state holding companies

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young fabian pamphlet 40 30p

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Fabian Society, 11 Dartmouth Street, London SW1H 9BN.
September 1974 ISBN 7163 2040 1

1. introduction

This pamphlet seeks to examine the relevance of a specific instrument of social ownership and control to the resolution of the present problems faced by the United Kingdom. It is assumed that public ownership of the means of production, distribution and exchange is a desirable objective. However it cannot be a sufficient aim for democratic socialists. It is necessary for democrats in addition to achieve both an acceptable degree of public accountability and control and a reasonable degree of personal liberty, including substantial freedom of choice of occupation, location, income, goods and services, and extent of personal responsibilities. It is also necessary for democrats to provide a sufficient volume of goods and services to satisfy the reasonable desire of the population both for a comfortable level of real disposable income and an adequate array of community services (in practice, as expectations tend to rise with time, this implies a continuous process of economic growth).

It must also be accepted that in practice attempts to raise the rate of economic growth by depressing living standards in the short term (that is by transferring resources from consumption to investment), though theoretically feasible, are likely to prove either unsuccessful or inconsistent with democracy if pursued to anything beyond a minimal extent. The share of investment could rise with economic growth, assuming that the modest historical trend of about 2-2½ per cent per annum since the industrial revolution is maintained. However, escape from the British vicious circle merely by diverting resources into investment without improving the efficiency with which new capital is used will either be exceptionally painful in the short term or improve UK economic performance only at a snail's pace. In consequence, it is the efficiency with which capital is used in the economy that is critical for the meeting of broader national economic objectives.

The major problem confronting democratic socialists, therefore, is to evolve an efficient, accountable and broadly libertarian system of public ownership. The speed at which this can be achieved depends on two principal factors :

1. the availability of capital resources for new public enterprise as against other worthwhile claims on the exchequer.

2. the extent of the learning process that will be required as new techniques and styles of management and accountability as well as a different system of organisation and ownership come into being.

The second factor is critical to the first, since the merit of allocating additional resources to the development of the public sector will be affected by the efficiency with which resources already committed are being used and by the general level of resources in the country.

Forms of public ownership and control constitute a continuum stretching from the most centralised or authoritarian of bodies to the most decentralised or libertarian ones. Chapter two surveys this range and seeks to show where, in the UK economy, areas of it might be applicable. The third chapter examines in a deliberately short and impressionistic manner some overseas experience of state holding companies which may be of relevance. The fourth looks at UK applications as proposed in *Labour's Programme for Britain 1973* and attempts to judge their likely merits and shortcomings. The fifth constructs a model structure of holding companies and demonstrates its simplicity, flexibility and compatibility with macroeconomic machinery. It then makes tentative suggestions as to transitional measures—implementable within four to five years. Chapter six summarises conclusions.

2. varieties of public ownership and control

The range of forms of control of publicly owned enterprises extends from Government department status (for example the post office before 1969, the supply of electricity in New Zealand and Sweden) to "workers' self-management" as practiced in Yugoslavia, where the state retains only the title of ownership and can influence the firm's behaviour only by monetary and fiscal policy, exhortation and cajolery.

Within the continuum, current British practice lies towards the end of high controls. Controls on nationalised industries take two forms—statutory and informal.

Statutory controls include limitations on the fields of operation of the enterprise. Nationalised industries are normally prohibited from manufacturing plant for their own use.

Informal controls are exercised mainly through the medium of finance. The areas of informal control normally include investment policy, plant and supplies procurement, pricing and manpower policies.

The November 1967 White Paper *Nationalised Industries; A Review of the Economic and Financial Objectives* (Cmnd 3437) attempted to rationalise the system of control by specifying a financial objective which should be met by a straightforward commercial approach within the constraints of statutory requirements and to some extent Government policy, principally on manpower and pricing matters (*A policy for public ownership,* Young Fabian pamphlet 35, gives a more substantial account of Cmnd 3437). Compensation for non-commercial actions has been tacked on as a way of establishing a common financial language in which the efficiency of an enterprise can be expressed.

The adequacy of this method has been criticised from two main standpoints. One is that of those economists who doubt whether targets expressed in financial terms are appropriate to concerns whose activities produce substantial indirect benefits to society (for example the benefit to road users of a greater proportion of commuter traffic travelling on the railways will not show up in the railway accounts). The most developed form of this critique is found in *Efficiency Criteria for Nationalised Industries,* Professor Alex Nove, 1973. The other standpoint is that of those in Government and elsewhere who prevailed on the present public corporations to introduce corporate planning techniques in the past few years. This is that, in practice, financial criteria that would be wholly appropriate for enterprises operating in a situation where significant market power does not exist (that is, prices are set by the market) will not, on their own, lead to optimal efficiency of resource use where substantial market power exists.

The British public corporation, subject as it is to the continuing conflict between pursuit of commercial objectives and statutory obligations on the one hand and meeting Government wishes on the other, have performed surprisingly well. Substantial benefits arising from the economies of scale realised in the electricity and gas industries have been reflected in declining relative prices to the consumer (which until the early 1970s genuinely did reflect greater efficiency as their financial results showed). Other industries, which have suffered from partial product obsolescence (for example coal and railways), have faced difficult problems of rationalisation and have experienced an acute conflict between social and commercial objectives, normally resolved by temporary Government interventions.

Richard Pryke in *Public Enterprise in Practice* indicates that the volume of capital investment in the nationalised industries per employee has been near the top of the international league tables for specific industries; privately owned industry has been near the bottom of OECD league tables. The same pattern is found for manpower productivity. Hostile critics of the public sector have alleged that this reflects over investment in the nationalised industries and the resultant over substitution of capital for labour (this case is put in *Pricking Pryke* by Aims of Industry). It is not obvious that if public investment had been less, the private sector would have invested more, since the deterioration in the prospects for provision of adequate power and transport infrastructure may well affect investment decisions more significantly than a modest easing of the capital markets (particularly because most large relatively efficient private sector enterprises tend to rely on retained profits to finance new investment). Any such capital released into the private sector as a result of lower public sector capital spending and reduced public borrowing would flow into areas like property speculation (it is probably not wholly coincidental that during the period of two years from June 1970 when the Conservative Government postponed the investment programme of the British Steel Corporation, new private sector investment in manufacturing industry fell slightly in real terms, while an unprecedented inflation took place in property values). Of course, if private industry were given the money directly, it might invest it. Such a practice would not, however, be easy to reconcile with the ideology of those hostile to public enterprise (though Edmund Dell provides an entertaining example of such a feat by the CBI on page 151 of *Political Responsibility and Industry*). Furthermore, the investment programme of industries such as the airlines, electricity and telecommunications have been used as tools of industrial policy in sectors such as aerospace, nuclear and other heavy engineering, and electronics. Quantification of the invisible subsidy that this represents to the private sector is attempted in chapter five.

producer co-operatives

At the other extreme, producer co-operatives, who hire land, buildings and plant from the state, exist in some overseas countries with socialist aspirations, such as Yugoslavia and Algeria. All large scale enterprises in Yugoslavia are self-managed, while in Algeria the self-managed sector constitutes an enclave in a system that, outside agricultural and handicrafts, is based principally on state managed enterprises. The Yugoslav system was set up for a mixture of ideological and practical reasons in the early 1950s, while self-managed enterprises came into being in Algeria as a result of spontaneous occupation of premises that had been abandoned by departing French settlers at independence.

There is some evidence from Yugoslavia as to the characteristics of a system based on producer co-operatives. Inflation rates are now comparable to those prevailing in Western Europe (about 10 per cent per annum) while roughly 10 per cent of the labour force is either employed outside the country or is registered as unemployed (there is probably also further "hidden unemployment" concealed in peasant agriculture, as is pointed by Jeremy Bray and Nicholas Falk in *Towards a worker managed economy*, Fabian Tract 430). On the other hand, rapid economic growth is continuing.

What conclusions can be drawn from the Yugoslav experience? At the time self-management was introduced Yugoslavia was a highly authoritarian country. Also regional hatreds with deep historical roots made enterprises reluctant to combine together to maximise income at the expense of their customers. Both these factors tended to restrain the abuse of market power that could have taken place. The first factor does not apply in the United Kingdom. Nor does the second (except perhaps in Northern Ireland). The greater cohesion and militancy of workers as opposed to managers and entrepreneurs in the UK might be expected to lead to more enthusiastic pursuit of revenue through the formation of cartels and price leadership.

Workers' control may be exercised in a socially harmful way the further that an enterprise is from a classical small firm situation where it lacks any control over its external environment and where the tasks of management involve judgment rather than expertise. Professor Galbraith's *Economics and the Public Purpose*, 1974, draws a distinction between two main economic systems coexisting uneasily in all countries. In the "planning system" enterprises can control their external environment to some extent; in the " market system " they remain at the mercy of the laws of supply and demand. It is in the " market system " that straightforward workers' self-management could be applied without the undesirable consequences mentioned above. The possibility of extending an Algerian style enclave of self-managed enterprises across the frontier of the planning system by creating an environment there no longer controllable by the individual firm will be examined in chapter five.

their limited relevance to the UK

In the UK economy, as in other advanced capitalist economies, many enterprises exist which are both diversified and in a position to exercise substantial market power. For these, application of either industry wide nationalisation (the " Morrisonian " public corporation) or complete workers' self-management would not be appropriate. Industry nationalisation would destroy the basis on which they have achieved relative efficiency of operation—that is to say joint supply of common services on an economic scale (as well as spreading risks which in theory at least the state should be able to do somewhat better). Evidence for this characteristic of modern enterprises—that is growth through diversification leading to operational efficiency—can be found in a study by Professor Kenneth George entitled " Aggregate Concentration " published in the *Journal of Industrial Economics,* Volume 20, 1972. Workers' self-management would not necessarily affect their efficiency adversely, but might well lead to a vigorous pursuit of monopoly profits (over the economy as a whole the cumulative effect might be negligible, assuming universal self-management, but in practice the effects on income distribution would be at best random, at worst perverse).

the state holding company form

The state holding company form differs from the traditional British form of public corporation (sometimes called the " Morrisonian ") in the following ways:

1. There is no statutory limitation on the commercial fields of operation which it is permitted to enter.

2. It functions as a group of companies, which may themselves be diversified across various fields of activity, with the centre providing certain common services —for example, finance, computing and overall strategic planning.

