a policy for public ownership

a study group

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contents

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1. introduction

Thirteen years have now passed since the Clause Four Debate which split the Labour Party Conference. Yet, it is our contention that Labour Party thinking on the relevance of nationalisation and the role of the public sector is as confused today as it was in the late 1950s. The idea in the recently published opposition Green Paper *The National Enterprise Board* that some 25 of our largest manufacturers should be taken into public ownership has provoked a controversy inside and outside the Labour Party which has obscured several more important arguments about the future of nationalisation.

In this series of three chapters, we take another look at the major industries now under public ownership. The purpose of our analysis is to assess the development of these industries over the past few years and to examine the extent to which the public sector has made progress towards socialist goals and objectives.

Although the public sector, broadly defined, includes all local authority activities, and a vast range of central government activities (for example the armed forces and the national health services) in this pamphlet we are mainly concerned with government participation in industry. The terms "public sector" and "public ownership" will be used to describe government ownership of the means of industrial production; "nationalisation" will be used to describe the special case of public ownership where an entire industry is owned by the state.

Chapter two traces the historical development of public ownership, and analyses the relevance today of the various arguments that have been used in the past for extending public ownership. We argue that the key issue is to define the various objectives which the public sector should be attempting to pursue. These objectives cannot be achieved without an improvement in the relationship between the public sector and Government. Chapter three analyses the changes that may be required in operating practices and planning procedures. Chapter four puts the case for rethinking the whole management structure. In this chapter we assume a complete break with past practice whereby industries have been run on a day-to-day basis in the same fashion as large companies in the private sector.

Britain's entry into the EEC provides an opportune occasion for the reappraisal of the value of public ownership. Several other recent pamphlets have analysed the potential impact of the Treaties of Rome and Paris on the public sector (for example, *Britain, Europe and the Law*: Young Fabian Pamphlet 34) and we support the general conclusion of their authors that membership of the Community need not pose a great threat to any Government determined to use public ownership in a positive way. A strict interpretation of Articles 85-94 of the *Treaty of Rome* could limit the degree of Government control of nationalised industries. However, Article 90 itself states that the application of the rules should not obstruct the *de jure* or *de facto* fulfilment of the specific tasks entrusted to such concerns. In the first chapter of this pamphlet it is argued that the formulation of such specific tasks is a necessary step in the development of the public sector. The loss of control over the pricing policy of the Coal and Steel Industry consequent on accession to the European Coal and Steel Community could be reversed if a future Labour Government worked to ensure that the less rigid conditions of the Treaty of Rome took precedence over the Treaty of Paris. European experience has shown that the best guardian of the public sector against the Commission is a Government with a clear commitment to public ownership. The creation of a state holding company in France and the expansion of the Italian public sector has taken place inside the EEC; the impact that the Italian state holding companies have had on regional policy and in meeting the challenge of multinational companies has been one of the crucial elements in their government's economic policy. The failure of the British nationalised industries to occupy an equally important position in Government policy reflects the greater confusion that exists in this country over the role of the public sector.

2. structure of public ownership

Martyn Sloman

Nationalisation has been a major issue at every general election since the second world war. The development and management of the public sector is widely regarded as one of the main areas of difference between the two parties and, as was shown by the Clause Four debate at the 1960 Party Conference, attitudes towards public ownership are the cause of important doctrinal divisions within the Labour Party. Yet, despite all the political controversy, the public sector has grown in a similar way irrespective of the Government in power.

THE DEVELOPMENT OF PUBLIC OWNERSHIP

The first significant act of nationalisation took place under a Conservative Government. The Electricity Supply Act of 1926 was introduced by Baldwin's Cabinet, as was the legislation that led to the formation of the BBC in 1927. Labour's first act of nationalisation took place under the minority Government of 1929: Herbert Morrison was responsible for the initial drafting of legislation that, after modification by successive Ministers in the National Coalition Government, resulted in the creation of the London Passenger Transport Board in 1933.

A marked increase in the pace of public ownership occurred when the 1945 Labour Government took office; but this increase was probably as much a reflection of the state of those industries which were vital to the post-war recovery as it was an implementation of political commitment. Within the first three years of office, coal, gas, civil aviation, inland transport, electricity, cable and wireless facilities were taken into public ownership. Steel was first nationalised in 1949.

Since 1951, with the exception of the denationalisation and subsequent renationalisation of steel, the changes in the size of the public sector have been largely peripheral. Successive Conservative Governments between 1951 and 1964 denationalised steel and some road haulage, encouraged decentralisation and increased competition in the existing nationalised industries, and in 1954 permitted commercial television to challenge the BBC's monopoly of broadcasting.

The 1964 and 1966 Labour Governments renationalised steel and encouraged the diversification of existing industries. Although this policy of diversification succeeded in giving the Gas Council and the National Coal Board a share in the profits from the North Sea, the demands from within the party for state ownership of the offshore industries were ignored. The other major extension of public ownership planned by the last Labour Government, the creation of a National Ports Authority, was lost as a result of the election defeat in 1970.

The current Conservative Government has reversed the previous Labour Government's policy on the diversification of existing industries, and as a consequence the share of government participation in offshore exploration has fallen dramatically. However, considering the Tory Government's commitment to hiving off the ancillary activities of the public corporations, the changes in size of the public sector of industry have been relatively insignificant. Thomas Cook's and the Carlisle State Breweries have been sold to private concerns but there has been no major public attempt to dismantle the ancillary activities of the major public corporations.

It was undoubtedly a considerable embarrassment to the Conservative Government when they were forced by circumstances to take Rolls Royce into public ownership in 1971. Because of their doctrinal commitment to hiving off they arranged for the sale of the motor manufacturing section, at first by public auction but later, when the auction proved unsuccessful, by offering shares for public subscription. The addition of the aero engine section of Rolls Royce, however, represents an important extension of public ownership into manufacturing industry and, in retrospect, will be viewed as a more fundamental change in the public sector than that brought about by the loss of Thomas Cook's or the State Breweries.

If the size of the public sector has remained largely unaltered since 1951, equally the acceptance of the form of organisation of state industry has been largely unchallenged. All the major nationalised industries have been organised as public corporations, a form of organisation foreshadowed in the Port of London Act of 1908 (the concept of the public corporations will be examined in the next chapter). The decision of the Labour Party in 1933 to adopt this method of control for London Transport marked an important turning point. Previously, although there was an absence of any clear alternatives, socialist writers had argued that the public corporation placed undue emphasis on the financial obligations of the industries.

The preference for the public corporation structure over direct administration by a Government department has developed from the acceptance in both parties of the need for a mixed economy; the great advantage of this method of organisation is that it enables nationalised industries to exist together with, and in competition with, private enterprise. The Labour Government's commitment to this form of structure was illustrated by the Post Office Act of 1969 which transformed the Post Office from a Government department to a public corporation to "run these great businesses with a structure and methods designed directly to meet their needs, drawing on the best modern practice." (*Re-organisation of the Post Office,* Cmnd. 3235, HMSO 1967.)
The structure of the British Steel Corporation, established in 1967, was not markedly different from the public corporations set up immediately after the second world war. It is true that some employee-directors, chosen after consultations with the TUC, were allowed to sit as part-time members of Group Boards, but this was a result of a favourable interpretation of the Iron and Steel Act 1967—not a requirement imposed by that Act. The introduction of Public Dividend Capital in the BSC (a form of equity capital) in 1969 cannot be said to represent a major departure; Public Divident Capital was used to finance BOAC in 1964 and the 100 per cent Government shareholding in Cable and Wireless Limited, taken out in 1947, was in the form of equity capital. (In the five years 1968/69—1972/73 over £40,000,000 was paid to the Exchequer as a dividend on BOAC's public dividend capital; this compares with payments on the shareholding in BP of over £177,000,000 over the same period. So far no payments have been made on the BSC Public Dividend Capital).

In the last decade debates on the performance of nationalised industries have been economic rather than political. Two major questions have been discussed—"to what extent should the industries take account of social rather than commercial objectives?" and "how can the industries be made more responsive to Government economic policies?" These questions are obviously inter-related. Much of the debate has been initiated by the reports of the Select Committee on Nationalised Industries (established in 1956) and, as a consequence, the disagreement has often been between the Government and Parliament rather than a reflection of party divisions.

Most of the initial statutory acts contained some reference to the concept of the public interest but, since their implementation, there has been a gradual acceptance of the view that the commercial and social roles of the industries should be kept separate. Moreover, in both political parties, there has been growing support for the idea, first expressed in the 1956 Herbert Committee report on Electricity Supply (*Electricity Supply Industry: Committee of Enquiry,* Cmd. 9672, HMSO 1956) and amplified in various Select Committee reports, that the job of the industries is to behave in a commercial manner and that social considerations should be the concern of the Government. The Select Committee recommended that "where extra social or wider public interest obligations are imposed on or undertaken by the industries, they should be publicly identified, quantified, and appropriately financed by the Ministers concerned" (Select Committee on Nationalised Industries, Session 1967/8 First Report;

Ministerial Control of the Nationalised Industries, H. of C. 371, paragraph 282). The Labour Government of the day was sympathetic to this view, as can be seen from the following extract from *Ministerial Control of Nationalised Industries,* (Cmnd. 4027, 1969), a White Paper issued as a response to the Select Committee: "It will not always be practicable to identify or quantify such obligations precisely, nor, having done so, would it always be necessary or desirable to make special payments accordingly. Nevertheless, as indicated in paragraph 37 of Cmnd. 3437, where an industry is required to act against its own commercial interests the Government will take responsibility and, where appropriate, make a special payment to the industry or an adjustment to its financial objectives."

Special payments amounting to £130,200,000 were made in the financial year 1972/3. By far the biggest categories were the payment of £36,800,000 to the NCB and CEGB to ease the run-down of the coal industry, and the payment of £66,300,000 to the British Railways Board towards the cost of unremunerative railway services.

The question of the extent to which industries should respond to Government economic policy is far from resolved. The latest report of the Select Committee on the British Steel Corporation contains a restatement of their criticism of Government interference: "It is one thing for an industry to be required in exceptional circumstances in the national interest to act against its long term commercial judgement. Provided that it is suitably recompensed, its responsibility for its financial performance can be maintained. It is quite another where the interference is endemic. In the fixing of its prices the Corporation has had to submit to direction from outside on five occasions in less than six years. This perpetual interference, even if accompanied by reduction in debt in compensation, must reduce the morale of the Corporation in its competitive environment" (*Select Committee on Nationalised Industries, Session 1972-3, First Report; British Steel Corporation,* H of C 141).

Successive pieces of post-war legislation have sought to clarify the commercial objectives of the industries. Corporations were set a financial target, expressed as a rate of return on assets employed, in the 1961 White Paper *Financial and Economic Obligations of Nationalised Industries,* (Cmnd. 1337). In addition, the 1961 White Paper set out detailed arrangements for the borrowing requirements of the nationalised industries.

