

INDEPENDENT LABOUR PARTY

*Finance Enquiry* <sup>12</sup>  
*Committee Reports*

1. A Socialist Policy for Transferring Property from Private to Public Ownership, together with a Socialist Policy of Taxation.
2. The Socialisation of Banks and Credit.

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INDEPENDENT LABOUR PARTY

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## FINANCE ENQUIRY REPORTS.

**T**HE Committee set up by the Information Committee at the request of the N.A.C., on the instructions of Conference to consider the following terms of reference, viz. :

1. The question of Compensation in its relation to the Transfer of Private Property to the Community, and
2. The application of Socialism to the Banking and Financial System.

has made interim reports which the N.A.C. herewith submits to Conference for discussion. The N.A.C. has taken no decision upon the policy outlined.

We recommend the same procedure for dealing with these statements as with the Machinery of Government Reports. We recommend in this case that one hour of the time of the Conference shall be set aside for preliminary discussion, and that the reports be then submitted to Branches and Divisional Councils for thorough examination and that the N.A.C. shall then consult with the Divisional Councils as to what steps should be taken to declare the policy of the Party upon the matter.

We understand that further reports to complete the enquiry will be presented by the Committee responsible for these interim statements.

### I.

## A SOCIALIST POLICY FOR TRANSFERRING PROPERTY FROM PRIVATE TO PUBLIC OWNERSHIP TOGETHER WITH A SOCIALIST POLICY OF TAXATION.

### THE PROBLEM OF COMPENSATION.

**T**HE first question that arises for consideration is whether it is desirable to pay any compensation at all when private property is socialised, or whether private property should be simply confiscated.

Our opinion is, that as a general rule, the payment of compensation would be necessary and that confiscation is not expedient. We assume that in this country socialisation will take place gradually, one industry after another being transferred to public ownership and organised as a public service. On this

assumption the case against confiscation is threefold. It would

- (1) be unjust as between owners of different kinds of capital ;
- (2) lead to serious economic disturbance ; and
- (3) greatly strengthen opposition to Socialism, and prevent us from carrying out our policy as rapidly as we would otherwise be able to do.

(1) Let us consider as a practical example the nationalisation of the railways, and suppose that the Government simply confiscated all railway shares. This would be unjust to railway shareholders poor and rich alike, as compared with the owners of other forms of capital. A person possessing a few hundred pounds of savings all invested in railways would be ruined, while a millionaire with no capital invested in railways would be unaffected. Even in less extreme cases, the injustice is equally apparent. Compare the fate of two capitalists of equal wealth, one having his capital invested in railways while the other holds no railway shares, but has invested entirely in breweries, armaments and *Daily Mail* shares. The former would lose all his wealth, and the latter would lose nothing. Socialist principles do not justify arbitrary discrimination of this kind.

(2) In the second place, the confiscation of any particular form of capital would lead to serious economic disturbance ; it would remove the basis of credit from many individual concerns and would as a consequence gravely injure trade and employment. Confiscation of railway shares, for example, would not only affect railway shareholders, it would also affect banks which had lent money on the security of railway shares, and business men who had borrowed money on the security of such shares. The banks would have suddenly to call in their loans and business men would either be reduced to bankruptcy or would have to restrict their operations and discharge many of the workers. Trustees who held railway shares would also be affected, and many would default. If the existing economic and financial machinery is to be transformed in a Socialist direction it is essential not to throw it violently out of gear before we are ready to replace it with something better. Piecemeal confiscation would undoubtedly have this effect.

(3) In the third place, piecemeal confiscation would have very serious political effects. It would create the maximum of resistance to Socialism and would unite all property owners, large and small, and also many others, who would be afraid of losing their employment or their livelihood, in common opposition to the whole of our programme. It would give a golden opportunity for panic-mongering to the capitalist press and would certainly result in a severe political set-back for the Socialist Movement.

For the above reasons we believe that the general principle of paying compensation, when private property is transferred to the State, must be accepted.