It *differs* from the traditional model of a worker controlled enterprise (sometimes called " self-managed " or " producer co-operative ") in so far as :

1. Its management is ultimately subject to democratic control by the whole of society rather than its workforce.

2. It may have objectives set for it by society through statutes, directives or planning agreements.

It *shares* with other forms of public enterprise the following features that distinguish all types of public sector operations from the private sector :

1. None of its equity capital is owned by private persons or institutions.

2. Accordingly, it has no duty in law to maximise either present or future profits for their benefit.

To sum up, the state holding company has the advantage of flexibility over the traditional public corporation and of responsiveness to social control over both the self-managed and the privately owned enterprise. Thus there is a *prima facie* case for examining the applicability of the state holding company form to those areas of the economic system where enterprises are both diversified and have substantial market power.

3. overseas experience of state holding companies

Overseas experience of state holding companies is varied and in many cases information and evidence concerning its effects is extremely patchy. This chapter seeks to isolate certain features which may be relevant to the UK. These include regional disparity problems, maximising the benefit from natural resource endowments (for example offshore gas and oil in the UK), and the more general issue of developing and sustaining a modern industrial base in a medium sized nation state in the technical and institutional circumstances of the late 20th century.

As Italian experience is seminal to the modern development of the state holding company, the chapter begins by considering this. Spain is then examined. Finally, a brief account is given of developments in Canada, Zambia and Austria.

Italian experience

The state holding company arose originally as an *ad hoc* management arrangement by autarkic and authoritarian regimes in partially industrialised countries in Mediterranean Europe, principally fascist Italy but also Francoist Spain.

The Italian experience has attracted the greatest attention since the main institution created survived the demise of fascism and in a different political and institutional environment made a substantial contribution to the construction of a modern and diversified industrial base. The *Instituto per Riconstruzione Industriale* (the institute for industrial reconstruction—normally abbreviated to IRI) was created in 1933. In post-war Italy, the philosophy of its use began to be developed, both in relation to disparities between the regions and to the wider strategic needs of the economy—for example, the construction of an adequate transport infrastructure and the growth of a sufficient base in steel and heavy engineering to permit balanced growth.

The *Ente Nazionale per Idrocarburi* (national hydrocarbons board—or ENI) was created in 1953 as a "national" oil and gas company, following the discovery of large gas fields in the Po valley. From its foundations, it was also interested in entering the world oil business in order to establish independent access to sources of oil and gas outside Italy and thus avoid exploitation by the major international oil companies. The Po valley gas constituted the only significant indigenous source of energy, apart from hydro-electric power in the Alps and to a lesser extent the Appennines (most of which was already being exploited at its full potential).

ENI sought to reduce the level of profit in the international oil industry by doing direct deals with producing countries and thus breaking the monopoly of the "oil majors". This policy was broadly successful and brought considerable benefits both to the consumer and the oil producing countries (this was not, of course, necessarily the intended result—this was merely to reduce the balance of payments cost of imported oil, which was inflated by the profits of the multinationals). It was probably a contributing factor to the falling real price of oil during the 1960s, which brought particular benefits to countries like Italy, Japan (whose oil companies, also newcomers though privately-owned, tended to follow ENI's example) and to a lesser extent France and the Netherlands, which at that time lacked adequate supplies of indigenous energy. Within the Italian economy, ENI gradually integrated forwards into areas of manufacture and services related to hydrocarbons, such as process engineering, chemicals and textiles and into petrol distribution and other services to motorists.

In 1972, the turnover of IRI and ENI combined was in excess of £5,000 million and the two concerns employed 530,000 people. IRI alone had a turnover of 4,678,000 million lire (at an exchange rate then of about 1400 lire to the pound sterling, this is roughly £3,300 million), employed 451,100 persons and invested 1,526,600 million lire (£1,100 million) in capital expenditure. IRI dominated the civil engineering, steel and shipbuilding sectors and provided vigorous competition in the motor vehicle, mechanical engineering and heavy electrical industries. In addition it ran the national airline, Alitalia, and the telecommunications system, STET, ENI had been drawn increasingly into the chemicals and textiles sector as weak competing enterprises collapsed under its pressure and the state then required to take them over (this happened first with Snia Viscosa and then with Montecatini Edison). It has gone increasingly overseas into joint exploration ventures with state owned oil and gas companies in the developing countries, particularly in West Africa.

The development of the holding company system requires from its inauspicious Italian beginnings requires explanation. Andrew Shonfield in *Modern Capitalism* suggested that the survival of IRI was not a result of latent superiority to the modern privately owned corporation of the General Motors type, but was due merely to the institutional impossibility of establishing an Italian version or versions without major political and social change. An alternative theory might be that post-war Italy was incapable of substantial change from fascist forms (for example the fascist Penal Code remains in force more than thirty years after the fall of Mussolini) and that the holding companies would have survived regardless of merit through sheer institutional inertia.

Neither explanation is wholly satisfactory. In firms like Fiat, Olivetti and Pirelli, Italy has possessed modern privately owned corporations throughout modern times, while institutional acts like the setting up of a "Morrisonian" public corporations (ENEL) to take over and integrate electricity supply in 1963, to say nothing of the foundation of additional state holding companies, do not indicate a total incapacity for institutional change.

The structure of the Italian economy is one of profound regional disparities and only a few sectors that have attained international competitiveness through the operations of domestic private capital (despite the fact that per capita income in Italy is well below that in any other major Western industrial nation—including Japan and the UK). Peninsular Italy (with the exception of Tuscany and the Northern part of the former Papal States) had failed to develop economically in the period between unification of the country in the 1860s and the end of the fascist era (per capita income in the South was less in real terms in 1937 than in 1859), while growth in production had been concentrated in the "golden triangle" of North Western Italy (the conurbations of Turin, Milan and Genoa and their hinterland). At the same time, a low level of confidence in media of private sector saving led to a substantial illegal export of capital to havens of greater reputed probity, principally Switzerland.

The post war democratic regime gave high priority to the development of backward regions. Incentives were provided to industry to move to the South from the early 1950s onwards. In practice, it was found that the effect of such stimuli was insignificant compared to that of major investment by state holding companies. They were also found to be invaluable in the development of key industrial sectors such as steel, engineering and chemicals. State holding companies were also able both to attract some private capital in the form of fixed interest loans and to employ public capital directly in the industrial sector.

The increasing reliance on the state holding companies to perform essential developmental tasks gradually led to problems of conflicting objectives. These did not appear immediately for two main reasons. First, the lead time of new investment projects and the learning process on new plant meant that the difference between a decision with commercial merit and one with social and political advantages could be obscured for up to ten years. Secondly, the holding companies were able to take commercial risks in entering manufacture in areas without an industrial tradition in the expectation of longer term returns, something which only a handful of larger private sector Italian enterprises (principally Fiat) could afford to do. The problem of the persistently unviable concern only became significant at the end of the 1960s. The choice between efficiency and meeting wider social objectives was resolved by the decision to set up a third separate state holding company for " lame ducks ", Gestioni Participazioni Industriali (GEPI).

The success of the IRI and ENI formula produced certain new policy problems. The economies of scale involved in the development of advanced technology industries limit the extent to which any country can avoid dependence on imports of " know how " and even designs. Many designs are the property of multinational corporations who attach various tacit conditions to their exploitation by potential competitors (many recent studies in this field support this conclusion including *The World Market for Electric Power Equipment,* A. J. Surrey and J. H. Chesshire, and *Ten Innovations,* Christopher Layton and Charles de Hoghton, PEP, 1972). The fact that the IRI group now constitutes a major competitor of many international conglomerates (just as ENI does to the " oil majors ") limits its effectiveness as a medium for buying in designs. In some fields this role has developed on a fourth holding company, Ente Participazioni e Finanziamento Industria Manufatteria (EFIM).

The alternative of single minded pursuit of technological self-sufficiency would have had substantial disadvantages in an economy the size of Italy. The experience of Britain and France in such technological advanced areas as aircraft manufacture and the peaceful uses of nuclear energy suggests it might anyway be undesirable.

What overall effect has the state holding company system had in Italy? The economy has tended to grow at between 5 and 6 per cent in real terms annually (twice the rate of the UK) for the last twenty years. The secular trend for regional disparities to increase has been halted and then reversed. Italy has become internationally competitive in a whole range of modern industries. Yet substantial structural unemployment and net emigration continue. This would suggest that a higher growth rate (perhaps 7 or 8 per cent per annum) might be required to reach full employment (it might, of course, be desirable for other reasons). Meanwhile, housing, public health, the social services and the environment have been neglected. It is ironic that the symptoms of the American disease diagnosed by Galbraith in *The Affluent Society* should persist in the western country that has gone furthest towards socialism in the sense of abolishing private accumulation of capital. The critical problem in Italy now is to provide full employment and to increase the resources devoted to public services. If a major switch in resources from private consumption (that is, a reduction in the real disposable income of the working class) is excluded, then the state holding companies will need to get more growth out of less new capital. This implies that the efficiency with which it is used must be raised. The setting up of GEPI can be seen as a move in this direction, in that it will permit IRI to follow a more commercial policy. The process of physical planning (that is, of agreeing product output targets and location of new investment with the Government) is likely also to contribute to inefficiency because the true costs of a policy decision will tend to get obscured and possible more cost effective ways of achieving the same result will not be investigated.