Nationalised Industries: A Review of the Economic and Financial Objectives (Cmnd. 3437), which was published in 1967, went a stage further in instructing the industries to use techniques of investment appraisal and pricing which were designed to ensure that the national resources used in the public sector were determined, in part, by market forces. Both these White Papers sought to make the public corporations more responsive to changes in consumer demand and emphasised the commercial obligation at the expense of the social obligations.

Such disagreement on nationalisation that has occurred over the last decade has concerned the rules for economic management of the public sector and, in particular, the clarification of the public corporation structure. There has been scarcely any controversy on the role of the public sector. The reason for this lack of controversy becomes apparent when the post-war performance of the industries is analysed.

PUBLIC OWNERSHIP IN PRACTICE

It would be naive to label ownership as a success or failure. Any attempt at an evaluation of the performance of the nationalised industries must take into account not only their commercial performance, but also the background of Government public sector policy.

In the previous section the extract from the latest Select Committee Report on the British Steel Corporation criticised the Government for interference in the price fixing of BSC; in the same report the loss of revenue resulting from this interference is estimated at between £150,000,000 and £200,000,000 up to the end of March 1973. Successive post-war Governments have made use of their special relationship with the nationalised industries by subordinating the pricing, investment and purchasing policies of the industries to the prevailing view of the national interest: the Labour Government in 1967 insisted that all price increases were referred to the National Board for Prices and Incomes; the present Conservative Government insisted that the nationalised industries were signatories to the CBI price initiative.

Because of these constraints on their freedom of action it is virtually impossible to judge the commercial performance of the nationalised industries, especially over the last decade. Richard Pryke (in a whole series of articles and, in particular, in his book *Public Enterprise in Practice* has turned his attention to the operating performance of the industries and has shown that "If attention is confined to the last five years of the period (1963-68) it is found that productivity has been rising 50 per cent faster in the public enterprise sector than in manufacturing. Moreover there is only one manufacturing industry—chemicals—where, over the last decade, productivity has increased more than it has in the public enterprise sector and only one nationalised industry—buses —whose productivity has increased less than that of manufacturing" (Richard Pryke: "Productivity Performance and Public Ownership" *British Steel,* November 1970. Pryke goes on to show that the performance of the British nationalised industries compares very favourably with that of similar industries abroad.

This is particularly true of the public utilities: the Electricity Industry developed the grids and the Gas Council exploited North Sea Gas at a rate which private industry could not have hoped to achieve—if only because it would have been almost impossible to raise the investment capital needed on the financial market. Taking into account the variety and standard of the original assets inherited by some of the nationalised industries on vesting days, the development of major industries represents a considerable achievement. Although there have been some outstanding failures (the consistent failures of nuclear power to live up to expectations provides a good example), considerable technological developments have been pioneered in the state sector (for example, the Advanced Passenger Train).

It is, however, very difficult to generalise about the performance of the public corporations, if only because of the differing impact of Government intervention. Such intervention has tended to be on an *ad hoc* basis; individual corporations have been given special instructions but there has been no attempt at formulating a policy for the public sector as a whole. It would be possible, for example, to call all the chairmen of public corporations together and set them a corporate objective in terms of employment or exports, but in practice common objectives have never extended beyond setting an identical rate of return for similar industries.

Although a whole series of policy papers were produced during the 1964-70 Labour Government's term of office, the extent of co-operation within even the fuel and transport sectors has been very limited.

The 1947 Transport Act (Ch. 49) was the most important of the modest attempts at formulating a transport policy. It contained a statutory obligation for the Commission to co-ordinate inland transport: wasteful competition between road and rail was to be minimised by planning and, where necessary, by the integration of services. Railways, canals and waterways were transferred to the public sector and the Transport Commission started the process of requisition of road haulage.

This policy suffered a complete reversal under the Conservative Government's 1953 Transport Act (Ch. 13), which, in addition to de-nationalising road haulage, cancelled the Commission's job of preparing co-ordination schemes. Conservative policy has been to increase competition in transport and the greatest manifestation of this was the publication of the Beeching report in 1963 (British Railways Board, *Reshaping of British Railways*, HMSO 1963).

In 1968, by contrast, the Labour Government's Transport Act (Ch. 73) paved the way for a considerable degree of integration of freight activities by creating the National Freight Corporation and introducing a system of quantity licensing to ensure an increase in rail traffic (quantity licensing was not, in fact, implemented). The creation of Passenger Transport Executives, and the extended provision for grants to loss making services, represented a significant advance in the co-ordination of transport but still permits of wasteful competition.

In the transport sector the emphasis has been on harmonisation within a competitive framework; this absence of a comprehensive plan is equally true of the fuel industries.

Every post-war Government has had a fuel policy, but in most cases it has been limited to managing the orderly run down of the coal industry—the gradual decline of coal from a position as the dominant supplier of energy has necessitated close Government control to avoid considerable social hardship. The 1964-70 Labour Government produced two important White Papers on Fuel Policy. The 1965 White Paper (*Fuel Policy*, Cmnd. 2798, HMSO 1965) was an attempt to assess the future energy needs of the country in the light of the National Plan. The discovery of North Sea Gas led to a reappraisal in 1967 and the White Paper of that year (*Fuel Policy*, Cmnd. 3438,) was a justification for its rapid exploitation.

Government intervention in the energy market has consisted of a series of *ad hoc* measures (for example, control of CEGB's power station programme and the introduction of fuel oil tax); there has been no attempt to evolve fuel plans based on an integrated objective for all the industries.
Because of this absence of a clear sectoral policy the public corporations have not become decisive tools of national economic planning. Furthermore, post-war governments have not allowed the nationalised industries to become a means of altering the distribution of the national income. There are four possible ways in which such a redistribution could have been achieved: by giving the original owners of the industries less than the market value of the assets transferred to the State; by allowing the nationalised industries to build up trading surpluses; by reducing the top salary levels to achieve a more equitable payment structure within industry; by paying higher wages.

None of these methods has been used. The complete expropriation from the original shareholders was not acceptable in a democratic society so full compensation has always been paid; former owners were given Government stock and, in view of the state of the gas, railway and coal industries at vesting day, the interest on this stock has almost certainly exceeded the amount of any possible future dividends gained if the industries had remained in private hands. The pricing policies that the Government has compelled the industries to adopt have meant that trading surpluses have been kept to a minimum, so there has been no transfer of savings to the public sector (since fuel costs figure more highly in the budget of the less well off any attempt to redistribute by price increases could be self defeating). The need to ensure that the corporations can recruit and retain specialist managerial staff has resulted in the introduction of salary levels competitive with outside industry. Similarly, wage levels in the public sector have been broadly consistent with private industry (although some employees would probably not agree), indeed control of public sector wages has been a key part of the present Government's prices and incomes policy.

The failure of the public corporations to realise the hopes expressed in the immediate post-war arguments for nationalisation has been greatest in the area of industrial relations. Although there have been many significant improvements—the Status Agreement in the Electricity Industry, the National Power

Loading Agreement in the Coal Industry, and Worker Directors in the British Steel Corporation are good examples—public ownership has not achieved the transformation in industrial attitudes that had been hoped. It is this criticism, which will be fully explored in the third chapter of this series, which provides the main justification for the description of the industries as instruments of state capitalism.

Perhaps the most important conclusion to emerge from this analysis is that the nationalised industries should not be judged in terms of how effective they have been as tools of socialism. No Government has ever tried to use them as such. The 1964-70 Labour Government used the public corporations as just one of many tools of intervention. The main emphasis in economic policy during the Party's six years of office was placed on planning in a mixed economy and direct intervention in private industry through the Industrial Reorganisation Corporation and the National Board for Prices and Incomes. The IRC in fact, probably represents the biggest innovation that the Labour Government made in the field of public ownership: the IRC not only facilitated important mergers in the electrical and motor industries but actually made an overall profit on its transactions. The creation of the IRC marked an important development in Labour Government policy, but is more correctly categorised with the 1968 Industrial Expansion Act as an instrument of selective intervention than as a deliberate extension of public ownership.

WHY NATIONALISE?

Why, if the nationalised industries have not been highly effective tools of socialism, has public ownership occupied such an important role in Labour Party policy? Part of the answer must lie in the historic commitment to public ownership which derives from the 1918 Special Conference when the new Party Constitution, including Clause Four was adopted. At the general election of that year the party's platform included the first shopping list of those industries that would be nationalised: railways, mines, and electric power supply were to be taken over by the Government; gas, local water, transport and in some cases the retailing of coal and milk were to be controlled by the local authorities.

The manifesto for the 1945 election called for the nationalisation of basic industries ripe and over-ripe for public ownership; coal, gas, transport and iron and steel were specifically mentioned. At the party conference which endorsed this manifesto, Emmanuel Shinwell, summing up on behalf of the National Executive Committee, justified the current policies on public ownership. After arguing that nationalisation was needed because of the inefficiency of the capitalist system, and the high level of unemployment it produced, he continued with a clear statement of the ethical case for public ownership:

"The Labour Party and the next Labour Government will seek to encourage the scientist, the technician and the investor to ask of them that they shall place their services at the disposal of the State for the public good and not for private gain, and we are satisfied that there will be a ready and generous response . . . Private enterprise which seeks to adopt, from time to time the policy of scarcity; private enterprise which, for its own avaricious gain, seeks to restrict production, caring little or nothing about the displacement of honest men and women; private enterprise which cares nothing for the needs the State but, in the very nature of the case, whose only concern is that the interests of the shareholders should be paramount, that kind of private enterprise must go. It must be replaced by a system less vicious, more moral and more calculated to respond to the more immediate interests of common people."

The 1973 version of *Labour's Programme For Britain* commits the party to extend public ownership on two grounds: first, to increase equality in the distribution of wealth and power; second to increase effective planning control over those vital economic processes which determine our national well-being. Ports, pharmaceuticals, financial institutions, shipbuilding and aircraft manufacture are designated as ripe for public ownership. Elsewhere in the document it is argued that there is a need to encourage existing publicly owned industries to "hive on" fresh activities and to create a new State Holding Company (the National Enterprise Board).

It is striking that over the fifty five years the fundamental arguments used to justify the extension of public ownership have hardly changed at all. The case for public ownership still rests on the basic criticism of the inefficiencies of the capitalist system, together with ethical objections to the profit motive.

