although innumerable contacts exist at various levels of the boards' hierarchies.

IV

CONCLUSIONS

The Acts do not present a full picture of either the primary functions of the public corporations or the ways in which they should be carried out. Generally they offer no interpretation of "making supplies available," "avoiding undue or unreasonable preference," "public interest," and other important phrases. Questions relating to consumers' freedom of choice, centralization, and decentralization, are in most cases left unanswered. The acts lay down that total costs must not exceed total revenue, but do not state the relation which prices must bear to costs. What is perhaps of more consequence they do not decree which are the corporations' most important duties. Whether, for example, it is more important for them to make supplies available than to make both ends meet.¹⁵⁰ Perhaps the most carefully defined (and the most powerful) provisions are those relating to the Treasury. Those relating to the parent ministers are nebulous.

In matters of interpretation, the corporations have drawn upon the administrators'

¹⁴⁷ *Id.* §51.

¹⁴⁸ *Id.* §56(4).

¹⁴⁹ See, e.g., Electricity Act, 1947, §49.

^{148a} A formal answer to this question is contained in the Gas Act, 1948, §51. The Minister of Fuel and Power may direct the two Boards to submit separate schemes and he may approve one or the other of them or himself make a scheme.

¹⁵⁰ The corporations themselves have often tended to consider that making both ends meet is their most important obligation.

knowledge. Indeed, it seems it was largely their ideas which were drawn on to fill the gap in the thinking of the nationalizers. We shall never know the exact extent to which the nationalized industries' institutions and powers have been shaped and determined by the ever-present, self-effacing, but really powerful administrative class of the civil service. The nationalizers appeared to be quite certain of the kind of legal change they wanted to make but very unsure of the institutional frame-work required to carry it out. The administrators' ideas had to be drawn on in settling many of the constitutions, powers, and duties of the boards, and, of course, their knowledge of the techniques of organization and administration has been used in getting the boards going. This has given them further influence and power.

Amongst the various aspects of the administrators' outlook is their difficulty in understanding how the activities of legally independent bodies can be and in fact are harmonized by the working of competition and the pricing system. The kind of coordination they understand best is one by means of administrative fiat.

The hegemony of the administrator partly explains many of the features of the nationalized industries. Centralization is the only possible solution if the different areas or regions or activities are to have their functions coordinated by administrative rulings, internal regulations, minutes, or what you will. It may also help in illuminating the main assumptions which appear to underlie the pricing policies of the boards. These could be divided into two:

(1) Outgoings as a whole should be covered. In so far as administrators had any ideas about economics they appear to have been crypto-capitalists, in believing that profits are a sign of efficiency and that size makes for greater efficiency. Subtleties connected with the exploitation of inelastic demand curves escaped them.

(2) Cross-subsidizations within an organization are quite reasonable. The administrator rarely seems aware of the inequity in causing some customers to pay more than cost in order that others can pay less than cost, but he is, of course, well aware of the political advantage of so doing, provided that those who are mulcted do not become too vociferous. More serious, the resulting waste of resources either is not apparent to him or does not impress him as being bad.

An "integration" to help the railways' interest is probably the real purpose of the Transport Act, 1947. The Act was really not a new departure but yet another step in a coherent process which began at least as early as the Railways Act, 1921.^{150*} Ministers and governments have been changing but the continuity of policy remained as an impressive tribute to the power of the administrators. Unless the holders of a C road license¹⁵¹ retain their full freedom the transport problem will be "solved" in a manner which could have been foreseen at least as early as 1928 and which would be on a thoroughly uneconomic basis.¹⁵²

^{150*} 11 & 12 GEO. 5, c. 55.

¹⁵¹ See note 29, *supra*.

¹⁵² In 1928 the railways were given powers to buy themselves into public road passenger transport in the belief that the community of financial interest would mitigate competition.

The distinction between the competitive and the cartel patterns of behavior is the important point—not centralization versus decentralization—and the present domination of the latter. One possible contributory cause of confusion was mentioned above: the vagueness of legislation and its tendency to lay conflicting duties on the boards without specifying the weight to be attached to each. We might emphasize the likely effects on productivity and our future standard of living of the adoption of non-economic criteria of behavior on such a large sector of the economy.

The acts have enunciated certain important principles. But those principles do not in themselves establish any clear “style” of economic behavior of the corporations. They are too few and far between. The boards of public corporations can easily drive a coach and four through them if they choose, take almost any direction they like, and still be safely within the statutes. This study has fulfilled its purpose if, while having given an outline of the economic functions of the public corporations, it has at the same time warned the reader not to be contented with external statutory façades and helped him to probe the way in which economic problems find their solution in practice.