Though the state holding company system in Italy has considerable achievements to its credit, its operation could be improved substantially by a less dirigiste approach, which would, hopefully, release scarce resources for public service extension and improvement. One could say that Italy might benefit from imitating the policies of two members of the 1945-51 Labour Government; Harold Wilson's " bonfire of controls " and Aneurin Bevan's initiation of the post war housing programme and foundation of the National Health Service.

Spanish experience

Spanish experience with the Instituto Nacional de Industrias (INI), which was founded in 1941, has been one of initial promise, followed by disillusion and adjustment to the realities of the country's place in the international economic system. Economic recovery and development in post-1939 Spain was obliged initially to be autarkic in character, since the state of international trade in the 1940s and the political status of the country after 1945 were not such as to permit a more open and market orientated approach. INI played a leading role in the development of the economy until the late 1950s, when the stabilisation plan prepared under the influence of the Organisation for European Economic Co-operation marked the end of the pursuit of autarkic development and the beginning of integration into the international economic system. After several years in institutional limbo, it regained a useful function as an administrator of state holdings in joint ventures with the multinational corporations.

Why was Spanish experience so radically different from Italian ? Clearly political factors played a role in that the leading role of INI was favoured by the Falange, whose ideology contained vestigial socialist elements as well as a profound hankering for autarky, while the policy of integration into the international capitalist system was that not only of Spain's military allies but a faction of " technocrats " associated with a powerful section of the Roman Catholic church, the *Opus Dei*.

However, it is not a sufficient explanation to blame the political spite of the Falange's opponents for the abandonment of a growth strategy relying on the state holding company. Italy, after all, is a country where every one of the thirty or so governments since 1943 has been dominated by the political arm of the Roman Catholic church and whose integration into the international system is far deeper. Yet the previous section demonstrates that the state holding company can survive and even flourish in such a political and economic climate.

Two possible economic explanations suggest themselves. One is that Spain was below a hypothetical threshold at which sophisticated devices and institutions like the state holding company begin to have relevance to the problems of economic development. The other is that the manner of application of the principle of state holding company differed significantly from the Italian model and did so in such a way as to impair its efficiency.

Historically, the level and problems of economic development have not been markedly dissimilar in Italy and Spain. In both countries, economic development has tended to be concentrated in certain favoured regions such as Catalonia, the Basque provinces and the Italian " golden triangle " (Milan, Turin and Genoa). In the 1920s both were substantial, if second order, industrial powers. One was systematically wrecked during three years of civil war, while the other, as well as being defeated in war, spent eighteen months as the battleground of two foreign expeditionary forces. The economic base from which post war economic recovery began is unlikely to have been much higher in Italy than in Spain.

The political/institutional argument stems from the comforting but unjustified hypothesis that economic management under fascism is less effective than under liberal democracy. This would not explain the rapid economic growth in Spain in the 1960s, which was far more impressive than in contemporary Italy. The fact that Spain was deprived of the dynamic effects of membership of the European Economic Community (which brought particular benefits to sectors like domestic appliance and motor vehicle manufacture in Italy) makes the achievement of an annual growth rate of industrial production of 11 per cent as against 5-6 per cent in Italy all the more astounding—especially when one considers that real wages in manufacturing industry grew at a rate of 6-7 per cent in both countries in the same period 1963-72.

The experience of Spain during the early 1950s was that of rapid economic growth accompanied by inflation and a deteriorating balance of payments. The balance of payments crisis of 1956-7 was attributable principally to over investment particularly by the state through INI. Rapid growth of productive capacity (output rose by 50 per cent from 1952 to 1956) was accompanied by static real wages, due mainly to the exodus of labour from agriculture.

The pursuit of autarkic development had led to an appallingly low marginal efficiency of investment (this showed up not in low profits but in inflation as a result of the consumer being made to pay for the planners' mistakes). The options that remained were of following a policy of drastic reduction of living standards in order to maintain the pattern of development, deflation and subsequent economic stagnation, or integration into the Western economic system. Spanish economic development policy has taken the last course, drawing in investment by multinational corporations seeking comparatively cheap and docile labour and limiting the state's role to indicative planning and partnership with certain enterprises. What conclusions may be drawn from Spanish experience ? INI was the instrument of a policy of rapid development based on autarky. No proper consideration was given to the policy choices and conflicts likely to arise between efficiency, employment and balanced development. It is not possible to say whether, in a less hostile political climate, it could have learnt from its mistakes and moved towards a clear view of its responsibilities and objectives. In its new role of the public interest partner in joint ventures with the multinational corporations, INI may yet be able to make a modest contribution to public sector saving and the balance of payments.

More recent adoptions of the state holding company principle have occurred in countries with more extensive democratic and/or socialist credentials. In Canada and Zambia, the development of state holding companies represents a response to the dominance of multinational corporations in the exploitation of natural resources such as oil and copper.

Zambia

Indeco, the Zambian state holding company, operates the copper mining and refining industry as a joint venture (with 51 per cent state ownership) with Anglo American, a mining conglomerate based in the Republic of South Africa. The principal role of Indeco is that of an institutional framework through which the surplus generated in the mining sector can be used to diversify the Zambian economy out of its extreme dependence on copper. Public ownership and control of the principal source of foreign exchange is another justification for its existence.

The aim of diversification and indeed of industrialisation is to reduce Zambia's vulnerability to changes in the world market for primary products, of which copper is among the most prone to fluctuations in demand and price.

In the specific circumstances of contemporary Zambia, promotion of large scale import substitution, with which Indeco has begun, has several merits. First it, reduces dependence on hostile neighbours. Secondly, the high level of transport costs for traded goods gives a high level of protection to domestic production. There is a further advantage in the Indeco arrangement. A substantial inflow of foreign commercial capital into the Zambian economy might well promote the sectors favoured by Indeco, but would lead both to an extension of outside dominance of the economy and to long run economic stagnation of the type described by Samir Amin in *Neo-colonialism in West Africa,* 1973. He states that industrial sectors expand rapidly to fill the domestic market, then cease to grow, while the surplus they earn is transferred overseas, worsening the balance of payments.

Canada and Austria

In Canada, the goal of the Canadian Development Corporation has been to re-establish national control of non-renewable natural resources, particularly metal ores. An unusual feature of its operations has been an attempt to repurchase national assets by mounting take over bids in the stock exchanges of the United States of America. At present, no overall strategy has been formulated, but it would seem logical, given the severe regional and structural problems of the

Canadian economy to seek to maximise value added rather than revenue arising from the exploitation of indigenous natural resources.

In Austria, a state holding company has been established in order to manage existing nationalised concerns in a way that would minimise direct political and administrative interference in their operations (it is noteworthy that in Austria, where real income per head grew at 4-5 per cent in the 1960s, it is felt that the resource losses of ill advised administrative interference are significant enough to be worth eliminating).

4. existing proposals for public ownership and control

Before entering into detailed examination of the issues and problems involved in the implementation of *Labour's Programme for Britain, 1973,* it may be valuable to fill in both the historical and conceptual background to them. After the second world war the Labour Government took into public ownership certain public utilities and basic industries (coal, gas, electricity, steel, the railways and some road haulage). One of the objectives of this was to improve economic planning and co-ordination. However, in the first instance, this meant the successful integration of separate undertakings into a single industry based undertaking rather than participation in a single nation wide plan.

The first serious and sustained attempt to plan the economy in peacetime began in 1962 with the foundation of the National Economic Development Council. Systematic attempts to link the operations and even more significantly the investment programmes of the nationalised industries to overall national planning took place from 1964 onwards, as part of the " ill fated " national planning exercise. There is no evidence that such links were beneficial either to the consumers of the nationalised industries' products or to the economy as a whole. In the private sector, the Government offered an ever increasing array of incentives to invest in new plant, aiming thereby to raise economic growth. It was accepted, however, that where selective support or assistance (that is, beyond investment grants, employment premiums and so forth) was deemed necessary, the state should have the option of acquiring an equity shareholding in specific firms through the Industrial Reorganisation Corporation (IRC—set up in 1966). This body's principal role was as an intrument of selective intervention to rationalise on a voluntary basis specific industries. It was expected to act as an alert but state owned merchant bank and like any other good merchant bank to make a profit on its transactions. It was free of ministerial control but was permitted only to make mergers. Revenues returning to the Government through the IRC were a fraction of the vast flow of resources in the other direction through general assistance to industry. At the same time as the state was transferring resources from public saving to private capital investment, resources had to be switched from private consumption into the balance of payments. The combination of these two effects put pressure on working class living standards. The inevitable reaction was contained for some time but finally came to the surface in 1969/70, destroying first the remains of the Government's economic strategy and then the Government itself.

The succeeding Government then attempted to resolve the problem by cutting public services, public sector capital spending and direct taxation. At the same time, it announced a policy of disengagement from industry, winding up the IRC and replacing investment grants by allowances against taxation. The intention was to raise the rate of profit in the private sector and thereby permit the state to withdraw from the process of accumulation as far as possible. By the end of 1972, this policy had been abandoned. Capital investment in private industry had fallen, while the workers had managed to raise their living standards, at the cost of much social disruption and unemployment. From then on the Government began to adopt the policies of its predecessor. Vast new transfers of public sector resources into private investment began—investment grants were restored as a supplement to allowances. Government directives operated on the terms of trade between the public and private sectors of industry in order to produce a further substantial net transfer of resources (Christopher Foster in *Public Enterprise*, Fabian Research series 300, commented on this at the time). The Industry Act, 1972, provided authority for a whole new array of selective aids which could be given by a new group within the then Department of Trade and Industry—the Industrial Development Executive. At the same time a major consultative exercise was mounted in the NEDC to explore the implications for different industrial sectors of $3\frac{1}{2}$ per cent and 5 per cent annual rates of economic growth to 1977. By the end of 1973, the entire strategy had collapsed due to the balance of payments weakness.