Yet, in practice, the case put by Labour Governments for the nationalisation of any particular industry has always been a mixture—not always easy to disentangle —of both the general and the particular; arguments for nationalisation as an alternative to capitalism were juxtaposed with statements on the inefficiency of any particular candidate. In fact, the pragmatic arguments were probably the more important; Hugh Gaitskell argues "indeed it is a most striking fact that in presenting the case for nationalising the industries transferred to public ownership between 1945 and 1950, the Labour Party spokesmen relied far less on the traditional arguments and far more on practical considerations designed to show that nationalisation was the best or only way to achieve higher production, greater efficiency and protection against monopoly" (*Socialism and Nationalisation,* Fabian Tract).

The practical considerations were generally unique to each industry: fears concerning the development of the aircraft industry in 1943 provided the reason for the nationalisation of Short Bros.; the danger of a complete breakdown in industrial relations at a time when coal supplies were a pre-condition for economic recovery was powerful arguments for the public ownership of the coal industry. Severals acts of public ownership have been a direct consequence of Governmental reports which pointed to serious organisational deficiencies in basic industries. The nationalisation of the Electricity Industry was preceded by the Weir (1926) and the McGowan (1936) reports; the gas industry by the Heyworth report (1945); the coal industry by the Reid report (1945).

Some or all of these pragmatic arguments were accepted at various times by Conservative Governments; indeed, as has been shown above, the first important actions of nationalisation resulted from legislation drafted by a Conservative Government. The nationalisation of the Rolls Royce engine divisions in 1971 was justified almost entirely by the need to ensure continuity of the activities essential to British and allied defence projects.

There are two reasons why practical considerations rather than the fundamental arguments have been used to justify the transfer of assets to the public sector. First, because public ownership has been extended on a piecemeal basis and it is impossible to claim that the nationalisation of an isolated industry will transform overnight industrial attitudes and bring about a redistribution of wealth. Second, and perhaps more important, when faced with the actual task of setting up a public corporation, successive Ministers have realised that it would be foolish to expect too much too soon. The fundamental arguments for nationalisation place a burden on the public corporations that they could not hope to discharge.

In 1918 and 1945 the Labour Party thought that the extension of public ownership would automatically transform society.

The current policy statements express much the same pious hopes. The experience of six years of Labour Government proves that an extension of public ownership can be an important weapon at the disposal of a radical Government, but cannot in itself achieve a transformation of society.

In the second section it was shown that the public corporations have not been used to bring about a redistribution of national income. The 1964-70 Labour Government relied almost entirely on fiscal policy to transfer wealth, both from rich to poor and from the private sector to the public sector, but changes in the profile of income distribution have been comparatively small, despite the incidence of corporation tax, death duties, capital gains tax and surtax ; any equalisation of pre-tax benefits have been nullified by a growth in fringe benefits and developments in tax avoidance. Moreover, successive Labour Chancellors have found that transferring wealth to the public sector to increase welfare benefits meets with considerable resistence from all income groups, especially when direct taxation is the means chosen to effect the transference.

Similarly the last Labour Government's response to the problem of promoting industrial growth and efficiency in the changing environment did not involve the extension of direct ownership through nationalised industry. Instead, between 1964 and 1970, the Government increasingly relied on indicative planning and intervention through bodies like the IRC.

However, the increased sophistication of the tools available to the chancellors in the 1964-70 Labour Governments did not result in the desired improvements in the management of the economy. The long term objectives of the National Plan were sacrificed to the immediate problems of correcting the balance of payments deficit; the success in controlling external trade was not matched in prices and incomes policy.

It seems inappropriate, therefore, after the experience of the last Labour Government, to rely on the fundamental arguments to justify the extension of public ownership. Nationalised industries and other forms of public ownership can make an enormous contribution to the aims of the next Labour Government ; but it would be foolish to pretend that they can solve all the problems that are likely to be encountered. Most of today's public corporations were established as a response to a variety of problems of the immediate post-war period ; the size and the structure of the public sector were determined by the needs of that time and have been very largely unaltered since 1950.

If the public corporations are to be used as a means towards the attainment of a future Labour Government's objectives, it is essential to realise that, as society has changed, the role that state industry can play in the Government's broader strategy has also altered.

THE ROLES FOR PUBLIC OWNERSHIP

Public ownership could be a far better tool for achieving the aims of the next Labour Government if the structure of each nationalised industry was determined by the purpose for which it was created rather than a copy of the standard public corporation structure. The case for extending public ownership is as valid today as it was in 1945, but it is based on a different set of arguments. Because the arguments are different a reappraisal of the best form of organisation is needed; it is time to recognise that a blanket extension of public corporations is not the best way to proceed.

This need for a reappraisal of the methods of organisation has indeed been recognised by the National Executive Committee of the Labour Party. The establishment of a new form of organisation—a State Holding Company—was first suggested in the 1969 document *Labour's Economic Strategy* and the idea was extended with the publication of the Opposition Green Paper on *The National Enterprise Board* in 1973.

Any reappraisal of the organisation of the state ownership of industry should begin by specifying the policy objectives which could be satisfied by state ownership. It is impossible to develop an exhaustive list, but several broad alternatives are set out below ; some of them relate to the functions of existing industries and others could only be achieved by an extension of the public ownership.

suppliers of essential commodities

This category includes most of today's large public corporations, and could be extended by the addition of the construction industry, ports and pharmaceuticals. An extension of nationalisation on traditional lines is particularly appropriate where an industry is inefficient and its inefficiency is having a detrimental effect on the rest of the economy; this was true of the steel industry and is now true of the machine tool industry. The failure of the machine tool manufacturers to provide sufficient capacity to meet the needs of the domestic market in times of economic expansion resulted in heavy imports, at a substantial balance of payments cost, in the 1960s.

The elimination of an inefficient private industry in a key industrial sector and its replacement by a public corporation, represents, however, only a limited area for the extension of the public sector.

social benefits and nationalised industries

The external costs and benefits involved in selling a good or operating a service are sometimes so fundamental that any decisions based on profit and loss account figures cannot be in the best interest of the community as a whole. London Transport is a good example: here the argument for public ownership rests not solely on the desire to avoid a private monopoly, and the need for a fully integrated transport system, but also on a belief that a public corporation can take into account costs that would be ignored by private industry.

The view of the Select Committee on Nationalised Industries, which was outlined in an earlier section, is that the commercial and social obligations of the nationalised industries should be kept separate, and that where non-commercial operations are undertaken the Government should make compensatory payments. This approach is relevant to the operation of the majority of the existing public corporations but is not universally applicable; in the case of public transport the overwhelming importance of social costs (pollution, congestion, inconvenience) make an attempt to arrive at a residual framework invalid.

These nationalised industries, created to ensure that the needs of a community are put before sectional interests, are likely to grow in number and the majority of them will probably be concerned with urban transport. Each corporation will create unique problems of control and accountability but they could represent one of the most valuable contributions that public enterprise can make to the problems of post-war society.

raising government revenue

A new type of nationalised industry could be set up to raise revenue for the Government. This would turn the Conservative Party's justification for hiving-off on its head and allow profits to accrue to the public sector, thus reducing Government dependence on taxation and national insurance contributions.

The success of some of the ancillary activities of the existing nationalised industries (and, incidentally, the IRC) demonstrates that public corporations can be used to raise revenue: in 1970/71 the ancillary activities of the NCB (which included chemicals, North Sea Gas and computer time) made a profit of some £12,000,000. One way of extending the public sector into profitable markets would be to allow existing public corporations to diversify into new activities—but if this method is chosen there is a danger of any surplus gained being used to cross-subsidise the industry's main activities, despite the intensive enquiries of the Select Committee on the Nationalised Industries.

The pricing policy laid down for the existing public corporations is designed to keep trading surpluses to the minimum and, for this reason, is inappropriate for revenue raising. A new pricing policy would have to be evolved for these corporations to ensure the maximum return consistent with the requirement that Government agencies should not abuse their market position.

response to multi-national corporations

One argument for the extension of public ownership is almost entirely a product of the post-war industrial environment: the need for the Government to use nationalised industries as a counter to the multi-national corporations. An illustration of the conflict between the policy of a multi-national corporation and the national interest was provided by Henry Ford's threat to withdraw car production from the UK in the event of sustained labour difficulties. The size of the Ford investment in the UK was so great that it was almost impossible for them to pull out, but the transfer of even part of the capacity elsewhere could have had serious reprecussions on local employment.

One possible Government response would be to take over production after the Ford company had withdrawn; one of the several Italian state holding companies—the IRI—has on occasions provided such a response. An even better response would be to prevent foreign owned companies from dominating sectors of the economy. The IRI has tried to achieve this by directly taking over key firms, establishing joint ventures with private industry, and establishing joint ventures with multinational corporations. In the domestic context the IRC has acted in a similar way: in 1969 the merger of Rowntrees and Mackintosh was facilitated as an alternative to a take-over by the US General Foods Corporation.

government employment corporations

A specific new role for Nationalised Industry was suggested in the Labour Party's National Executive Committee document *Economic strategy, growth and unemployment,* 1971: to obtain a better industrial and commercial base in the regions—in particular to improve regional employment opportunities.

Nationalised Industries have been used as a tool of Government regional policy on many occasions, but the role has been mainly negative (for example, the rate of colliery closures has been slowed) rather than one positive job creation. The relocation of Government departments (for example, the transfer of the Mint to South Wales) has had a certainty of impact that contrasts with the indiscriminate use of investment grants and allowances.

The Italian IRI has been used as a major instrument of regional policy. When, in 1962, a new State electricity company (ENEL) was established the IRI received compensation from the transfer of some of its assets to the ENEL; the payment received was used to expand and diversify IRI activities in the south—and in particular to finance the new Taranto steel works.

Government employment corporations can act as a catalyst to the movement of private industry: IRI proposals to diversify the Alfa-Romeo product mix and establish a plant near Naples led to similar moves from Fiat and Pirelli.

other government corporations

The final category consists of those extensions of public ownership that are undertaken for a definite, and unique, purpose, rather than as a method of achieving a broader policy aim. The most important area that could be included under this heading are the financial institutions, especially the banks and insurance companies; public ownership in this sector could present problems of accountability and control different from any problems previously encountered before.

If the Labour Party decides to redeem its pledge to "return any increase in the value of land to the community" by some method of public ownership, then the organisation created would almost certainly fall outside any other grouping of nationalised industries.

A further example of state industry that could be set up for a specific purpose is the derelict land reclamation agency proposed in the report of the Hunt Committee (*The intermediate areas*, Cmnd. 3998, HMSO 1969). Although such an agency should have an impact on regional employment policies, its case rests almost entirely on environmental grounds.

A NEW STRUCTURE FOR PUBLIC OWNERSHIP

Public ownership, accomplished by extending state shareholding in private industry, may be as effective as outright nationalisation in helping to achieve some of the policy objectives outlined in the previous section. The IRC method of exercising Government influence on industry by holding shares could aid in gaining revenue and the promotion of regional employment. Despite the controversy surrounding the 25 firms, the National Executive's commitment to establish a State Holding Company should therefore be welcomed. What should be criticised is the decision to create just one State Holding Company.