If Socialism is to be achieved, not gradually but at one swoop, by means of a catastrophic revolution, the above arguments against confiscation lose most of their force. But we do not consider that this latter contingency is at all likely to arise, and we do not feel called upon to discuss it in this report. This, however, assumes that the propertied classes would act constitutionally in their opposition to a Socialist Government. If they attempted to sabotage Socialist changes by unconstitutional means, we should be confronted by a state of national emergency, which would require to be dealt with on similar lines to those adopted during the war.\*

#### THE JUSTICE AND EXPEDIENCY OF COMPENSATION.

IT is possible to argue that private ownership of all land and capital or of certain categories thereof is, by its very nature, unjust, and that a transfer to the community without compensation for the owners, therefore, is justifiable. It is clear, however, as we have stated, that expropriation without compensation could only occur in the event of a sudden and catastrophic revolution, and, as this is not contemplated here, the question of confiscation will not be further discussed.

On the assumption that the transition from Capitalism to Socialism is to be gradual, extending over a period of years, equity demands that compensation should be paid to the owners of such land and capital as are transferred to the community in the earlier stages. If, in other words, certain persons are to be allowed during the transition stage to draw rent, interest and profit, because the undertakings in which their capital is embarked are not ripe for nationalisation, those persons whose investments are in undertakings ripe for nationalisation should not, thereby, be penalised.

Equity is reinforced by expediency. Nationalisation by a Socialist majority with an acquiescent majority of non-Socialists

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\* During the war the Government claimed the right to take land or any other property without being legally bound to pay any compensation whatever, on the strength of a doctrine of the Royal Prerogative propounded by Sir John Simon and F. E. Smith (now Lord Birkenhead) as Law Officers of the Crown. The corollary was that any compensation being paid was purely a matter of grace; and *ex-gratia* compensation was in fact only awarded by the Defence of the Realm Losses Commission in the case of "direct and substantial loss" suffered by individuals owing to measures directed exclusively against themselves and not in the case of direct damage or losses due to measures of general application from which all persons in similar circumstances suffered alike.

involves the satisfaction of the sense of justice of the ordinary man. The possessions of the small capitalist bulk very big in his mind, and unless the small man is satisfied, he will become the shield of the big capitalist. It is essential, therefore, if Socialism is to be peacefully achieved, that the violent opposition of the small capitalist should not be aroused by any course of conduct with the appearance of confiscation

## THE PRINCIPLES OF COMPENSATION.

THE conclusion having been reached that confiscation is inexpedient and inequitable (except when a case of national emergency exists, as indicated on page 2), the next step is to determine the principle upon which compensation should be paid. The question immediately arises as to whether this principle should, so far as it proves possible of application, be the same for all classes of property. This question is a difficult one and raises a number of controversial issues. After careful consideration, however, we are of the opinion that (except in the special cases to which we refer later) there is no ground for discrimination between various classes of property with a view to compensating the owners falling within different classes on different bases. Different *methods* of compensation would, no doubt, be found, applicable to different types of business, and these also will be dealt with below. See page 6-(c) (Trusts and Monopolies).

Two kinds of property owners are frequently cited in this connection as requiring special treatment. The first is the landowner, beneath whose land coal is discovered, who receives royalties from those desiring to exploit the coal. It is alleged that since the existence of these royalties is in no sense due to the foresight, energy or initiative of the landowner he is not entitled to receive any compensation when the royalties are sequestered by the State. In this connection, it may be noted that the Nationalisation of Mines and Minerals Bill (1919), 1924, submitted by the miners to the Sankey Commission, proposed that no compensation should be paid in respect of "all rights and easements arising out of or necessary to the working of any mine . . . including all mineral way-leaves . . . or other royalties, lordships, or rights in connection therewith." In considering even this class of property, however, it should be remembered that, in many cases, such mineral rights have been disposed of by the original landowner to other persons for value received. Companies may have been formed for the purpose and shareholders have invested their savings in them, as they might have done in any other form of undertaking. Special

reference will be made to this matter later (see footnote to page 10), when the problem will be related to the attitude of public opinion and the practice of Capitalist Governments with regard to it.