Discussion within the Labour movement following the defeat of June 1970 centred on two main themes—one ideological and the other pragmatic. It was said that the Wilson Government had failed to carry out socialist policies; it had also failed to advance the interests of the working class and had been deserted by its traditional supporters at the polls in consequence. It was felt that new policies should be evolved that would be both more socialist and likely to appeal to traditional working class supporters. The proposals for new public enterprise were clearly more socialist in character, and might if they did manage to raise the economic growth rate provide a basis for an appeal to working class support.

proposals for a national enterprise board

The proposals for industry in *Labour's Programme for Britain, 1973,* can best be classified into three areas. These are as follows: extension of public sector; administration/regulation of the extended public sector; and administration/regulation of the private sector.

1 *The extension of the public sector* The public sector is to be extended by three methods. First, the "hiving on" to existing corporations of particular firms and activities. Secondly, the nationalisation of the Ports, the Aircraft industry and Shipbuilding. Thirdly, the setting up of a "National Enterprise Board" which would acquire, in some haste, a controlling interest in some 25 of the 100 major companies in the private sector.

2 *Administration/regulation of the extended public sector* It would appear that the National Enterprise Board will have a multiplicity of objectives (including export promotion, import substitution, promotion of technology, providing jobs in the regions, exercising "countervailing power" against multinational corporations) and will conclude "planning agreements" with other enterprises in the public sector in order to get them fulfilled (presumably in addition to the use it would be making of the twenty five companies in this direction). These agreements will refer only to strategic decisions —that is, location of new investment, rationalisation plans and similar.

3 *Administration/regulation of the private sector* The NEB would conclude "planning agreements" with the major remaining private firms (either the remaining "seventy five" or all those in category 1 of the Counter-Inflation Act 1972—all those with an annual turnover greater than £50 million—these amount to roughly 180) on the same basis as with the public sector. Powers would be available under the proposed new Industry Act to put a receiver into an uncooperative firm. All general assistance to industry would be made selective and conditional on acceptance of a "planning agreement". In addition, Regional Planning Agencies would be entitled to conclude local "planning agreements" with medium or small firms.

obscurities and potential pitfalls

Many of the proposals look wholly consistent with each other and with a socialist strategy. This is particularly true for the proposals for extending public ownership. However others require closer scrutiny in order to establish areas of uncertainty, which will require clarification before effective implementation, and also to highlight potential drawbacks. Areas requiring clarification include

1 the criteria for "hiving on" to existing public corporations (in the author's view, it should normally only take place when the management of the public corporation judges that it will conduce to the more effective operation of the corporation's main statutory responsibility; other views might include its use as a "second best" means of extending the public sector. Lord Balogh demolished this case with regard to the North Sea in an article in the *Banker* in March 1974. One important argument is the likelihood of erosion of public accountability as a result of indiscriminate "hiving on" and consequential cross subsidisation. It may be desirable for, say, the price of steel to be subsidised and that of ice cream to be

taxed but for the British Steel Corporation to run an ice-cream-making subsidiary in order to achieve this seems absurd).

2 the relationship between the NEB and the Government is not clearly defined. This could do with further examination.

Potential drawbacks include

1 the problem of defining objectives in a given operational context (for example, a decision would have to be made on priorities in a case where an enterprise of great potential as an import substitutor, export promoter, and counterbalance to the dominance of the multinational corporations, claimed that its effectiveness in these roles would be impaired by proposed relocation in a region of high unemployment. This must be a political decision in the absence of guidance to the enterprise concerned. If it is made by the Government, what role exists for the NEB other than as a clearing house for information? If it is made by the NEB, then a fundamental principle of democratic Government is breached—a para-Governmental agency is arrogating to itself the power to decide and implement economic and industrial priorities—this is much further than such corporatist devices as the late Pay Board were allowed to go). Another aspect of this is the potential conflict between the aims of the National Enterprise and the statutory obligations of the existing public corporations.

2 the definition of a Planning Agreement. The 1973 Programme appears to see it as extending down into the operational planning of enterprises. This could mean that it would be used to set up some form of centrally planned allocation of physical and other resources. One would hope that some of the more obvious pitfalls of central planning would be avoided—for example, its insensitivity to technical change and shifts in ordinary people's tastes. However, to do so involves making fundamentally political judgments.

3 selectivity and the exercise of arbitrary power. The aim of making assistance to private companies selective is both to improve the effectiveness with which it is used and to reduce the total amount transferred to the private sector. Both are justifiable and would, if effectively implemented, improve the marginal efficiency of capital and reduce the drain that the private sector of industry represents on public sector resources. However, the lack of means to define priorities does not suggest that the proposals as they stand would necessarily achieve this. The proposals in a proposed Labour Industry Bill to compulsorily administer a firm that is uncooperative appear to give even more scope for intervention, the nature and priorities of which do not appear to have been worked out.

fundamental criticisms of the proposals

As they stand at the moment, the proposals will have one of two conceivable effects. One would be to transfer responsibility for many fundamental decisions on national priorities to a para-Governmental body with immense powers and a multiplicity of worthy but ill defined objectives. This would involve a transfer of sovereignty from Parliament more significant than either entry into the European Economic Community or the setting up of the Pay Board and the Price Commission, as in all these cases veto power at least remains, and the scope of their activities is more narrowly defined. It is also possible for the alert citizen to establish their aims and objectives, including their priorities. This would not necessarily apply to the NEB. The alternative would be refer such decisions to Government, which would, in practice, mean that the existing pattern of intervention and decision making would be retained. It is not immediately apparent in what way this would improve the marginal efficiency of capital in the United Kingdom. The solution of referring strategic decisions to Government, though at least on paper it preserves the principle of Parliamentary sovereignty and control, would perpetuate the existing policies of unsystematic intervention and would amount to embracing the problem rather than solving it. The record of civil service management of industrial policy is not such as to inspire confidence—this is not necessarily to its discredit—the efficiency, integrity and responsiveness of public administration may well be incompatible with selective intervention in industry and commerce. Furthermore, as the work of the Public Accounts Committee has shown, Parliamentary control of such intervention is tenuous to say the least.

consequences of implementation

What might be the effect of implementing these proposals in the United Kingdom? First, they would not raise the marginal efficiency of capital. In consequence, the essential resource base from which an increased level of spending on public services, on overseas development aid, and a higher standard of living for ordinary people could be supported would not be sufficient to meet the claims made upon it. Either socially desirable policies would suffer, or alternatively the real disposable income of the working class would have to be held down. In either case, the real living standards of those whose interests the Labour movement was created to protect would suffer. In the first case, this would occur through a deterioration in the quality of education, health care, public transport and the social services (quite possibly, housing as well), widening the contrast that already exists between "private affluence and public squalor" and distorting the pattern of consumption in society still further. This outcome is sustainable but undesirable. The second is unlikely to be sustainable for any length of time beyond 2 to 3 years.

The latter comment deserves some elaboration. Some socialists would argue, quite sincerely, that the working class should be willing to put up with a temporary fall in living standards in the interests of building socialism. The writer has no doubt that there is a substantial vein of altruism and idealism in working people. However, it is a severely practical altruism. It has too long a memory of aims that could not be pursued and promises that could not be kept. In consequence, while a drop for no more than 2 to 3 years might be tolerated, anything longer lived would provoke major unrest. This might take the form either of a "wage explosion" (as at the end of the 1964-70 Labour Government) or the removal of the Government at the polls. This, of course, assumes the survival of Parliamentary democracy. In such circumstances, some socialists might argue that the normal forms and procedures of parliamentary and constitutional Government be suspended, again no doubt temporarily, in the interests of socialism. However, this would postpone rather than avert the reckoning. The series of strikes and demonstrations in Eastern Europe in the two or three years after the death of Stalin, also the more recent happenings in Poland in December 1970, suggest that the reckoning would come within a decade.

In consequence, it may be concluded that the implementation of the National Enterprise Board proposals as they now stand would not be likely to contribute to the furtherance of democratic and socialist objectives. It might also imperil what remains of accountable Government in Britain. These conclusions would not hold if two conditions were satisfied. These are

1. that a sustainable rise in the rate of growth of the economy is achieved, such that the resources are available to support an annual growth rate of 2-3 per cent in the real disposable income of working people allowing for desirable spending on social services and similar, this implies a sustained growth rate of 4-5 per cent).

2. the NEB avoids becoming the para-Governmental Board of "Great Britain Limited" (in which case, the democratic system will be approaching extinction through irrelevance).

Unfortunately, the two are mutually inconsistent. If decision making remains with the civil service, the first situation will not occur, if it goes to the NEB, the second will not apply.

A final objection to this critique would be that the planning process operated by the NEB might be highly participative and consultative in character. To describe it as an erosion or supersession of parliamentary democracy would, therefore, be both incorrect and alarmist. This criticism needs to be taken seriously. The participative and consultative planning could take one of two forms ; either consultation of interest groups, or consultation of individuals by means either of parliamentary or plebiscitary democracy. Consultation of individuals by either of those two means would, in fact, create two democratic systems operating in parallel—one for economic and industrial matters, and the other for everything else. This is unlikely to provide a workable arrangement for any length of time. Consultation of interest groups would lead to a fundamentally corporatist situation, in which functional groups were accorded a privileged and quasi-Governmental status.