A single National Enterprise Board is to be established to redistribute economic wealth; control resources to ensure effective economic planning and more investment in the regions; provide a lead in the promotion of industrial democracy; and challenge the power of monopolies and multi-national firms. The National Enterprise Board will achieve all these aims by holding and extending Government shares in private firms. The aims could well be contradictory and, because too much will be expected of the NEB, it could fall short of expectations in much the same way as the post-war public corporations have.

An illustration of the difficulties involved when a public corporation attempts to satisfy unconnected—and sometimes contradictory—aims is provided by the relationship of the profitable ancillaries of the existing corporations to the parent industry. Marginal cost pricing, which was introduced in the 1967 White Paper, is intended to apply to all parts of the nationalised industries including such subsidiary activities as British Transport Hotels Limited and NCB (Exploration) Limited; yet this method of pricing is inappropriate in a market where fierce competition imposes its own discipline. One of the aims of these subsidiary activities is to make revenue for the parent industry and this can only be done by deliberately failing to implement the marginal cost pricing technique advocated by the Government.

The orthodox public corporation operating in a commercial manner, with some concept of economic cost pricing, may be the best form of organisation if public ownership is required either to counter inefficiency in a key sector of the economy which is in private hands, or to provide a counterweight to the multi-nationals. The traditional structure has become more flexible as successive Governments have been willing to compensate the industries for the provision of unremunerative services; these compensatory payments can help to ensure that the public sector is responsive to the Government view and permits sector planning without affecting the financial performance of the industries.

If, however, the objective of part of the public sector is to generate Government revenue, the relevant corporations must be given maximum commercial freedom. The establishment of one State Holding Corporation for revenue generating would allow them to compete on an equal footing with private enterprise while preserving their accountability to Parliament; the Holding Company could be subjected to detailed Parliamentary scrutiny, the industries themselves remaining at arm's length.

This State Holding Corporation should be made responsible for the profit making ancillaries of existing nationalised industries and also for any state firms created to establish a Government presence in industries dominated by foreign producers. Provided that the pricing policy is consistent with the Government's prices and incomes policy these state owned corporations should not be subjected to disciplines beyond those imposed on private industry; their objectives should be to make the maximum trading surplus for the Exchequer.

The structure of a corporation established primarily to improve local employment prospects presents a different organisational problem and there is a case for establishing an entirely separate Employment Corporation—or indeed, several Employment Corporations. Such Employment Corporations need not be envisaged as permanent organisations, they could take over some existing factory site on a temporary basis to produce some marketable commodity. Their budgets should therefore be reviewed at regular intervals to ensure that their useful life was not extended unnecessarily.

The objective of the corporations could be expressed in this way: to provide the maximum amount of new employment opportunities and prospects for training within the limits of a pre-determined budget. The employment corporation could best be organised as a commercial organisation, responsible to either Parliament through the Department of Employment or to revamped Regional Economic Planning Councils. On a smaller scale, Government assistance could be given to local authorities to start Local Employment Corporations. Local Derelict Land Reclamation Agencies could also be made responsible to the Regional Economic Planning Council.

If, however, a corporation is set up to ensure that full social costs are taken into account in any decision making, a sophisticated system of accountability will be required to ensure that the interests of both consumers and tax payers are safeguarded. Financial controls will be difficult to formulate; the corporations should be run as commercial bodies but the imposition of profit maximisation, which considers only the producer's costs and benefits, is clearly inappropriate. It is impossible to generalise on a desirable form of organisation, but, to take our example of urban transport, any form of structure which involves a greater representation for consumers is likely to represent a considerable improvement on the present arrangements. The transfer of responsibility for London Transport to the GLC was probably a step in the right direction, but in this case, the consultative committee was given far too little importance.

To avoid the confusion of contradictory objectives, the boundaries of the public corporations and state holding companies should be redrawn on a functional instead of an industrial basis. The accounts of those industries, or parts of industries, that are performing one function should be kept separate from those that are performing another. By this method the individual corporation's results can be compared with its objectives; a measure of accountability achieved; cross-subsidisation avoided; and the overall effectiveness of the public sector assessed.

Where the public corporations or state holding corporations are an instrument of Government sectoral policy—for example the fuel and transport industry—then it is important that there is a clear and precise statement of agreed policy. These industries must not be allowed to exist in a policy vacuum.

What has been lacking in the past has been a precise and clear statement of the purpose of the public corporations. In the first and second sections of this chapter it was shown how the public corporations have been established and allowed to develop with little consideration of the function that they were expected to perform. The next Labour Government must have a policy for public ownership; it should re-define the aims of public ownership and be prepared to reorganise the structure to meet the Government's broader policy objectives.

3. strategic control of public sector

Anthony Sell and Bob Wharton

This chapter discusses the various forms of organisation and planning procedures that have been employed in the public sector since the first major nationalisation moves undertaken between 1945 and 1951. We outline the original concept of the public corporation as a background to a more detailed evaluation of where organisation and planning theory has failed in practice.

It was argued earlier that objectives in the public sector should be more precisely defined and more specific to the need of each industry. This chapter suggests the major changes that will be required before such objectives can become effective as a framework for planning and control.

OBJECTIVES AND REALITY

As discussed in Chapter two, the first major industries to be nationalised between 1945 and 1951—coal, transport, electricity, gas, iron and steel—were transformed into public corporations. The public corporation is a commercial body with a statutory duty to run its affairs so as to best further the public interest in all respects. It is run by a board appointed by a minister, but its detailed affairs are independent of control by the minister or by parliament and its employees are not civil servants.

The concept of the public corporation remains the pre-eminent form of state ownership, despite the establishment of other forms of public ownership (majority interest in joint stock companies, creation of autonomous bodies such as IRC). If anything, the importance of the public corporation has increased over time; BSC was set up in 1967 as such an organisation; the Post Office, which was formerly a Government department, was made a public corporation in 1969.

The founders of the nationalised industries hoped that the public corporations would be more than just competently managed. They saw them firstly as instruments for economic control and secondly as the vehicle for a new style of management, which served the public interest rather than profit. Herbert Morrison wrote; 'The Public Corporation must be no mere capitalist business, the be-all and end-all of which is profits and dividends, even though it will, quite properly, be expected to pay its way. It must have a different atmosphere at its board table from that of a shareholders' meeting; its board officers must regard themselves as the high custodians of the public interest. In selecting the Board these considerations must be in the mind of the Minister."

Despite the successes, it cannot be disputed that one of the weakest areas of nationalised industry performance has been investment policy, an area which has been critically affected by the lack of adequate strategic planning. The atomic power station programme and the expansion of the coal industry during the 1950s are but two examples.

Furthermore, major operating deficits have now become a serious problem in almost all nationalised industries. Because of enforced compliance with Government price controls, the nationalised industries have already had to borrow over £200,000,000 merely to cover investment spending that has already been committed.

The atmosphere at the board table of most nationalised industries over the past several years has indeed differed from that of a shareholders' meeting, but not in the ways that Herbert Morrison intended. Board members, to a degree unknown to their counterparts in the private sector, have been conditioned to a life of uncertainty, their decisions dependent upon a capricious and confused paymaster, their plans at the mercy of sudden and unforeseeable changes in direction of Government policy.

role conflict in the public corporations

The duties and powers given to the public corporations by statute are very wide. But the principles which are to guide the board are not stated precisely in the statutes; nor, usually, are they much more precisely stated in White Papers or other Government publications.

Consider the Coal Industry Nationalisation Act. It gives the National Coal Board the duties of "securing the efficient development of the coal-mining industry" and "making supplies of coal available, of such qualities and sizes, in such quantities and such prices, as may seem to them best calculated to further the public interest in all respects . . ." The Board is to secure "the safety, health and welfare of persons in their employment" and "that the revenues of the Board shall not be less than sufficient to meet all their outgoings properly chargeable to revenue account . . ." No statement of duties or objectives in the Act is any more precise than these sections. There was an intention to give the Boards a great deal of discretion. One problem has been that the statutes promise the Boards more discretion than any Government could afford to allow, and there is thus a confusion of responsibilities.

For example, in pricing and wages policy nominal responsibility lies with the Board but ultimate decisions are usually made by the Government.

Public ownership has not led to the emergence of "disinterested professional management." Board members are increasingly appointed from within the industry and thus by nature of their background hardly likely to act as "high custodians of the public interest."

Typical of producer chauvinism at work in the nationalised industries was the struggle over primary fuel policy in the late 1960's. The National Coal Board wanted to maintain the size of the coal industry. The CEGB wished to build more advanced gas cooled reactors. Looking back at the figures given in the 1967 White Paper on *Fuel Policy* (Cmnd. 3438) it is clear that both sides overstated their cases.

The NCB forecast huge productivity increases that have not happened. The CEGB did not foresee the construction problems that have beset AGR generating stations and greatly increased their costs. The existence of "producer chauvinism" is not altogether a bad thing. Lord Robens' fight for a bigger market share kept morale high in the coal industry. Improvement of technology is necessary enough. But it does mean that nationalised boards are not very good at seeking out the public interest impartially in the way that was originally envisaged.

The Government must remain aware that the case put to it by a nationalised board may contain an element of special pleading. It must beware of investment schemes which rely on exaggerated expectations from new technology; of pricing policies that give disguised subsidies to divisions that would be better shut down; of expansion plans based on wild demand forecasts.

There is implied in the very wide duties of the public corporations an understanding that the boards should take a total view of the place of their enterprise in the economy.

The implication was perhaps most specific when the British Transport Commission was established to "promote the provision of an efficient, adequate, economical and properly integrated system of public transport." Subordinate executives were to run the transport undertakings while the BTC was to have the job of planning and co-ordinating. The BTC was slow to act, though it did eventually produce *Proposals for the Railways* (Cmd. 9880, HMSO 1956).

The other corporations accepted their implied responsibilities for planning. For example the NCB intended their *Plan for Coal* (1950) as a document to be submitted to the Minister to help him fulfil his statutory duty of approving the main lines of development of the industry within national economic policy.

Both the coal and railway plans are more technical development plans than overall economic plans. *Plan for Coal* identifies those coalfields where production should expand or contract, and gives broad proposals for investment in new techniques and new capacity. The cost of investment is estimated, but there is no calculation of its financial yield and no consideration of what is a proper yield to expect. Future demand is estimated but there is no mention of pricing policy, one of the major influences on demand. The deficiency is serious since it is clear in retrospect that over estimates of the demand for coal and inadequate regard for the likely yield of investment led to some wasteful capital expenditure and excess capacity.

Aside from the issue of incompleteness, these plans were bound to be inadequate in a further respect. The present public corporations could not be expected to produce overall economic plans because none of them controls a big enough sector.