The other class of property for which special treatment is sometimes demanded is that constituted by private undertakings which are carried on under special licence or permission from the community, the amount of profit made by these undertakings being in some sense subject to the community's vote. Instances of this class of undertaking are the railways (in 1913, for example, the railway companies were compelled to approach Parliament for the right to increase their rates), the provision of gas (gas companies have to obtain a special license from Parliament enabling them to supply gas, and their prices are to some extent fixed) and public houses which can, at any moment, be closed by order of the Justices of the Peace for the district. It would not, however, appear that any new principle is involved in the treatment of these undertakings so far as transfer to the community is concerned.

Where prices or charges are fixed by Parliament or the municipality, the result naturally affects the size of the company's profits and the value of its shares. In such cases, therefore, compensation would automatically be payable at a lower figure than would have been the case had the undertakings been entirely uncontrolled. Furthermore, it should be noted that there exists a statutory right to purchase undertakings of this class, which is normally included in the Charter given to local public authorities.

#### RELATION OF COMPENSATION TO TAXATION.

**B**EFORE proceeding to outline the policy of compensation which they advocate, the Committee wish to emphasise the distinction between two quite distinct problems.

- (1.) The re-distribution of wealth with special reference to unearned income.
- (2.) The transference of property from private to public ownership.

Each of these problems demands a different method of treatment; the first raises the question of taxation, with which any policy of compensation must in our view be allied; the second raises the question of compensation proper.

It is neither possible nor equitable to combine the solution of these two problems in a single process. An Act of Parliament nationalising a particular industry deals with the property interests of a limited number of persons in the community, some

rich, some well-to-do, and some of very small means. It must be borne in mind that nationalisation with compensation does not abolish the capitalist *qua receiver* of unearned income; it only removes his power of control. Hence a Socialist Government setting out on a policy of nationalisation must at the same time deal with the burden on the community, constituted by the receiver of, unearned income. It should, in fact, either by capital levy or by methods of graduated taxation on the lines of the present income tax and death duties, or by both, progressively reduce the share of the national wealth taken by the capitalists as owners of land and capital, or as drawers of compensation on account of nationalised property.

## I. A POLICY FOR TAXATION.

WE propose, therefore, in the first place, to outline a policy of taxation, which in our view should supplement the policy of compensation and accelerate the extinction of the private interests which compensation would otherwise perpetuate.

In order to limit the period of capitalist exploitation we suggest that the following extension should be given to the present policy of taxing inherited wealth. In addition to the payment of death duties, a certain proportion of all estates passing at death, in excess of a certain minimum, should be required to be handed over to the State in exchange for a terminable annuity. For example, we give the following as an illustration of how this proposal might be carried out. Half of the excess of every estate above £5,000 might be exchanged for a terminable annuity, say, for 20 years or, perhaps, for the life of the annuitant, the annual payment of which should equal 5 per cent. on the capital value of the property surrendered. The annuitant would be entitled to this annual payment for the specified term, but to nothing more. An incidental advantage would be to stimulate work and saving and discourage luxurious expenditure by the rich.

Only certain categories should be accepted by the State in exchange for these terminable annuities, including (1) War Loan, (2) Government stock created by way of compensation, (3) land, (4) shares in certain specific undertakings, which the State intended to nationalise subsequently, or in which it is desired to have a controlling interest, e.g., trusts not yet ripe for nationalisation. If the inherited estate did not contain a sufficient proportion of these categories of property, the executors would be required to sell other assets and to pay over the balance in cash.

The adoption of such a plan at the present time would result in the transfer to the State, over and above the yield of the death duties of some £200 millions worth of property annually, in exchange for the issued terminable annuities. Under this arrangement a steadily increasing quantity of terminable annuities would be running off annually. This plan would strike at the root of large fortunes but without involving any immediate reduction of the income of the rich in addition to that caused by other taxation, it would speed up the extinction of War Debt over and above the effects of the Capital Levy, and it would steadily accelerate the second stage of nationalisation as defined above by clearing off private compensation claims.