Once again, the unpalatable conclusion reappears that the NEB proposals either fail to resolve the problem of reconciling efficiency with democracy by reinforcing the existing profoundly unsatisfactory system of industrial intervention, or sacrifice democracy to the pursuit of efficiency by creating what amounts to a social democratic version of the corporate state (the author uses " pursuit of efficiency " advisedly, since the cases studied in chapter three—notably Italy and Spain—tend to support the cynical hypothesis that turning over industrial policy to the tender mercies of the multinational corporations would, in fact, produce a higher rate of growth of real resources—even allowing for repatriation of capital, transfer pricing and so on—than the operations of a state holding company with admirable but confused intentions. Such a strategy would also free the scarce administrative resources of the state for more systematic and serious consideration of environmental and social matters).

5. alternatives—a model and the transition to it

The principal alternatives from a socialist point of view in the United Kingdom context are *either* increased intervention but no significant change in ownership, *or* advance to an increased public share of productive assets while avoiding intervention in the management of industry, *or* intervention associated with an increasing public share of productive assets. The first policy was attempted from 1964-70 and failed to achieve its objectives.

The second policy could take several forms. The state could acquire ownership of large areas of industry through a National Superannuation Scheme which would take over the assets of existing pension funds and/or the partial or total nationalisation of the " big three " clearing banks and of the insurance business. Alternatively, large areas of industry could be nationalised without compensation under workers' control. Both methods involve the transfer of a substantial quantity of privately owned productive assets to the state. In neither case, however, would the problem of economic management be dealt with.

Why is this so ? The explanation is the structure of industry in advanced economies. Significantly large sectors of production have substantial market power. For those who experience the application of this power in pricing decisions, it is of little consequence whether it is exercised to maximise the profits of private shareholders, the revenue of a self-managed co-operative, or the surplus earned by a state managed superannuation fund. It is for this reason that Bray and Falk in *Towards a worker managed economy* (Fabian Tract 430, 1974) admit the need for continuing statutory prices policy. The writer doubts the value of advocating measures that would depend for their success on permanent statutory control of prices—since it has not been shown that this is either feasible or beneficial (effectively, it would amount to central planning without a plan !).

There are sound reasons for regarding a policy of revenue maximisation or profit maximising outside those areas of the economy where the market system operates as being profoundly antisocial and damaging in their consequences. It would lead to an acceleration of price inflation, introduce an element of increasing randomness into the income relativities between different groups of workers and prevent the benefits of increased efficiency of production from reaching the consumer.

The third approach is, therefore, the only approach that is desirable. Within it, there are a range of options. First, existing public enterprise could be extended by " hiving on ". The reasons why this could make only a limited contribution were given in chapters two and four. Secondly, a state holding company system could be adopted for new public enterprise. Thirdly, the economy could be centrally planned and administered. Before returning to the second, it may be worthwhile to examine the third.

shortcomings of centralised planning

The central planning and allocation of goods and services is not a new concept. Indeed, it is normally accepted that certain goods and services should be provided and allocated centrally—for example, the education of the young. The central planning and allocation of the products of manufacturing industry, food, fuel, raw materials and so forth is less widely accepted, except in war-time.

Why is this so ? In order to understand this, it is worth enumerating the basic assumptions of centralised planning. First, it is assumed that the proportions of particular commodities used in a particular production process are static for all time, that is, that there is no technical change and no substitution between commodities. This is a gross oversimplification. Much of the process of economic growth is a consequence of technical change and the substitution of abundant resources for scarce ones.

Secondly, it assumes that information on inputs, outputs and productive capacity of some thousands of commodities is available and accurate. Thirdly, it assumes that the external economic system, that is, what goes on in the rest of the world, is either irrelevant or, at least, controllable. It is unlikely that the second case could be realised at all rapidly (it is probable that in the Soviet Union after nearly 50 years of central planning this has still not been achieved). The third could be achieved only by a policy of controlling the production and prices of imported commodities (that is, imperialism) or one of widespread import substitution and withdrawal from international trade. The latter would imply substantial diversion of labour into comparatively unproductive fields such as agriculture, cotton textiles, unsophisticated electronics and so forth.

It could be argued that perceptive planners would find ways of adjusting the planning to cope with such problems—that is to say, to use some kind of signal that would indicate where substitutability existed, which resources should be conserved and which could be used more abundantly, and even provide some rough and ready basis for the fair international exchange of commodities. Considerable time and resources would be devoted to the perfection of such a system of monitoring and control and ensuring that managers obeyed the rules. However, the perfection of such a system would itself have costs, one of them being the large numbers of people who would be taken out of productive or socially desirable activity in order to operate the monitoring system. The same results could be produced less wastefully by employing pricing as a tool and money as an indicator. However. then judgments on the relative value of products would have to be made centrally. It is not clear what criteria these could be made on, or whether consumers' preferences would behave in the way that the central planners predicted. If they did not, they would produce temporary shortages or gluts of commodities. These are all familiar criticisms of the practices in centrally planned economies. In the writer's view, they are unlikely to be consistent with democracy, except during a war time situation.

Socialists are now left with one of two choices. One is to abandon any attempt to extend public ownership and control within the United Kingdom. The other is to find a form of state holding company arrangement that permits their objectives to be realised. Before examining whether this could be achieved, it is useful to analyse the developing international economic system and Britain's place within it.

the international system and the UK

International trade is increasingly dominated by the activities of comparatively small number of companies (at most a few hundred). At the same time, these companies are emancipated to an increasing extent from the constraints of the market system, that is, they can increasingly influence and sometimes even control the environment in which they operate. Elements of this environment which are now at least partially within their control include :

1. real wage costs in additions to productive capacity (that is, in deciding where to site a new plant, a firm may consider a range of countries—in some of which the standard of living is much lower than others).

2. by selling products from a subsidiary in one country to that in another at prices that do not necessarily reflect costs of production (henceforth referred to as " transfer pricing "), they can arrange to locate the group's profits in countries with low tax rates.

3. avoidance of restrictions on movements of capital (normally achieved by delaying or hastening transfer payments within the group).

4. the policies and sometimes even the composition of governments of states in which they operate.

In certain major advanced countries, these corporations enjoy a symbiotic relationship with the government machine. This applies particularly to the more successful industrial countries, such as the United States, Japan and France. In the former two, the relationship has led to a severe imbalance between the growth of private consumption and the provision of public services. Galbraith in *Economics and the Public Purpose,* 1974, describes how the military-industrial complex dominates decision making in relevant fields. The intensity of the relationship between the three or four major Japanese corporations (Zaibatsu) and the Ministry for International Trade and Industry is notorious.

In the 1960s, Britain sought to develop into a Japan—an advanced country whose economy was dominated by a few domestically based multinational corporations closely integrated with the Government machine. In spite of some progress in this direction as a result of the activities of the IRC, this was not achieved and, perhaps unconsciously, policy began to drift towards the alternative of domination by a number of " non patrial " multinational corporations attracted in by relatively low labour costs (by Western European standards) and various cash incentives.

aims of a state holding company system

What then should a state holding company system aim to achieve for Britain ? First, it should seek fundamentally to renegotiate the terms on which the UK participates in the international system in order that domestic socialist and democratic objectives can be achieved (the question of international socialist and democratic obligations will be dealt with later). This implies the possession of instruments that can pursue these objectives on a continuing basis and influence their competitors and partners to follow courses of action that are compatible with them.

The comparatively low level of efficiency in British industry, which is reflected in wage levels, is partially accounted for by the relatively small size of industrial groups as against their main competitors in the United States, Japan and, to some extent, Western Europe. The ability to support an adequate level of industrial research and development is frequently lacking, while the fragmented character of much of industry lengthens the time best practice technology needs to diffuse fully into an industrial sector.

The discovery and development of large new indigenous natural resources, principally offshore, will raise the prospect of the UK facing some of the same choices as Canada or Zambia. A worst possible case might be for Britain to support a temporarily higher level of home consumption from a balance of payments bolstered by high priced exports of crude oil and natural gas, while omitting to deal with the problems of the rest of the economy.

It is also both equitable and desirable from a socialist point of view to seek to end the exploitation of the public domain by the private sector of industry. It is fundamentally wrong that as a general rule where the community gives financial support and backing to an enterprise it should not be entitled to a share of its profits, quite apart from that arising from taxation receipts. Immense areas of superficially competitive private industry are in practice supported financially by the state, through direct grants by the Government under legislation such as the 1972 Industry Act, through discriminatory and non-competitive purchasing by the public sector, through direct funding of industrial research in private companies, and through non-competitive pricing of some public sector products such as steel—though the March 1974 Budget did succeed in reversing some of the effects of the latter. Mervyn King of the Department of Applied Economics at Cambridge has calculated that the cumulative effects of the introduction of capital allowances, investment grants and free depreciation has been to more than halve the true rate of company taxation since the early 1950s (*Guardian*, 14 November 1973). Figures published by the Department of Trade and Industry in December 1972 for Research and Development funding (excluding military uses) indicate an annual subsidy of between £400-500 million from the public sector. The terms of trade between the public and private sectors probably account for another £400-500 million annually. Some of this will vanish as effects of the March 1974 Budget are felt—for example on steel. However, the public sector seems likely to continue to be exploited by its suppliers for the foreseeable future, leaving a residue of £200-300 million per annum. British industry is an area where the old cry of "no taxation without representation" is relevant, since the taxpayer and his or her representatives enjoy virtually none of the rights or advantages but almost all the responsibilities and risks of ownership.

A further requirement of equity is that the rewards of labour should depend to only a negligible extent on locational factors. This implies an effective regional policy to reduce inter-regional disparities.

A final requirement of equity is that no substantial group of employees should be wholly subject to a process of decision making outside the confines and control of British and other representative institutions—as might be said to apply if large parts of British industry were under the exclusive ownership and control of multinational corporations.