We may need an economic plan for transport, but none of the public enterprises in the transport field is big enough to produce it alone. Furthermore, to produce an overall plan and then to ensure that the industry fulfils it efficiently implies that the corporations would have two separate and ill matched duties.

confusion of financial objectives and other yardsticks

It is widely accepted official thinking, at least within the Treasury, that the most effective method of controlling the nationalised industries on a day to day basis is by the assessment of performance against the predetermined rate of return objectives set for the industry. To quote from the Treasury Memorandum in evidence given to the Select Committee in 1967 :

"The financial objective should be simple reflection of what the industry might be expected to achieve on the basis of (a) undertaking investments which show a satisfactory rate of return or which the Government considers are justified on grounds of social policy; (b) pursuing sound pricing policies related to the circumstances in which individual services and products are supplied; and (c) achieving a progressive improvement in efficiency and productivity over the target period.

In other words there is nothing magic about the target figure, and there is no "right" level of target which all industries should aim at. It is instead a reflection in simple terms—to provide a yardstick of performance—of what the right policy for the particular industry should be."

Financial objectives as currently established are thus intended as broad targets. As Sir Ronald Edwards said in evidence to the Select Committee: "This was a field in which we did not really know enough to use a surgeon's knife. A kitchen chopper is the thing you are much more likely to use when you first start on a new method of attempting to control the nationalised industries."

The kitchen chopper method is still to the fore. The problem with any overall target is its inherent lack of reality.

Consequently, neither Government nor public sector employees are sufficiently committed to its achievement. As recent past experience has shown, broad targets have been readily abandoned when political pressures make the Government unwilling to approve the means necessary to achieve them.

Operating plans are drawn up on the basis of what the industry expects to achieve in the near future, not as an expression of what it might achieve given consistent application of what the Treasury calls "the right policy." Thus, abandonment of financial objectives is made all the easier since the objective does not bear direct relationship to the annual operating plans of the nationalised industries.

Normally, all investment expenditure proposals are scrutinised by the sponsoring department for the industry in the light of Government policy for the sector.

Then proposals are submitted to the Treasury who, as expressed in their memorandum to the Select Committee, relate all investment plans to "other calls on finance and resources." Unless an overall limit is established such as the ceiling on public expenditure in 1966, any proposal that meets the test discount rate is approved. Only those proposals which would cause wasteful duplication with competing activity are likely to be rejected.

The major weakness of present procedures is the absence of sufficient relevant information that would enable both the sponsoring department and the Treasury to make a judgement on the viability of an investment not merely in terms of the correctness of the DCF methodology, but also in terms of the wider implications of the investment for other sectors of the economy, for key sector and regional planning.

The 1967 White Paper on Fuel Policy represents the only serious attempt that has yet been made to forecast the broad pattern of developments in one key sector over a ten year time horizon.

Although projections of the breakdown of energy consumption were widely at variance with the actual pattern of demand two years after publication, no attempt has been made to update the document or provide the equivalent.

In the absence of any broad guidelines of the appropriateness of an investment relative to forward plans for an industry sector or region, both the Treasury and the sponsoring department direct most of their attention to the short term cash flow implications of each project in isolation, to checking the industry's assumptions about short term national economic trends and to verifying the methodology of investment appraisal. Because, as Foster (Christopher Foster: *Public Enterprise* Fabian Research Series 300) points out, several industries still put up investment proposals without having attempted to calculate the DCF return, this has led to considerable emphasis on getting the arithmetic of DCF understood and implemented.

One example will serve as an illustration of the wider questions that have also to be answered in reviewing individual investment proposals. BSC is currently spending some £250,000,000 a year on its modernisation programme. However, decisions on expansion of plant capacity cannot be taken without consideration of the competitiveness of imported steel and of the impact of EEC entry on UK steel prices. However correctly the test discount rate is applied to the planners' assumptions, it is the assumptions themselves that require the closest analysis.

government abuse of its position as paymaster

In theory at least, nationalised industries are guided in their pricing policy by the long run marginal cost principle. However, in practice, the principle has been frequently abandoned and at other times surrounded by so many other constraints that its application was infeasible. The November 1967 White Paper (Cmnd. 3437), struggled with the problem of laying down guidelines for public sector pricing policy, and failed to reconcile the conflict between attempting to price goods and services in such a way as to cover marginal cost, recover fixed costs over the longer term, conform to national prices criteria, and observe price stability where possible. The White Paper concluded lamely "These long-run marginal costs naturally include provision for the replacement of fixed assets needed for the continued provision of services, together with a satisfactory rate of return on capital employed."

In other words, long run marginal cost pricing can be applied provided that: all the fixed costs of further investment are taken into account; the arbitrarily predetermined rate of return on net assets is achieved; price rises of a politically embarrassing size are avoided.

The multiple criteria for pricing policy outlined in the 1967 White Paper amount in practice to no policy guidelines at all since, at any one time, two or more of the stated objectives will probably be incompatible.

Hence, prices have largely been determined by a trade off between the industries' desire to exploit their market position to the full, and the Government's concern to hold back the growth of price/

wage inflation. The extent of Government concern over public sector prices is usually related to the degree of direct impact on consumers—hence increases in rail fares is a sensitive issue whereas the tariff charged by the Gas Council to Shell attracts considerably less attention.
The unhappy compromises reached have cost the industries dearly and have exacerbated Government / nationalised industry working relationships. As discussed in Chapter two, management morale in BSC has been badly affected by Government regulations on prices which probably cost the Corporation at least £150,000,000 in lost revenue up until early 1973. As a result of the bargains that have been struck over several years, no consistent logic can now be found in public sector prices either overall or within a given industry.

The question that must be asked at this point is—how relevant is the marginal cost pricing principle to the current operations of nationalised industries? There are three main reasons why marginal cost pricing is inappropriate to the majority of nationalised industry operations.

Influence of more important constraints on overall pricing strategy: the need for national prices control and the requirement in terms of social equity of an equivalent tariff to all consumers are just two examples of the way in which, in the public sector, other objectives will determine pricing policy. For instance, coal prices have been pegged below the full extent of the increase required to offset the rise in costs arising from recent wage settlements in order to reduce the direct inflationary impact. Also, on grounds of social equity, postal charges are maintained at a standard level within the UK irrespective of location.

The absence of an optimal situation: since the private sector follows pricing policies which are governed by competitive considerations and do not bear any necessary relation to marginal cost, the application of the marginal cost principle in the public sector will not result in an optimal division of resources.

To take one example, if the BSC priced all its output at long run marginal cost in those areas in which production overlaps with the private sector, the independent firm would in the last few years have been able to show a much higher return because of its ability to raise prices to meet the relative excess of demand over supply. Thus the private firm would be better placed to reinvest regardless of its operational efficiency relative to BSC.

Problems of quantification and implementation: in several public sector activities, particularly in areas of rapid technological development, the degree of accuracy achieved in making estimates about long term future levels of capital requirement and operating costs must be highly questionable.

If adherence to the projected long term level of marginal cost resulted in short-term operating losses, few politicians or managers would have the nerve to hold the price in the expectation of savings to be achieved through future investment.

Government Ministers generally have no statutory powers with respect to wages policy in the public sector industries for which they are responsible. However, considerable informal pressure is exercised on the management—to the extent that it is inconceivable to imagine the Chairman of British Rail in effect saying to the Government—" one of my responsibilities is to ensure a fair and just wages policy. In my judgement the extent of the increase asked for by the unions can be justified in these terms and I intend to see that they get the money."

The principal reason why such a situation is unthinkable is simply that the Board Chairman is principally dependent upon the Government for finance and thus on the willingness of politicians to underwrite or at least to acquiesce in the settlement finally agreed—he is also dependent on the Government for his job.

The nature of wages disputes that have emerged into prominence in the public sector in recent years illustrate that, with few exceptions, public sector policy has been as lacking in foresight as that of most private companies. Successive Governments have forced Board chairmen into the defensive posture of reacting to claims put forward rather than anticipating and attempting to negotiate in advance of a head on conflict.

Serious argument about the overall effect of the union claim on the industry's plans and objectives has been undermined by the knowledge on both sides that the long-term viability of the business is not at stake and that the target rate of return will be, if necessary, abandoned by the Government. Thus, Board Chairmen's claims that wage demands cannot be met in full fail to carry conviction.

the credibility problem

The question must be asked at this point —what is the justification for further effort to improve public sector planning? Precisely because it is known to both management and unions that public sector industries will survive, there is considerable temptation on both sides to regard all planning as no more than an exercise in academic window dressing, designed to reassure both public and politicians that money is not being grossly misallocated. This temptation is reinforced by the constant interventions by Government which discredit the planning process.

We would argue that there is unquestionably scope for improving substantially the performance of public sector industries in attempting to meet the range of objectives with which they should be charged. No organisational or procedural changes will be worth the White Papers they are written into unless they can bring about such improvements.

This section has analysed the weaknesses of present planning and control procedures in several areas—the definition of the duties and obligations of the public sector, the setting of financial objectives, the review of investment expenditure and the formulation of pricing and of wages policy. Each area suffers from the same basic weakness—the absence of an overall plan either for the public sector as a whole or for individual industries. Key sector planning does not really exist, consequently individual nationalised industries formulate operating plans against a series of short term constraints but in a long term vacuum.

As a *Times* leader in March 1972 commented:

"On the surface the events of the last year seem to have brought the Government perilously close to an 'indefensible lack of control over the return achieved.' This has been the result of a comedy of ironies whereby the Government, elected to circumscribe them, came accidentally to cast the public enterprises in the role of chief vehicles of national policy on pay, prices, reflation, regional aid and investment recovery."

The next section of this chapter outlines some of the changes that we consider need to be made, and also defines those areas where change for change's sake will probably do more harm than good unless formulated and executed with the greatest care.

THE GOVERNMENT AND THE PUBLIC SECTOR

The Select Committee on Nationalised Industries proposed the establishment of a Ministry of Nationalised Industries to be responsible for the "efficiency" of the industries. Other Ministries would remain responsible for formulating sector policies. The Ministry of Transport should continue to exist; the Ministry of Power would be wound up and responsibility for fuel policy would be placed elsewhere. The Committee's proposal was rejected by the Government. (See the White Paper *Ministerial Control of Nationalised Industries* Cmnd. 4027, HMSO 1969).

The proposed Ministry of Nationalised Industries would not solve any problems for three reasons. The first is that dividing responsibilities for each industry between two ministries would involve duplication of staff and effort.

Secondly, it would be hard to get a satisfactory division of responsibilities between the two Departments. The Select Committee proposed, for example, that the Ministry of Nationalised Industries should be responsible for pricing policy and for approving investment policies. This leaves little room for the sector policy formulated by the sponsoring departments, obviously.