#### (a) ASSESSMENT OF COMPENSATION.

THE general principle which we recommend is that when land or capital is transferred from private to public ownership, the private owner should receive compensation from the State based on the value of the property transferred. In this connection we regard it as a fundamental principle that regard should primarily be paid, not to the *character* of an individual's wealth, but to its value, or amount. This principle is recognised in the existing death duties and in the proposals for a capital levy.

The value of property of all kinds is being constantly assessed at present in connection with death duties, local rating, etc., and the existing methods of assessment are, on the whole, satisfactory. In most cases, the method adopted is to take either stock exchange quotations or a certain number of years purchase of the income, or annual value. The appropriate number of years purchase varies with the character of the property. For a wasting asset like coal the appropriate number is obviously less than for agricultural land.

We recommend that, as a general rule, the present methods of assessment should be adopted. Broadly speaking, factors such as over-capitalisation, wasting assets or future expectations, will express themselves in the market value of the property. In the case of shares the value may be either the market value on an appointed day or may be the average value taken over a period of time. It is not possible to distinguish between various classes of capital on the basis of moral judgments passed on the means whereby capital has been acquired or augmented. Rapid transference of property is one of the distinctive features of the present system. The "respectable" industry of to-day has very frequently been built up on extortion and sweating in the past. High dividends may mean small return on capital to the present



holders who have bought at inflated prices while the real profiteer has cleared off with his booty. It must, in short, be remembered that it is individuals who are to be compensated.

#### (b) PREREQUISITES OF NATIONALISATION.

IT is, of course, important to prevent the community having to pay an extortionate ransom to the capitalist, and the policy of taxation, described above, will be a salutary safeguard in this connection. In addition, however, to this policy, there are certain prerequisites of nationalisation, which a Socialist Government would be wise to adopt. Legislation for a national minimum wage, price control and reform of the Companies' Acts should be instituted concurrently with nationalisation proposals.

This legislation will have a tendency to reduce excessive profits and thus also to reduce the amount of compensation payable. It should, however, be general in its scope; what is required is not that drastic legislation on wages and prices should be applied to a particular industry, in order, when the industry is nationalised, that compensation might be paid to shareholders in the industry at a specially low figure, but that a policy of general legislation on the above lines, with its inevitable resultant effect on the market value of the shares of all undertakings, should precede nationalisation.\*

#### (c) TRUSTS AND MONOPOLIES.

GENERALLY speaking the industries first to be nationalised will be the old-established undertakings where the rate of profit is not exceptional, but it may happen that public opinion will demand the nationalisation of some profiteering combine such as the Milk Trust.

Under conditions of profiteering, exploitation or monopoly, if the above prerequisites of nationalisation have not yet been adopted, it is clear that excessive compensation would have to be paid if market value of the shares was to be the criterion.

These cases should therefore be considered as exceptions to the general rule that all undertakings should be compensated on the

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\* Objection, as we have previously stated, is sometimes made to compensating "mining royalty owners." As a matter of fact, the continuous criticism of the system of "royalties" and the threats of legislation are reflected in the value to-day and this insecurity would, as in other cases, materially reduce the compensation payable.

The principle of specially taxing mining royalties has already been put into operation by Capitalist Governments, and might be further extended in this matter of compensation.

same basis. They should be dealt with on their merits. Compensation on a basis inflated by those conditions could not equitably be permitted. When, therefore, the existence of such circumstances is established, it may be expected that the tribunal charged with the duty of assessing fair compensation, would take those factors into consideration.

#### (d) THE FORM OF COMPENSATION.

COMPENSATION would be paid in the form of bonds or annuities equal to the ascertained capital value of the property. Very exceptionally in the case of small proprietors a lump sum might be payable.