There might also be a number of optional aims, of a kind that would fulfil less immediate objectives. One could be to provide a basis for experiments in workers self-management of enterprises (along the lines suggested by Bray and Falk in *Towards a worker managed economy*). Another might be to develop gradual state shareholding in the private sector for revenue raising purposes.

translation into a model

It is proposed to construct a system of several state holding companies (as in contemporary Italy), each with clear, simple and statutorily defined objectives but able to move into any area of activity other than a statutory monopoly. Three questions need to be answered at this stage namely:

1 How will the objectives be set?

2 What objectives will they be and how will achievement of these be measured?

3 What structure of responsibilities and monitoring will be required?

Assuming that a system of state holding companies comes into being before 1985, the objectives could be set by statute (as was done by the 1945-51 nationalisations) to fulfil certain clear social goals, for example, to expand efficient and viable areas of British industry to the maximum economic extent (incidentally, dragging forward privately owned or worker managed "industrial campfollowers" in their wake), to maximise the value added arising from the rapidly developing natural resources of the North Sea and Celtic Sea, to secure and expand the UK share of the employment and value added arising from the operations of high technology multinational corporations while protecting the UK economy and labour force from abusing them, to support and seek to render viable enterprises in areas of high structural unemployment or, conceivably, where the national interest demands the survival of an enterprise, to assist the development of exemplary worker self-managed concerns where practicable to provide an ideal model of industrial relations to which other enterprises might tend, or raise revenue for the public sector through the acquisition and accumulation of assets and the income there from in the financial sector.

Beyond 1985, it is impossible to predict what goals might be chosen. Suffice to say that goals should be arrived at through the normal democratic and parliamentary process, after proper debate, appearances in manifestoes, party conference resolutions, Fabian pamphlets and the like, and should then be embodied in the statutes. Clear simple general objectives should form the fundamental basis of each holding company.

objectives

Objectives as stated in the example above are insufficient in themselves. They are not easily measurable in the form given and do not contain any guidance as to the appropriate financial and managerial regime under which the holding companies should operate. It will be assumed that it is desirable that the general will of the community be clearly and unambiguously expressed in the overall strategy of the holding companies, that targets and constraints be unambiguously quantified and that the relative duties and powers of civil servants and managements be defined in such a way that disputes over interpretation are reduced to a (probably ineradicable) minimum.

Since the overall situation in which an enterprise or group of enterprises will operate cannot be easily foreseen in the statutes, detailed targets and constraints will need to be set and/or revised from time to time. The history of the existing nationalised industries since Command 3437 suggests the assumptions with regard to Government policy and directions made at the time of their setting are crucial to the fulfilment of financial and production objectives, and the speed with which these change tends to negate the value of agreed targets as a means to efficient use of resources, or indeed to any other objective.

A possible way out of this quandary would be for the Government to negotiate formal planning agreements with the state holding companies. These might be set out similarly to existing planning agreements between the French government and nationalised industries such as electricity. They would be valid for a period of some years, and their terms could be varied only by an agreed procedure—that is, the state holding companies would be treated as modern employees with full trade union rights rather than the hired hands of a nineteenth century employer. These proposals would not necessarily reduce the element of public control that is, of course, essential but would make it more responsible and formal and less prone to the "random noise" generated between the civil service and managerial technostructures in public corporations. The situation could further be improved by the setting up of a neutral body on the lines of the National Economic Development Council to act as a channel for Government directions, registrar for planning agreements, and a neutral monitor of performance, prospects and problems, reporting directly to a permanent Parliamentary Select Committee on Enterprise.

1 *For the state holding company with a responsibility for viable and efficient manufacturing industry* the overriding objective must be growth within a financial rate of return constraint. This could be expressed in terms of turnover or value-added maximisation within a set real rate of return constraint (the turnover or value added target could be deflated to constant purchasing power accounting terms). This would provide a stimulus of an automatic kind (rather than exhortatory) to keep down prices and improve efficiency in leading sectors as a consequence of aggressive competition between the subsidiaries of a growth maximising state holding company and their "industrial camp followers". Entry into retailing or into the financial sector could well be a logical extension of this role. Even if the rate of return expected was the same as in competing industry, the holding company would be likely to be more efficient and invest more, since its size would enable it to take risks on a grander scale, as existing American, West German and Japanese conglomerates do.

2 *The holding company for hydrocarbons and linked industry* would have the objective of maximising value added per Joule of heat content with a minimum financial rate of return. It could also have a non-financial environmental constraint, though this would require work on quantification.

3 *The regional holding company* would not have a financial objective, but its efficiency would be measured by the subsidy required to maintain given number of jobs in specified regions of high unemployment, and its dynamic efficiency by the turnover (or, conceivably, value added) of the rehabilitated enterprises that it released to the ownership or management of other parts of the state holding company system over a period of several years.

4 *The "joint venture" holding company* would have its objectives set in terms of

maximising UK value added per UK employee financial rate of return constraint.

5 *The holding company for backing exercises in self-management by workers* would have its objective set in terms of a maximum number of jobs maintained at a given financial rate of return.

6 *The financial holding company* would be required to maximise profits within the constraint of accumulating capital at a given real rate.

the model—simplified

A model of the UK industrial and financial sector in the 1980s, if these proposals were adopted, might look something like the following:

1 Six state holding companies would be functioning — the National Industrial Holding Company, the Hydrocarbon and Environment Holding Company, the Regional Holding Company, the National Joint Venture Holding Company, the Bank of the Working Class, and the National Investment Bank.

2 The National Industrial Holding Company would include perhaps ten to fifteen of the top one hundred industrial enterprises in the UK as well as at least one leading retail distributor and a clearing bank (it might also have acquired an insurance company and/or a leading building society).

3 The Regional Holding Company would own various "lame ducks" (it is possible that some of those could be operated as joint ventures with other holding companies, particularly the NIHC, where it was consistent with the objectives of both bodies—for example, where the RHC judged that the cheapest way of maintaining a given number of jobs in a region was to pay an operating subsidy to the NIHC to retain a plant there).

4 The Hydrocarbon and Environment Holding Company would include between five and ten of the top one hundred industrial enterprises in the UK, principally in the fields of oil, chemicals and process plant.

5 The National Joint Venture Holding Company would include at least half a dozen of the large subsidiaries of multinational corporations (which would almost certainly fall among the top one hundred), principally in high technology areas such as computing, telecommunications equipment and pharmaceuticals.

6 The Bank of the Working Class would lend funds (and management expertise where requested) to worker self-managed enterprises throughout the economy.

7 The National Investment Bank would be gently prodding the management of those concerns whose shares it held to take action to improve profits in the private sector (which, because of the "countervailing power" exercised by NIHC and in some areas HEHC also, could only come from improvements in efficiency).

demonstration scenarios

Within this system, how could decisions concerning resource allocation or overall economic management be transmitted? First, there is manipulation of constraints. State holding companies could have their employment or financial constraints changed, so long as new targets were agreed in the form of modifications to planning agreements. The following two outline scenarios illustrate possible ways in which the system could be made to operate:

case A The Government feels that NIHC's policies of ruthless expansion and efficiency are having too abrasive an effect on competing private and self-managed industry—this might show up in the form of a bear stock market, setbacks to pension funds and marginal banks and a severe reduction in the number of applications to form worker self-managed enterprises. At the same time, the economy is close to full employment. Options would include lowering the financial constraint on the Bank of the Working Class (to shore up the self-managed sector) and raising the financial constraint on the National Industrial Holding Company (that is, raise its profit margin and curtail its expansion programme). In the first case, the public sector surplus would fall slightly, and some deflationary action elsewhere might be necessary. In the second case, the public sector surplus would rise, thus deflating the economy. However, the rate of growth of productive potential would also fall, so that macro-economic action to maintain full employment would not be necessary.

case B Economic forecasts indicate that the price of crude hydrocarbons is likely to fall significantly under the impact of large scale substitution on the international market—something like this could well happen at some time during the middle to late 1980s. The potential effect on the UK balance of payments is felt to be serious. Options would include reducing the level of activity by raising the real rates of return required from the National Industrial Holding Company, the Hydrocarbon and Environment Holding Company, the National Joint Venture Holding Company and the Bank of the Working Class, cutting the manpower target of the Regional Holding Company and lowering the rate of capital accumulation constraint on the National Investment Bank (this would amount to conventional deflation). Alternatively, the financial constraint on the Hydrocarbon and Environment Holding Company and the National Joint Venture Holding Company could be reduced (that is, the Government would try to raise UK value added, even at the cost of softer dealings with the multinationals) and the public sector revenue lost recovered elsewhere (for instance, from the NIHC, public expenditure cuts or increased taxation). The former would involve a decline in the growth of productive potential, while the latter would not necessarily do so.

It is clear from the examples that used strategically the holding companies could act as one medium term instrument of economic policy, though it would not necessarily be wise to regard them as a substitute for appropriate adjustments of taxation and of the sterling exchange rate. For example, if the second option in case B was followed as a general rule, then the export competitiveness of British industry outside the HEHC and the NJVHC would suffer. Manipulation of the activities of multinational corporations in order to bolster the balance of payments should be regarded as very much a short term measure, as should the activities of the RHC on employment. The success of the NIHC is critical to medium term strategy in the model, and in view of the likely lead time of much of its investment programme (perhaps three to five years) it is unsuitable for short term regulation of the economy. The BWC and the NIB are basically tools to ensure a gradual diminution of the volume of private capital and its power and should normally only be adjusted to protect this process (or, in the case of a non-socialist regime, to slow it down or reverse it).

refinements to the model

Before examining the problems of transition to the model outlined above, it is worthwhile commenting on certain areas and aspects on which the model is obscure. These include international policies, for example, with regard to overseas holdings and operations and to inward investment by mulitnationals, manpower and regional policies, and competition/monopoly policy.