Thirdly, the Ministry of Nationalised Industries would interfere too much. The Select Committee suggested, for example, that it should be responsible for "the spread of new management techniques, for example, critical path analysis, computerisation, and the use of efficiency study units." This is the sort of job the Ministries are not fitted to do. The nationalised industries have been quite as advanced as the central Government in computerisation—probably more so. Critical path analysis was pioneered by the CEGB. Ensuring that the industries used these techniques would involve intervention at a far more detailed level than anything we now see.

a "superboard" for each sector

Professor David Coombes (*State Enterprise—Business or Politics* PEP 1971) has recently suggested that a Holding Company be established for each industrial sector where the public owns a big stake.

The Holding Company would own, wholly or partly, operating companies which would actually carry out day to day commercial operations. So we might have a National Power Corporation in which was vested the assets of a number of operating companies, corresponding to the Electricity Boards, the British Gas Corporation and the NCB. The relationship of the Holding Company to the Minister and to Parliament would be similar to that of the present Nationalised Boards, but the operating companies would hopefully be protected against "the worst effects of political vacillation and interference."

Although, as suggested in Chapter Two, the holding company concept can assist in defining and implementing specific objectives for public sector activities, the extension of such a scheme to every nationalised industry does not appear attractive for three reasons:—

The idea has been tried once (the British Transport Commission was a superboard) and has failed (the BTC was given wide duties for co-ordination that properly belonged to the Ministry of Transport). The proposed relationship between Holding Companies and the sponsoring department would be little different from the present relationship between industry chairmen and the sponsoring Minister. The Holding Company is designed to avoid an evil whose importance has been exaggerated—namely interference by Ministers in day to day affairs below Board level. To Board members it is a major irritant, but colliery managers are not distracted or hindered by swarms of meddling civil servants.

the establishment of an efficiency audit commission

Professor Robson has suggested that "an audit commission should be set up to hold efficiency audits at regular intervals. These efficiency audits would be incomparably wider in scope than the customary audit of accounts. Their objective would be to ascertain whether a public corporation is conducting its work well or feebly, to call attention to merits and shortcomings, to make suggestions for improvements, and to act as the eyes and ears of the general public."

The National Board for Prices and Incomes came close to filling this role in its later years. Nationalised industry price increases were almost always referred to the PIB and it investigated whether the increases could be avoided by increased efficiency.

The problem of over interference and uncertainty might be transferred from the board room to all levels of employees if the audit commission is intended to examine the efficiency of the detailed operations of productive units. One reason why the industries were put in the hands of public corporations rather than Government departments was that it was felt that the Civil Service did not have the necessary managerial expertise; it is hardly sensible to give a government commission the job of detailed supervision, on this basis.

However, the commission would play a useful role at the strategic level. The commission might develop a much greater experience and understanding of public enterprise operations than Civil Servants presently have. Its duty could be to develop the techniques for setting objectives against which the performance of the industries can be judged, and the controls for monitoring performance.

It is our contention that it is in this area that improvements will have the most important impact on the role of the nationalised industries as "custodians of the public interest."

IMPROVED SYSTEM OF STRATEGIC CONTROL

No system can function effectively unless the roles of the participants are defined and understood. No plan will command respect unless it is internally consistent and compatible with overall Government strategy. Thus, we would argue that the two principal improvements required in public sector planning can be summarised as follows:

Estblishment of a clear distinction between the respective roles of Government, Civil Service and the nationalised industry itself.

Development of operating plans for each industry comprising both financial and non-financial objectives which are mutually compatible, as discussed earlier.

The type of decisions required of the Government, Civil Service and nationalised industry management are different and should be clearly distinguished. As discussed in the previous chapter, the Government must first of all determine what it sees as the primary function of each public sector activity, that is, operation as a profit making business, provision of a service, or creation of employment. In addition, the Government must define in each case what it sees as the correct relationship between the public and private sector and it must decide on the social obligations that the industry should assume.

Political decisions of the following nature have to be taken:

What should be the level of tax on fuel oil and how does this effect the market share of the public sector fuel industries? What should be the level of road haulage licences and how will this effect the balance of freight carried long distance by private operatives versus British Rail? Should BEA be obliged to provide a service to remote areas of Scotland and, if so, at what level of frequency?

The Government also has a management task—to decide on the extent of public sector investment, the level of price and wage increases consistent with national economic strategy. For example:

What will be the impact on domestic economic growth and the balance of payments of allowing through all nationalised industry investment plans that meet the required rate or return?

What will be the impact on the cost of living and wage claims of allowing prices to rise to cover increases in operating costs rather than pegging increases and increasing Exchequer subsidies?

These are political and macro-economic management tasks which only the Government can perform, and which must be thought out in a consistent fashion in order for the public sector to be able to plan its own detailed activities.

the role of the civil service

The Civil Service has the responsibility of transmitting information from Government to industry and vice versa, and of monitoring performance on a periodic basis. In other words, the appropriate staff of each Ministry responsible for a nationalised industry must ensure that there is a full two way exchange of information with respect to levels of demand, operating costs, investment plans, etcetera, prior to formulation of specific annual targets for the industry. Assumptions about growth rates and shifts in major variables (purchasing patterns, wage levels) are fully discussed in the process of target formulation.

Periodic summaries of actual versus planned performance are prepared and submitted by the industries.

As the Select Committee pointed out, it is certainly not the job of the Civil Service to duplicate the information gathering and detailed target formulation which must remain the task of employees of each public sector industry.

However, in order for key sector planning to succeed, the Civil Service will have a major role to play in monitoring trends since only the various sponsoring departments are in a position to pool all the necessary information.

the responsibilities of public sector management

The task of nationalised industry boards can be simply summarised—to manage, that is, to follow through on the annual plan agreed with the Government and to use all necessary means of implementation at a tactical level that are required to achieve the required objectives.

However simple this may sound, there will always be an area of dispute over what are strategic and what are tactical decisions. A nationalised industry chairman must agree future pricing policy, wages policy and investment plans each year with the Government. Having done so, at what point is he free to act as commercial judgement would dictate he should? If he has also agreed specific regional employment objectives and regional investment commitments his freedom is still further circumscribed. In practice, it will be impossible to define clearly the area of real authority possessed by a public sector industry chairman and his board. What is essential is that the broad parameters of their task are sufficiently defined that *ad hoc* interference is kept to a minimum. Past failures have largely resulted from the lack of a coherent planning system; thus successive Governments have felt unable to change the signals and monitor performance without getting into the driver's seat at the same time.

integration with the private sector

Nationalisation does not necessarily transform any industry into a more efficient operation, and, for several reasons, large sectors of the economy will remain in private hands in the foreseeable future. Thus, nationalised industries must plan with an awareness of the goals and objectives of the private sector.

The development of an integrated plan for nationalised industries must include the following steps:

Development by the Government of specific growth assumptions for each sector of the economy, that is, heavy engineering, automobiles, electronics, etc.

Discussion with each industry group of the realism of the growth projections based upon the world outlook and prevailing Government fiscal and cash incentives.

Modification of Government projections on the basis of industry's views on a sector by sector basis.

These three steps would form the basis of a framework into which the Government could fit the nationalised industries' forward plans—much of the information already exists and the discussion with private industry does take place; however, the dialogue is at present conducted on a piecemeal and fragmented basis.

Having gathered data on a systematic basis from the private sector, the Government would then have a basis for assessing the realism of the projections submitted by the nationalised industries on the expected costs of inputs from the private sector and level of demand from both private industry, other public sector activities and the public consumers. At this point, the Government has a more or less complete picture of the forward economic situation as public and private industry sees it, assuming no major changes in economic policy or the world situation.

the signifigance of non-financial objectives

The Government must first assess what industry, public and private, expects given no major change in Government policy. Then it must decide which factors it has the power to change and wishes to change for reasons of social policy or macro-economic strategy. Although specific public sector activities, as previously suggested, can be set up to meet social objectives, it will probably also be necessary year by year to revise the proposed operating plans of other public sector industries to allow for wider non-financial objectives. Operating plans might be modified as follows:

Investment spending: nationalised industries may be required to accelerate investment in new capacity in order to provide a stimulus to supplying industries.

Pricing policy: in certain industries, such as electricity, it may be desirable to peg price increases despite the increase in depreciation costs resulting from major capital re-equipment.

Wages policy: in several areas, nationalised industries may be instructed to initiate negotiations with all unions involved in order to achieve the establishment of a prescribed minimum wage and a restructing of differentials.

Regional employment: specified corporations could be set up to deal with problems of regional employment and the level of service in the transport industries, as suggested in the first chapter. However, most nationalised industries will have to modify their plans in the light of these non-financial considerations. The Government could set regional employment targets for public sector activities and make appropriate subsidies to the industry as compensation, provided the grant is earmarked for that purpose.

Level of service provided: in certain industries, particularly aviation and rail, the Government must decide on the level of service required and offer subsidies where the industry itself can only provide such a service at an operating loss.

All these objectives can be built into the plan for any particular nationalised industry provided that commercial targets are adjusted or appropriate specific subsidies provided.

BENEFITS OF IMPROVED PLANNING

The clearer definition of wider goals and targets would not only improve the morale of public sector employees—it should enable a Labour Government to use the concept of nationalisation positively, and not apologetically, as one means of achieving its economic and social objectives.

Today, nationalised industries are still seen as large organisations taken over by the state through a mixture of historical accident and necessity, governed by the same objectives as the private sector and run rather less efficiently due to the inherent incompetence of a centralised bureaucracy.

The failures of the present Government have convincingly shown that we shall never get away from this image of the public sector without a radical reshaping of the whole planning process.

4. role of employees

Roger Lumley

It is my contention that in the field of employee relations, perhaps more than in any other, the early vision has been lost and nationalised industries have failed to realise their full potential. Today there is no fundamental difference between the role of the employee in nationalised industries and in large private corporations.

In this chapter the present situation of employees in nationalised industries is briefly outlined and the shortcomings are highlighted. Next the question is asked as to whether the existing system should be changed, and by whom.

Then one possible new system of employee relations in nationalised industries is sketched out. This is approached by examining the objectives that these industries should be trying to achieve and pointing out some of the problems that these raise in organisational terms. The chapter is concluded with an examination of the practicability of the new system which has been proposed.

SHORTCOMINGS OF THE PRESENT SITUATION

The key aspects of employee relations in an organisation are the source of executive authority, the way in which this is exercised, and the checks available on it. Public corporations are each managed by a board, appointed by and responsible to the Minister. The usual type of provisions require that the persons appointed should have had experience and shown capacity in commercial, industrial or financial matters, applied science, administration, or the ' organisation of workers.' Below the boards of nationalised industries are various tiers of management and supervision which are appointed by the board, take decisions within their delegated spheres, and are accountable upwards.