Compensation would, by these annuities, thus take the form of freely negotiable government stock. This would bear a fixed rate of interest equal to the existing yield on long term government loans or similar trustee securities. We do not consider that the holder of such stock should be entitled to profit from a subsequent fall in the rate of interest. We propose, therefore, that, though the holders of such stock should not be entitled to demand redemption at any fixed date, the Government should be entitled to redeem at par whenever it pleased, e.g., if a fall in the rate of interest enabled it to borrow more cheaply. Note.—The possibility of the Government competing with trusts and thus reducing their profits should also be borne in mind.

#### FINANCE OF NATIONALISED INDUSTRIES.

IT would be outside the terms of our reference to consider the structure of the nationalised industries, but certain financial points must be considered. Although, owing to the superiority of Government over industrial credit, the interest payable to the former owners on the bonds will be less than the amount paid out as interest and profit before nationalisation, and although greater efficiency and economy under nationalisation will be forthcoming, it is necessary to face the fact that in some industries special circumstances may make it difficult to meet the full burden of capital charges.

It is essential, of course, to give proper conditions to the workers and the public will also expect better service. The economics of the new regime cannot become effective all at once. Heavy expenditure for reconstruction, etc., will have to be met. It may well be, therefore, that arrangements may have to be made for a portion only of the sums necessary for payment of compensation to be payable by the industry during the first few

years of nationalisation. This would mean that part of the charge for compensation would have to be borne on some other fund than that of the nationalised industry. The Committee do not lay down any hard and fast principle, but it has been suggested that a central fund might be formed into which should be paid the profits of State enterprises of all kinds—from which deficiencies in the earlier stages of nationalisation should be met. At the same time the Committee would emphasise the necessity of nationalised industries meeting their liabilities at as early a stage as possible.

(Signed) CLIFFORD ALLEN (*Chairman*).  
C. R. ATTLEE, M.P.  
HUGH DALTON, M.P.  
WILLIAM GRAHAM, M.P.  
ALFRED SALTER, M.P.  
R. C. WALLHEAD, M.P.  
E. F. WISE.  
ERNEST E. HUNTER (*Secretary*).

JAMES MAXTON, M.P. and  
W. T. SYMONS, dissent.

## II.

### THE SOCIALISATION OF BANKING AND CREDIT.

THE consideration of the financial arrangements by which property should be transferred from private to public ownership rapidly led the Committee to the conclusion that the financial conditions under which nationalised industry operates in the future must receive very serious attention. To this end the Committee submits the following observations as to the initial steps to be taken towards the adoption of a Socialist policy on banking and the national organisation of credit.

We make no pretence that what follows is more than a preliminary survey of a few of the problems concerned with the machinery required to develop a Socialist policy on this question, and submit the observations that follow, proposing, if we are so authorised, to submit later a series of detailed suggestions upon

- (a) the machinery required in this matter, and
- (b) the most vital question of all, as yet hardly touched upon by us, the policy that might be adopted with regard to prices and the use of credit power by the State through the machinery to be proposed.

We believe it of the utmost importance to make this clear when submitting the brief statement that follows.

#### MONETARY SYSTEM AND CURRENCY POLICY.

1. The monetary system and currency policy of Great Britain require drastic re-modelling in the light of post-war conditions for the purpose of realising the following objects amongst others :

- (1) To regulate the emission of credit and currency in the general interests of the whole community and especially of the industrial classes.
- (2) To direct the flow of savings into the most socially useful channels, and to secure that finance is available on the cheapest terms for undertakings and trading operations of national importance.
- (3) To secure for the community a larger share of the excessive profits now made by bankers and others in control of the credit resources of the country.
- (4) To reduce the charges made for financing both short and long term operations.

## NATIONALISATION OF THE BANK OF ENGLAND.

In consequence we recommend :—

1. That as the powers exercised by the Bank of England are too great to be entrusted to a purely private concern its constitution under the Bank Charter Act should be revised so as to make it a public institution. The Board of Directors should not only include representatives of the Treasury, but banking and economic experts and other members with a knowledge of the needs of industry.

Compensation to existing shareholders should be arranged as provided for in the earlier section of this report.