It is reasonable to suppose that the National Industrial Holding Company will, on occasion, find it necessary to the fulfilment of its objectives to hold or acquire in whole or in part enterprises located in whole or in part outside the confines of the United Kingdom. That is to say, it would possess certain features of the privately owned multinational. In order to prevent this conflicting with the overall objectives of the UK, certain adjustments to its targets are advisable in order to discourage a situation where fulfilment of its objective is achieved by the export of capital and jobs to cheap labour countries (many of which have regimes of which democrats and socialists would disapprove). In the author's view, this could best be achieved by three stipulations:

1 The target should be expressed in UK real value added.

2 The NIHC could invest overseas (including from internal savings of overseas subsidiaries) only in proportion to the contribution of overseas value added to that of the organisation as a whole without seeking special authorisation from Parliament. Furthermore, authorisation would be required for all investment (possibly, in addition, operations involving significant value added) in certain overseas countries.

3 There would be a Net Exploitation Levy, which would be derived from the difference between UK and overseas manpower costs (" costs " would include education and training, welfare and any local taxes on manpower), the payment of which would be in addition to meeting the financial constraint on the NIHC.

The net difference of these three measures would be to impel the NIHC towards a non-exploitative relationship with the outside world. It would have some incentive to expand operations overseas where this was in its commercial interest, but it could not act as a footloose exporter of capital and it would not be able to take advantage of low labour costs. In addition, the restraints on overseas investment would encourage it to take into partnership local interests in the countries where it operated, and thereby tend to reduce foreign dominance in their economies.

It is not envisaged that any other state holding company except possibly the HEHC, should operate outside the UK. In the case of the HEHC, similar rules to the NIHC could apply.

Inward investment by multinationals in the UK is most likely to be beneficial where it brings in work with a high value added content. Such enterprises tend however to locate such work (for instance research and design development, manufacturing as against assembly work) mainly in their countries of origin, though certain mature multinationals spread high value added work across several national subsidiaries (the Swiss multinational, Brown Boveri, for example, spreads its design and development work across French and West German subsidiaries). Therefore it would be prudent to be able to pick and choose what operations of multinationals it is worth having in the UK. The National Joint Venture Holding Company would tend to buy into those existing subsidiaries that were worthwhile. However, new ventures would require different treatment. One possible method would be to make agreement to a 50 per cent stake by the NJVHC a condition of inward investment. Another would to suspend permission for any venture in which the NJVHC did not participate until a lengthy and detailed investigation of the merits of the case had been completed (this would catch those ventures which did not meet the NJVHC's criteria).

manpower and regional aspects

It would be inconsistent with the system as proposed to continue to rely on direct controls in the field of industrial location. The traditional use of this method as a covert way of raising regional employment would be superseded by the creation of the Regional Holding Company, which would be responsible for providing a given number of jobs on a " care and maintenance " basis. Naturally, this would not deal with the longer term problem, any more than present methods do. A longer term strategy for the regions of high unemployment must aim to ensure that they break out of the cumulative process of industrial decline, emigration of high quality labour and lack of an infrastructure to attract and retain viable industry. This could involve specific policies which restrained overall economic growth in order to transfer resources to the regions. One form that this might take without controls of an arbitrary kind would be to raise the financial constraint on the NIHC and devote the increased revenue to major Government spending in the regions, for example, improving the social and transport infrastructure, a major effort in industrial retraining or an increase in the number of jobs provided by the Regional Holding Company.

The areas of industrial democracy and wage determination also require consideration. Enterprises financed by the BWC would enjoy full industrial self-government (" workers' control "). Elsewhere, for reasons outlined earlier, this would not be possible. Instead, a range of forms of industrial democracy intermediate between self-management and an authoritarian system with minimal consultation would have to be evolved. It would be foolish to attempt to lay down guide lines. However, there would not seem to be any reason why there should not be a fundamental right to information and consultation on major items that affect the working environment. The supersession of private shareholding and the associated dangers of " insider dealing " would tend to reduce the extent of reserved areas to which traditional conceptions of commercial secrecy need apply and thus render much greater information and consultation possible.

The Trade Union Congress could be represented on the consultative body that registered planning agreements (indeed there might be stipulation that such agreements would have to be witnessed by a representative of the TUC in order to have any legal validity). In terms of wages policy, it would seem sensible to expect state holding companies to observe customary collective bargaining procedures in the industries in which they operated and it would be desirable (and consistent with the philosophy of the approach outlined earlier) to prohibit any Government intervention in their wages policy without express and specific authorisation by Parliament.

competition and monopoly policy

The activities of the NIHC (and in some areas the HEHC and the NJVHC) would tend to ensure an adequate degree of competition in most sectors of industry, due to the growth maximising strategy imposed on it by statute. However, there are circumstances where this might not apply. For example, the competition in a sector might be so weak that the subsidiary of NIHC might be able to price up and cross subsidise other parts of the enterprise. This would be undesirable since it would allow inefficient firms to survive in the weak sector and penalise efficient firms in the other sector. Another situation might be one in which the NIHC was blocked from entering a sector by " entry barriers " and was unable to acquire a firm operating there on a voluntary basis.

In either case, there would be an advantage in having a neutral body concerned only with the prevention of the exploitation of market power to investigate and adjudicate impartially. It could be given power to declare a given industry a monopoly, or to approve a compulsory purchase order for a selected company in a sector where a definite and high barrier to entry existed. In the former case, the industry would be transferred to the state sector in its entirety and organised in the form of a " Morrisonian " public corporation. In both cases a fair price, reflecting a normal level of profit, would need to be determined. A body similar to the Monopolies Commission would thus still be required (though the statutory definition of monopoly and its terms of reference would need to be redefined to reflect the changed economic and commercial environment).

Finally, the NIHC and the HEHC would be obliged to obtain the express agreement of the watch dog body for competition for any arrangement or understanding with any commercial competitor within the UK market. This would also strengthen competition and indirectly contain inflationary pressures. It would be sensible to exclude collective wage negotiations from this provision. It might be desirable to provide that the decision of the watch dog could be overridden in the public interest, though it would be best to ensure that any such action occur in the open—a Statutory Order passed by Parliament would be preferable in this respect to a ministerial directive.

Because of the exclusion of monopolies from the state holding company system (except possibly for the extraction of oil and gas), most, if not all, of the existing public corporations would remain outside it. Some partially owned enterprises and some wholly owned ones outside the mainstream of nationalised public utilities could be fitted into it. These would include British Petroleum, International Computers, Harland and Wolf, and the British Sugar Corporation among those in which the Government has a minority shareholding, and Rolls Royce (1971) among the wholly owned concerns. Normally, except in the case of the NJVHC and the NIB (possibly the HEHC also), 100 per cent ownership would be taken. Certain functions of the British Gas Corporation might pass to the HEHC. The NIHC might also include British Airways. The proposed National Shipbuilding Corporation would remain outside the state holding company system because of its monopolistic character.

implementation

It is assumed that any socialist Government would feel itself morally obliged to provide some form of compensation for the assets transferred from private or corporate hands. Some would argue that this need not be the case. There are sound practical reasons for disagreeing with them. First, if adequate compensation were not paid, confidence in what remained of the private sector of industry and commerce would collapse at a time when the administrative machinery dealing with industry was fully stretched as a result of the work involved in setting up new public enterprise and when society had not yet learnt to operate industry in a non-capitalist manner (also the store of experience in workers' self-management which it would be the task of the Bank of the Working Class to accumulate would not exist). Secondly, it would redistribute wealth arbitrarily and randomly. Both effects would make the task of a socialist Government immeasurably more difficult and might jeopardise attempts to harmonise socialism and democracy. Assuming that compensation should be paid, it does not follow that present share values represent a fair level. These reflect the (until now justifiable) assumption that the Government will assure the profitability of their enterprises by all means in its power, while entering no claim in respect of the resources expended in so doing. It would be inequitable to compensate for the loss of expectations of future open handed support from the taxpayer.

The following strategy is suggested to overcome this and other problems of implementation from the financial point of view.

1 There would be phased withdrawal of all support, direct or indirect, to private industry by the taxpayer over a period of four years (this would bring in £1,600-£2,000 million a year—the King effect would account for £1,100-£1,500 million annually, which implies a total sum available of between £1,700 and £2,500 million, of which perhaps £1,600-£2,000 million could be retrieved per annum.

2 The issue of an "index linked" National Enterprise Bond carrying a real rate of interest of 3 per cent. The maximum permissible individual ownership could be limited to £5,000 or £10,000 at January 1974 prices.

3 A long term loan could be raised from the members of the Organisation of Petroleum Exporting Countries in exchange for an understanding that the UK would closely co-ordinate its pricing and production policies with other major producers when the time came for it to become a net exporter.

These three measures on their own would provide more than sufficient resources to compensate the owners and finance the capital investment programmes required.

The saving of £1,600 to £2,000 million per annum could be capitalised at £53,000-£67,000 million. Current estimates are that the OPEC countries will have a financial surplus of about £20,000 to £30,000 million a year in the rest of this decade. It is perhaps not unreasonable to suppose that some £10,000 million could be borrowed in four annual instalments of £2,500 million.

In addition, certain devices could be used to ease the transition. For example, prior announcement of the phased withdrawal of support to private industry would lead to a short term boom in investment and innovation since firms would step up investment and research spending in order to take advantage of existing aids before they were reduced and/or abolished. This would tend to squeeze dividends and share prices so that acquisition by the state holding companies would be facilitated. On the other hand, if no prior commitment was made to take over any specific firm or industry, uncertainty over future prospects need not discourage new investment. At the same time, if the Government gave the NJVHC powers to acquire compulsorily 50 per cent of the voting shares in any UK subsidiary of a multinational corporation at a price based on past UK profits declared for tax purposes, the multinational corporations would be obliged as a precautionary measure to reduce the value of their UK imports and raise that of UK exports. This would strengthen the balance of payments during the transitional period.