This hierarchical situation is reinforced by considerable stratification between the different classes of employees in terms of fringe benefits offered and amenities available at work. A typical illustration can be taken from the National Coal Board where certain grades of salaried staff have 29 days annual leave compared with 19 days for miners, and where at head office there are three separate dining rooms each catering for different grades of staff.

Checks on the authority system are provided by the legal requirement that nationalised industries engage in collective bargaining and joint consultation with any organisation appearing to them to be appropriate. Terms and conditions of employment are fixed by collective bargaining and there is a provision for reference to arbitration in default of a settlement. Joint consultation is for discussion of matters of mutual concern where there is said to be no conflict of interests. These include safety, health, welfare and the promotion of productive efficiency.

In some industries separate machinery for collective bargaining and joint consultation exists, for example, in coal and in electricity supply, while in others it is combined, for example, in transport and in civil aviation. An obligation is placed on the boards of some nationalised industries, for example BSC, to make available to the employees' representatives on the joint machinery such information as it thinks necessary to enable them to participate effectively in the overall discussion.

In addition, the last condition for board membership means that trade union officials are eligible, and in fact all major nationalised industries have had at least one member from this source.

Of course, the non-representative nature of the board requires that any official appointed as a full time member must resign from his former office, and in practice trade union officials have rarely been appointed to boards in their own industry.

The British Steel Corporation has an experimental system devised by its Personnel Director, of three " employee directors " on each Group Board. These are appointed by the Chairman of BSC from a short list drawn up by the TUC Steel Committee, and are trade unionists actually working in the industry. Their role is purely advisory, and no provision has been made for them to report back to the labour force.

The present situation of employees in nationalised industries can be criticised at two levels. Objections can be raised to the way that the structure laid down actually operates in practice, and to the fundamental design of the structure itself.

At the operational level, there have been complaints by unions that although they have membership in the industry, they have been refused recognition as a bargaining agent. One example of this is the case of ASTMS which has a majority of certain jobs in the NCB in membership but has never been conceded recognition. The spirit with which nationalised industries have engaged in collective bargaining has also sometimes been criticised. For example, Bob Wright of the AUEW, speaking at the Fabian Autumn Lectures in 1971, described the tactics of the Electricity Council representatives on the National Joint Industrial Council in stalling making a firm offer to a pay claim. This was because they objected to the fact that the union side had convened a meeting of works' councils some days after the scheduled meeting for the purpose of putting the offer up for discussion and comment. Joint consultation, with notable exceptions such as pit level consultation in the NCB, has proved in practice to be largely a failure. It has had negligible effects on employees' attitudes towards their work or on the productivity of the industries (see H. A. Clegg, *A New Approach to Industrial Democracy*, Blackwell 1960, Chapter IV).

Much more importantly there are economic, social and political objections to the structure itself, and it is on these that this chapter will concentrate. The present structure of nationalised industries is authoritarian, which is inconsistent with the system of political democracy existing in the larger society of the nation. The majority of employees have virtually no say in determining the broad policies and procedures of their industries. Rather they are required to carry out instructions issued by a small group, the board, in whose appointment or dismissal they have no voice. The implication is that although as citizens people are considered responsible enough to elect their Parliament, as employees of nationalised industries some of these same people, although they have a stake in their industry through the expenditure of their energies, are not responsible enough to have a say in how their industries should be run.

Whereas an appointed minority are capable of subordinating personal interest to wider goals and of running a nationalised industry to meet imposed external objectives, the majority of employees cannot do so.

Many characteristics of Weber's model of a bureaucratic organisation are found in present day nationalised industries, and this has detrimental consequences for their operating efficiency and for the personal development of their employees. Excessive stratification, with rigid definition of roles, results in the underutilization of the talents of many individuals who have knowledge and ideas of value for the efficient operation of the industry. It leads to a rigidity which makes the organisation unresponsive to changing demands, since it encourages the transposition of rules and procedures from means for the efficient running of the industry to ends in themselves. For many employees it engenders feelings of alienation, which either lead to them becoming apathetic, or results in them exhibiting disruptive behaviour at work and which generally reflects detrimentally on their ability for creative behaviour outside work.

In the present system, trade unions do provide a check on the authority of management. However, their position is essentially negative. They can challenge the decision of the governing body, but cannot replace the body.

The present situation has drawbacks from the viewpoint of the efficiency of nationalised industries as operating units and from the viewpoint of individual employees and trade unions. It is therefore open to any or all of these parties to press for reforms to serve their own interests.

Change is possible, since the existing organisational structure of nationalised industries is only one solution to the problem of modern technology and large-scale operation. The question is who, if anyone, should initiate change.

So far the impetus for change from within the nationalised industries has not been great. The recent decision by the British Railways Board to reduce the number of levels of management is one step. The muted cries for "workers" control in some sectors, and in particular the steel industry, is another small indication. A slow shift in opinion in the trade union movement, led by unions such as NUPE, away from the position stated in the *Interim Report on Post-War Reconstruction* issued by the TUC in 1944 with its rejection of any joint control of nationalised industries, is a third example.

There are two main disadvantages in relying on any of the above parties to bring about change. First, since industry is a pluralistic system, with many interest groups whose objectives will conflict at some points, proposals for change from the various parties involved will not necessarily be consistent with one another or acceptable to the other parties.

Secondly, if a really fundamental change in the position of employees in nationalised industries is to be brought about, and it is my contention that the existing authoritarian structure must be replaced, then outside assistance is needed, since otherwise vested interests in the present system will be able to successfully oppose any change.

The Government is also affected by the shortcomings of the present system of employee relations in nationalised industries. If it takes the view that change is necessary, and this ought to be the case with a Labour Government, then it must play a part in bringing about change.

The precise role of the Government is not easy to specify. Any change in structure will be irrelevant unless accompanied by real change in the behaviour and attitudes of people in the industry. The Government must steer the course between, at one extreme, imposing a change on unwilling parties, and at the other extreme, accepting the existing balance of power in nationalised industries. It must act as a catalyst, encouraging change and supporting experimentation on the principle that through changes in behaviour changes in attitude will come about.

A NEW SYSTEM OF EMPLOYEE RELATIONS

Nationalised industries, like any firm, are not spontaneous associations but are established to achieve certain external goals and are not primarily concerned with satisfying the individual needs of their members. Previous chapters have discussed the various objectives, both financial and non-financial, which the industries could be pursuing. These objectives set a framework of targets and constraints, and so dictate a level of operating efficiency in the industry. The question arises as to at what cost to the employees of the nationalised industries should these objectives be achieved?

Nationalised industries should be required to observe a code of conduct setting standards for their relations with their employees. The code, like the external objectives, should be set by the nation as a whole. This is because a fundamental re-appraisal of values is called for. The question is of concern to all citizens and can only be effectively pursued outside the existing institutional framework of the nationalised industries. Under our present political system, this means that the code would be set by the Government at Westminster, but with the growth of community politics it may be fixed by some other mechanism by a set of persons greater than, but not excluding, the employees of the nationalised industry. It is envisaged that the code would evolve over time to match rising social standards.

The establishment of the code will provide the impetus for change in nationalised industries. It should then be left to the employees in the industry themselves to determine how to satisfy the code of conduct and also achieve the external objectives.

Principles in the code may well include an obligation on nationalised industries to ensure that every employee has the opportunity to develop his potential to the full, that as good a physical working environment as possible be provided, and that every employee has the opportunity of participating in the taking of decisions, both wide ranging and detailed, on the operation of his industry. However, the opportunities existing in any nationalised industry are necessarily limited by the external objectives it has to achieve, and so any one industry cannot necessarily satisfy the full potential of any one individual. The onus is then on that individual to seek another job if he wishes to utilise his full talents at work.

designing a form of organisation

Within a nationalised industry there exist at some points conflicts between the interests of various individuals and groups and those of other groups and of the industry as a whole. Since total resources are limited, the claim of a group of employees for a pay rise may conflict with the industry's wish to purchase new plant with that money. A change in technology may involve opportunities for employees with certain skills. The need for British Rail to run trains on Christmas Day conflicts with a driver's preference to remain at home with his family. Any new internal structure of a nationalised industry, if it is to work, must recognise the inevitability of this conflict and find a way of dealing with it.

The present methods which nationalised industries use to resolve this conflict are the same as those used in private industry. There is the use of managerial authority to organise and direct so that the resources of the enterprise may be combined in a co-ordinated total effort to achieve external objectives, and there are independent trade unions to try to protect and further the interest of sectional groups of employees as employees. In this system decisions, which are taken at the top of the authority hierarchy, attempt to balance the various conflicting demands, and they may then be challenged by the employees through their unions. Power bargaining takes place, which may involve industrial action, and which results in either the stronger party "winning," in which event the other "loses," or in a compromise decision. Such a system is a way of resolving conflict, but at the cost of a certain amount of disruption, ill feeling, and diversion from original goals. Although it may well be the best solution in a situation where shareholders are seeking to maximise their profits, it is not necessarily the best method for nationalised industry.

The situation will be different in nationalised industries where the external objective will be set by the majority will of the nation and where the profit motive will not necessarily be dominant. These objectives will therefore have a certain legitimacy to the employees. An alternative system for resolving conflict suggests itself and this is a problem solving approach. In this, all employees will be presented with the set external objectives and left to determine the methods they will utilise to achieve them. Different groups will favour different priorities and it follows from this that compromises will have to be made until decisions acceptable to the vast majority of those involved are reached. In this system conflict is dealt with at source in the decision making process on the basis that something will only get done anyway if the people involved agree to do it.

Another factor to be considered in designing a system of organisation is the specialist skills of many kinds that are essential for the running of nationalised industries. Long range planning calls for the service of economists and statisticians. The development of new equipment and technical systems requires engineers, scientists and or specialists, and its installation, operation and maintenance requires technicians and fitters. Because of the wide diversity of tasks to be done with the different knowledge and skill which they require, and the differing abilities of individuals, it is not practicable to expect every one individual to be able to understand or to carry out every task. Most individual employees in the industry must therefore, of necessity, be specialists in some aspect of its operation.

This situation raises several questions about the possibility of involving all employees in decision making. First, can only specialists make decisions in their own areas? The answer to this at an operating level is a qualified yes but at policy-making level is no. Only an engineer can make decisions on how to design a motive unit for a new train to meet certain performance specifications. The ability to calculate what passenger traffic such a train is likely to generate and the probable return on investment is restricted to other specialists. However, knowledge on how to use any of these things is not needed to use these figures to decide between developing a hovertrain or a monorail, or to decide whether it would be better to spend that money on modernising stations. Specialists could produce reports on the feasibility, costs and consequences of various alternative courses of action, which the body of employees as a whole could choose between.