2. Full powers should be granted for the establishment of municipal banks with a view especially to the financing of municipal developments and local trading schemes. We regard this aspect of banking and this method of using communal credit as of the utmost importance and likely to be of the greatest value to the extension of collectivist enterprise. This will be more particularly the case in the period leading to the proposals we make in the next section.

3. The community once having taken the most essential step of nationalising the Bank of England, which will enable it to exercise a preponderating influence on credit policy, the Socialist programme with regard to the joint stock banks could then be developed and would at the outset have regard to the following important factors that already apply :—

- (a) Parliament has always claimed the right to regulate banking in the public interest by statute ;
- (b) No Bank amalgamation now avoids Treasury Supervision.
- (c) The Government now virtually stands behind all the big banks and would be bound always to come to their assistance in emergency as was shown at the outbreak of the war. This is a fact of enormous importance ; it makes nonsense of the banks' claim that they alone safeguard the public's deposits, that their capital is essential to them or ought to be increased, or that the uncalled liability on bank shares justifies a higher dividend.
- (d) It is now a recognised principle of sound banking that the whole system should be dependent on and closely controlled by a strong central bank.

## CONTROL OF OTHER BANKS.

Acting on these principles the Committee provisionally recommends the following steps, which should be subsequently taken, leading progressively to the complete control by the nation of its banking and credit resources.

- (a) The banks would continue to be distinct legal persons or corporations as now, and would not be assimilated to Government departments. It might be well to create a special Banking Advisory Council to co-ordinate the individual banks.
- (b) The banks would be required to keep the bulk of their cash deposits and reserves with the Bank of England, which would now be a regular State Bank ; and the provisions as to a legal minimum reserve would be designed to give the Bank of England greater control of the credit situation. (Those clauses would be highly technical and difficult, but not specially affected by the nationalisation proposal.)
- (c) As the system developed, the existing shareholders would be relieved of all liability on the paid-up and unpaid capital of the banks and given a fixed interest redeemable security charged on the profits of the banks. This would wipe out the share capital over a period of years. The Government would guarantee the solvency of the banks (but not any fixed rate of profit) thus giving depositors absolute security.

## MUNICIPAL AND AGRICULTURAL BANKS.

In addition there will be an important place for other institutions which can cater for agricultural areas, municipal authorities and the like where money is required on different conditions than in the case of ordinary bank advances. For instance :—

- (1) Municipal banks to which special attention has been drawn; and
- (2) Agricultural Banks or Credit Societies for financing agricultural developments and the trading activities of farmers and co-operative societies. We also favour such developments of the use of the resources of the Post Office and Trustee Savings Banks as would facilitate the supply of credit particularly for poorer members of the community.

## THE USE OF CREDIT.

4. With regard to the granting of credits either through banking institutions, or under such schemes as a Trade Facilities Act the following conditions should obtain :—

- (a) In the case of all capital guarantees or other similar facilities provided directly or indirectly by the Government some measure of public control and participation in ownership of capital assets thereby created should accompany the accommodation.
- (b) In its policy for controlling the operations of the banks and in influencing and in assisting the investment of savings, the State should pay regard to far wider considerations than those which have prevailed with banks and other organisations whose sole criterion in the past has been the rapid accumulation of profits for their shareholders.

In deciding between different methods of utilising its resources of credit and capital the State will, of course, take into account the ultimate value to the community of this or that enterprise. Even if the rate of cash return in a particular case is low, it may still be much more profitable to the community that its capital resources should be used for this purpose than for another. The supplying of the needs of the mass of the population would, of course, always receive preference as against the provision of means for satisfying the demands of the better off-class.

The development of national resources or of nationalised industry would also naturally receive priority of treatment as compared with undertakings the profits of which would go into private hands.

Moreover, not only in the choice but in the manner of financing, ultimate national advantages as well as immediate profits would be given due weight. For example, in financing the wholesale electrification of railways there is no ultimate advantage in loading their whole working with excessively heavy capital charges for a long period as happened to some of the London tramways.

We propose to deal with all these points extensively in subsequent reports.