The issue of "National Enterprise Bonds" would have several advantageous effects. First, it would divert savings from the private to the public sector, since the combination of inflation-proofing and a guaranteed rate of return could not be matched by equities. Secondly, it could lead to an overall increase in voluntary savings by increasing the attractiveness of bond acquisition. This might render a modest rise in the proportion of investment in the Gross Domestic Product possible. This would be advantageous but is not essential to the strategy outlined. Thirdly, it would demonstrate to a class of persons by no means lacking in political weight, namely the small savers, that a socialist method of operating the economy might, in practice, be in their interests. The political effect of this should not be underestimated.

It is proposed that both the principal and the interest on the National Enterprise Bonds should be guaranteed by law, related to the Consumer Price Index, and should be a charge on the NEB with the Government as a payer of last resort.

The OPEC loan would provide foreign exchange to buy out multinational corporations where required (this might but need not include the North Sea and the Celtic Sea—depending whether outright nationalisation of the 30-50 per cent "carried interest" formula suggested by Lord Balogh in his March 1974 article in *The Banker* is preferred—in the case of "carried interest" no compensation need be paid).

The phased unilateral removal of hidden aids to British private industry would create substantial international goodwill —particularly among the more efficient of our trading competitors. It would also be consistent with either a sincere attempt to create a harmonised internal market and industrial base in the existing European Economic Community or with the pursuit of an open-trading policy on a wider basis. It would also form an essential component in a "tough but fair" policy for dealing with the multinational corporations.

The National Investment Bank and the Bank of the Working Class would not enter the picture significantly until near the end of the four year transitional period, when the process of adjustment to an unsubsidised future for private industry was more or less complete. NIB would then start to buy into "going concerns", while BWC would begin to consider applications from relevant groups of workers. It would be undesirable for either to enter much before then since they would run the risk of becoming casualties of the upheaval in British industry and finance which the measures described above would create.

The overall consequences of the measures would go to change radically both the pattern of ownership and of finance in British industry, while at the same time more than sustaining the historic rate of growth of the economy through the transitional period. The neutrality and even, on occasion, the positive acquiescence of powerful interest groups, among them the multinational corporations, the governments of Britain's industrial competitors and of the oil producing states, and the "small saver" group within the UK, would have been obtained. This would make it difficult for a successor government of capitalist tendencies to unscramble the changes made. Neither the experience of the early 1950s nor of the early 1970s would suggest that a sustained effort could be mounted by the present opposition, though, no doubt, minor if vindictive actions might take place in the first two or three years of a non-socialist Government. Moreover, it could be argued that the interest that several influential groups would have in the new *status quo* would limit even these.

Management would be required for the holding companies and for the monitoring agency (probably the National Enterprise Board). The existing management teams of several large companies could be employed as nuclei or seeds for the National Industrial Holding Company. The Hydrocarbon and Environment Holding Company could rely on the oil and chemical industries in the same way. In the case of the Regional Holding Company, some existing regional planning staff could be recruited—as could some employees of the Industrial Development Executive. The trade union movement would provide a large proportion of the management teams for the National Joint Venture Holding Company and the Bank of the Working Class. The National Investment Bank would recruit mainly in the City. The National Enterprise Board could recruit most of its staff from existing industrial bodies such as the National Economic Development Council and the Confederation of British Industry.

6. conclusion

Extension of public ownership, though desirable in itself, can best be justified on the basis of the contribution it can make to the fulfilment of other socialist objectives. Many of the latter depend on the rate at which the resource base for them (the taxable capacity of the British economy) can be induced to expand.

Measures for extending public ownership should, therefore, include the aim of increasing the efficiency with which the economy uses new capital—since inefficiency in its use will either reduce the rate of economic growth or press on the living standards of the working class to an unacceptable extent.

Because of the structure and character of modern industry, neither traditional nationalisation nor the institution of workers' self-management would be the best way of extending public ownership in much of the British economy. The state holding company form is likely to be more appropriate.

Overseas experience, particularly in Italy and Spain, suggests that for an economy of the size and the complexity of that of the United Kingdom (where the state will presumably wish to pursue several industrial policy objectives simultaneously and from time to time change its emphasis between them) a single all embracing state holding company is inferior to a system of several ones with clear, simple and measurable aims. The proposed National Enterprise Board is suspect on those grounds alone.

There is also a basis for criticising the NEB on the basis that it does not seem to do anything to improve either accountability or efficiency in British industry. It could carry the risk of failure or a terrible (presumably unintended) success where it became the Board of Directors of a corporatist " Great Britain Limited ".

The alternatives of central planning or of revenue maximising public enterprise are also unattractive. The first would be chronically inefficient; the second would lead to an unacceptable degree of exploitation of market power. The latter criticism also applies to a system of worker managed enterprises.

A multiple system of state holding companies, between four and six, would be a superior method of meeting national and social objectives. The form proposed for this comprises six bodies (the last two of which are optional) with objectives set as follows.

1 *The National Industrial Holding Company* whose objective would be to maximise UK real value added at a given overall real financial rate of return.

2 *The Hydrocarbon and Environment Holding Company* whose objective would be to maximise UK real value added per Joule of hydrocarbon extracted at a given overall real financial rate of return and subject to an environmental constraint.

3 *The National Joint Venture Holding Company* whose objective would be to maximise UK real value added per UK employee at a given overall real financial rate of return.

4 *The Regional Holding Company* whose objective would be to minimise the subsidy required to maintain a given number of jobs in designated regions.

5 *The Bank of the Working Class* whose objective would be to maximise the number of jobs in the worker self-managed sector within a given overall real financial rate of return constraint.

6 *The National Investment Bank* whose objective would be to maximise revenue within a given real rate of capital accumulation constraint.

Objectives would be set in the statutes setting up these bodies, and would be quantified (together with constraints) through a system of planning agreements. A neutral body similar to the National Economic Development Council would be created to register planning agreements between the Government and the holding companies, and to report on developments on these to a permanent House of Commons Select Committee on Enterprise.

This system would be compatible with more conventional macro-economic ways of managing the economy but would give the Government and the community a wider range of options in any given situation (it would, of course, be unwise to rely on the holding companies as an alternative to unpleasant but necessary actions such as deflation and devaluation —though the system could be used to great maximum benefit from them). It would also tend to restrain inflationary pressures within the economy by limiting the extent to which competing privately owned firms could price up.

Properly used, it could over a period of some years reduce the extent to which the United Kingdom can be said to exploit the developing countries. It would thus contribute to the building of a more equitable international economic system.

It would enable Britain to take full advantage of the opportunities presented by the finding of gas and oil deposits offshore. This would be achieved through a sophisticated policy of maximising value added (wages/salaries plus profit) from each Joule of hydrocarbons extracted. It would render possible a more intelligent and systematic use of the resources and management of the multinational corporations, so that Britain would obtain its proper share of the employment and profits arising from their operations.

It would increase the cost effectiveness of regional policy, thus making it possible to provide more jobs in the regions and/or reduce the burden on the properous parts of the country.

It would provide a basis for the gradual development and extension of experiments in workers' self-management, both by creating an institution to promote and support its development, and by creating and enlarging a commercial environment where the full exercise of workers' control was compatible with the general interests of the community.

It would lead eventually to an erosion of "capitalism" as known at present through the operation of the financial holding company; a mixed economy with an increased socialist component would exist which would be gradually transformed into a type of socialist economic system containing elements of central control, workers' self-management and market socialism, the proportions of which could be varied to taste. The mixed economy would, in time, become acceptable to non-socialist parties just as the Italian system has become to the Christian Democrats and the Liberals and Republicans.

The system would require a revised policy with regard to monopoly but does not depend for its operation on a statutory prices policy.

More generally, the system would permit a greater degree of democratic control and accountability with respect to industrial policy. As the power of the state in industry increased, the extent of parliamentary control over the exercise of this power would also increase, and a system of checks and balances against abuses and arbitrary power (through the planning agreements system, the National Enterprise Board, the watch dog body for competition, and, last but not least, the Select Committee for Enterprise) would come into existence.

The introduction of the system would be financed by means of the total abolition of aids to private industry, which would be more than sufficient to compensate the owners, and to finance the major programmes of capital spending required to modernise British industry. This would be done over a period of some years, in order to avoid a sudden shock to the system, and also to produce an investment boom in private industry to tide the economy over until the system began to work properly.

Foreign exchange could be raised in an "oil solidarity" loan from OPEC during the transition period. This would make it possible to compensate multinational corporations in foreign exchange.

A new deal would also be offered to the small saver, through the "index linked" issue of "National Enterprise Bonds". These would help to finance the acquisition of privately owned enterprises and might also make it possible to increase the country's rate of investment somewhat.

The system proposed should be able both to increase the long run rate of growth of the British economy (mainly, though not entirely, through more efficient use of capital), to increase democratic control of it, and provide a framework in which the problems of inflation, industrial democracy and exploitation of the Third World could be dealt with more effectively than in the present system. This does not mean that it is the only method of raising the long run rate of growth of the UK economy. It would be possible for some form of corporatist managerial capitalism to achieve this—indeed if the 1970-74 Conservative Government had succeeded in holding down working class living standards *and* been re-elected it could have proved this point. However, it is probably the only democratic *and* socialist way of doing so.

This pamphlet seeks to start a debate within the Labour movement on what form or forms of public enterprise are most appropriate to the fulfilment of socialist, democratic and liberation objectives in modern industrial society.

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.

The group is autonomous, electing its own committee. It co-operates closely with the Fabian Society which gives financial and clerical help. But the group is responsible for its own policy and activity, subject to the constitutional rule that it can have no declared political policy beyond that implied by its commitment to democratic socialism.

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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Cover design by Dick Leadbetter. Printed by Civic Press Limited (TU), Civic Street, Glasgow, G4 9RH.

ISBN 7163 2040 1

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