Secondly, the necessity of specialisation raises queries about the relative " worth " of jobs, and about a line of command. Manifestly, some jobs require greater mental or physical skills, or longer periods of training, than do others. It does not follow from this that the opinions of people in high skill jobs should be given more weight in making policy decisions since all jobs are essential for the running of the industry. The overall problem of implementing the external objectives set by the nation dictates a natural sequence of events. The broad order is planning, designing and operating; and employees involved in the operating phase, be they pilots or permanent way lengthmen, will only be able to take decisions about their own work within the framework set by longer time perspective decisions. They should, however, also play a part in making these decisions.

An indication of the way in which employees could best be involved in making decisions about the running of nationalised industries, is given by a mass of research evidence in industrial sociology and psychology. (See, for a summary, Paul Blumberg, *Industrial Democracy: The Sociology of Participation,* Constable, 1968, pp. 123-8. For a British example see E. L. Trist and K. W. Bamforth *Social and Psychological Consequences of the Longwall Method of Coal Getting,* Human Relations, Vol. 4, No. 1, 1951.) This shows that satisfaction in work is enhanced, or that other organisationally desirable consequences accrue from a genuine increase in employees' decision making power, and that it is direct involvement in shaping their actual day to day work which is of primary concern. Thus, any new system of employee relations which consisted solely of employees periodically electing representatives to some distant policy making board, and then relied on a traditional hierarchical system to implement these decisions would have little effect on the bulk of employees. This is the position in West Germany, where under the system of co-determination, the supervisory board of companies is made up of workers' representatives and shareholders' representatives, and where the labour director on the three-member management board is responsible to these workers' representatives.

A NEW FORM OF ORGANISATION

Any new system of employee relations must overcome the shortcomings of the present system, meet the external objectives and satisfy the code of conduct set by the nation as a whole, and take account of the factors mentioned above. The primary responsibility for designing a new form of organisation lies with the employees of the nationalised industry. However, as an example one possible form is outlined below.

The basic elements of the new system would be units, area councils, and the central council. The latter would interface with the Government. Each unit would be composed of between, say, 30-100 employees whose work interrelated with each other and was identifiable as a discrete entity. Most units would be operationally based, although some would be composed of specialists to provide a servicing role. Examples of units might be a British Rail station or a group of small stations, a development team for new rolling stock, a shift on a particular coal face. Area councils would be made up of between 30-40 members, each of whom is elected by his unit. Area councils would take decisions by voting with a likely requirement that a large majority in favour, say 90 per cent, is needed for any issue to be adopted. Their members would be subjected to re-election annually, and there would be a limit on the number of consecutive occasions that any one person could remain on the council. This would ensure that all have a chance to participate, and would help to prevent the new system crystallising back into something resembling the old system through the growth of a new managerial elite.

The central council would play a similar role towards the area councils that these play towards the units. Like the area councils, it would take decisions on a 90 per cent in agreement basis, and its membership would be subject to periodic rotation.

the problem of accountability

There are good reasons why nationalised industries, of the form proposed above, are unlikely to fail to meet their external objectives. These are set by the nation as a whole and, therefore, have a certain legitimacy to the nationalised industry. Decisions at all levels within the industry are made with the approval of 90 per cent of those involved, which means that they are compromise decisions which are broadly acceptable to the vast majority. Thus, here again, there are moral pressures for conformity even from a dissenting minority and, perhaps more importantly, social pressures from other individuals within the unit, other units within the area, and other areas within the central council.

Nevertheless, there must be a mechanism in case failure does occur and at the macro level the nationalised industry fails to meet the external objectives set by the nation, and internally areas and units fail to achieve the performance set. Within any unit any individual may be sacked by a 90 per cent majority of the members of the unit if they feel that he is deliberately persistently absent or is not adequately fulfilling his duties. (There will be an appeals mechanism for individuals.)

At area level, the council can review the position of units which have failed to reach their targets. They would first examine if the targets set and resources allowed were realistic and, if not, they would adjust them. If this were not the case, they would then enquire whether the unit had taken the steps open to it to try to improve its performances. If it had not done so, or if it had still failed, the approach is not to try to locate the "guilty" parties in unit and punish them. This is impracticable because of the organic nature of the units and does not solve the problem. The aim is to get the unit to achieve its target and so the approach would be to draft in someone from another unit in the area to act as a "consultant." He might detect faulty methods and be able to help the unit in that way. He might detect a basic lack of talent in the unit and encourage the recruitment of some new personnel, or else recommend to the area council that the targets of the unit be adjusted.

A broadly similar procedure to that adopted by the area council towards the units could be applied by the central council towards areas which failed to meet their targets with the resources allowed. The steps would be an examination of any extenuating circumstances, followed by the injection of a "consultant" to help the area to improve its performance.

At the central council level, in the event of a shortfall in performance, there would be provision for the Government to enquire whether all the procedures sketched out above had been followed by the nationalised industry and, if not, to require them to be implemented. Continuing failure could only be attributed to either an impracticable level of external objectives within the limits and constraints applied, in which case they should be adjusted, or a weakness of the whole new system, in which case another structure would have to be devised.

the role of trade unions

Is there a role for independent trade unions of today's form in the system which I am proposing? The short answer is "no." The basic truth is that nationalised industries as organisations have, within the code of employee relations conduct, to meet certain external objectives and have limited resources to achieve these. The way in which the industry chooses to meet these objectives and the balance of wage levels, numbers of employees, effort required of individuals, organisation of work and the like is the choice of the employees as a whole, since decisions all rest on a 90 per cent majority. There is no imposed management for the employees, as a group, to fight.

Consider, for example, how levels of pay would be set in this new organisational form. Ideally, this should be done at unit level but this would raise some problems. One of these is the question of comparability. Some units would then, inevitably, be paying more than others for jobs of equivalent skill level, which might give rise to questions of equity. However, this is not going to be such a problem as it as first appears, because there is likely to be a similar divergence in the actual composition of the job and in the degree of effort required, making comparisons between units difficult. Another problem in settling pay at unit levels is that in allocating resources from the central council to area councils, and from these to units, rough assumptions will have to be made on the approximate level of pay.

A method for overcoming these problems is for each unit to decide on what they consider to be an acceptable minimum level of pay in the industry and an acceptable ratio of highest to lowest earnings between individuals, and for this process then to be repeated at area councils and finally at the central council. The final figure arrived at would provide limits within which units would be free to determine the proportion of their allowance they will devote to pay and the ratio of earnings between different members. The bargaining, over targets to be accomplished and financial resources to be allowed, between areas at the central council and between units at the area councils, relying as they do on 90 per cent agreement, would ensure that the effort-reward situation throughout the industry did not get far out of balance.

Nevertheless, within this form of nationalised industry, decisions can be taken which are not in the interests of individual employees. For example, units have the power to sack individual members or to agree on a level of payment for one of their number which he may feel to be grossly unfair. In striving to achieve the external objectives, decisions might be made at central or area councils to cut down on targets and resources for certain areas or units, for example railway workshops, which would amount to making employees redundant.

There should, therefore, be a mechanism to allow individual employees, who feel they have been unfairly treated, to appeal to an independent body. This could well be a trade union, since these will continue to exist and function in their traditional way in the private sector. The union would investigate first, whether the correct procedure had been followed within the industry, that is, 90 per cent majority voting; and secondly, if it had, whether any victimisation of individuals had taken place. If its finding were negative, then the decision would be confirmed as a legitimate one but, if the evidence of misconduct were found, then the individuals should be re-instated if they wish to be.

In addition, on questions of pay and the like, individuals would, of course, retain the right to resign their employment if they feel dissatisfied.

the practicability of the new system

The structure outlined above is only one possible approach to overcoming the shortcomings of the present system. Its effectiveness, like that of any other system, can really only be tested by experimentation. Courage is needed to carry this out, since the cost of failure is high in financial terms and in disruption. The willingness of a Labour Government to embark on the implementation of such a scheme is a measure of its commitment to socialism.

A particularly traumatic feature of the form of nationalised industry outlined is the diminished role of trade unions. Such a move would evoke defence mechanisms from union bureaucracies. However, unions are not organisations to exist in perpetuity but are a means to an end. In the system I have described, that end, namely the control of the mass of employees over their work situation, is achieved by other means.

The basic question we come back to is this. Will such a scheme operate successfully in a mixed economy and in a parliamentary democracy which has periodic changes of Government?

On the first question, I will return to a point made in an earlier chapter. Nationalised industries need not just be large organisations run by the Government and having the same objectives as the private sector. The criteria for measuring success will be different. As an employer, nationalised industries will differ radically from the private sector. Comparisons in levels of pay between the two sectors will be come increasingly meaningless because of the difference in control and initiative allowed to individuals. The numbers and quality of people attracted to nationalised industries in a free labour market will be a measure of the success of their internal form and a determinant of their operating efficiency.

On the second question, the threat that a Conservative Government may undo the work done is too easy an excuse for inactivity. Dogma notwithstanding, the attempt of the new system to use the full talents of individuals may well make nationalised industries highly efficient operating units by any standards.

5. conclusions

We have assumed throughout this pamphlet that the public sector will continue to operate within the context of a mixed economy, and frequently in competition with the private sector. As suggested in the last chapter, more fundamental changes may be required. How far can our recommendations achieve successful implementation in a mixed economy subject to periodic changes of Government?

The recommendations contained in Chapters Two and Three assume changes that could be accomplished within the existing organisation of the public sector. However, it may be that a complete restructuring of the public sector to create opportunities for significant employee participation, as suggested in Chapter Four would involve a degree of short-term upheaval that no Government would be prepared to contemplate irrespective of longer-term benefits.

Regardless of the compatibility of our recommendations with our present social and political system, the fundamental question remains—how is it possible to continue to run the public sector in the same manner as hitherto? Once clear objectives have been determined for each nationalised industry the need for change in methods of planning, management and control become self-evident. The lead time on capital investment programmes already compels Governments to plan ahead irrespective of the timing of forthcoming elections; similar long range plans will have to be developed to ensure that public sector day to day activities fit in with Government thinking on regional policy, employment policy, and a range of other social issues. To ensure the achievement of socialist goals inside Europe, we need a strategy which explicitly sets out economic and social objectives and defines methods of implementation.

young fabian group

The Young Fabian Group exists to give socialists not over 30 years of age an opportunity to carry out research, discussion and propaganda. It aims to help its members publish the results of their research, and so make a more effective contribution to the work of the Labour movement. It therefore welcomes all those who have a thoughtful and radical approach to political matters.

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The group publishes pamphlets written by its members, arranges fortnightly meetings in London, and holds day and weekend schools.

Enquiries about membership should be sent to the Secretary, Young Fabian Group, 11 Dartmouth Street, London, SW1H 9BN; telephone 01-930 3077.

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