NATIONALIZATION OF INDUSTRIES

A CRITICISM

Among the fundamental principles of Liberalism as we have always understood and practised it, perhaps the two most essential are, first, its pursuit of freedom in the largest and widest sense—political freedom, religious freedom, economic freedom, civil freedom; and next, its steady insistence upon the rule that in all matters of legislation or of administration the first object for the Legislature or for the statesman to keep in view is the interest not of this or that particular class, but of the community as a whole.

MR. ASQUITH at Paisley, January 26, 1920.

Let me sum up in a sentence or two what the effect [of the entire nationalization of industry] would really be so far as I can foresee. It would sap the free-flowing life-blood of British industry. It would enthrone the rule of bureaucrats. It would tend to stereotype processes, to stand in the way of new inventions, to arrest mechanical and managerial improvement. It would paralyse individual initiative and enterprise, and sooner or later—and sooner rather than later—it would, in my judgment, impoverish the community. Therefore, I will give a very plain answer to that question put to me whether I am in favour of the nationalization of industry. That answer is in the negative.

MR. ASQUITH at Paisley, January 29, 1920.

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A CRITICISM

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Nationalization of Industries

The Causes of Industrial Unrest.

POLITICAL confusion and economic disturbance were natural results of the close of the most gigantic war in the history of the world. Carlyle in his *French Revolution* spoke of Burke "eloquently demonstrating that the end of an epoch is come, to all appearance the end of civilized time." And if to a political mind of the highest order, such as Burke's, the circumstances attending the overthrow of an ancient régime in France seemed the end of civilized time, it is little to be wondered at that the state of Europe to-day should appear to be the birth of a new world and to afford a unique opportunity for new and startling experiments in the organization of society. It is indeed only natural that the general ferment should be especially noticeable in the industrial field. Unrest in Labour circles is no new thing, for it existed before the war, but the confusion everywhere and the chaos in a large part of Europe since the armistice has greatly intensified the tendency to excitement in this country. A circumstance that has also greatly added to it is the existence of inordinate profits made in many trades in spite of increased wages, of greatly enhanced prices of raw materials and the rise in other costs of production. The constant answer of Capital when confronted with demands for increases of wages in the old days was what in Fabian circles is described as the plea of "ansericide," the killing of the goose that lays the golden eggs. Yet, in the years of good trade before the

war, wages were gradually forced up and large schemes of costly social reform were inaugurated, without diminishing profits and the general prosperity of the capitalist class. The fact is that in the conditions of the time, and to the extent to which increases of wages and social reform were then carried, the augmented spending power of the masses resulted in a fertilization of the channels of trade by new money, and this in its turn helped to recoup the very capitalists on whom fell much of the burden of the extra costs and taxation involved.

It is easy to forget, in the strain of the exciting period through which we have since lived, how quickly trade was expanding in the years immediately preceding the war; our exports more than doubled in value between 1898 and 1913. In 1898 the exports of the produce and manufactures of the United Kingdom were £233,000,000. In 1913 they were £525,000,000, indicating an enormous growth in volume as well as in value. No similar increase in actual value ever occurred before in the history of the country and no such proportionate increase since 1860.

During the war and since the armistice a vicious circle of rising prices concurrent with high profits, followed by demands for increased wages, which in their turn lead to a further rise in prices, has been set up. In recent conditions of demand outstripping supply, the higher prices were readily paid by the consumer without diminishing the profits of the entrepreneur. So far as the trade is for export, it is to the interest not only of the entrepreneur, but also of the nation, that the highest possible competitive price should be secured. The division of the resulting profits raises questions of policy and equity, but it is to our interest, both from the point of view of our exchanges and of the national dividend, that our export trade should be encouraged and the highest possible prices obtained for our goods. None the less, the fact that these high prices and large profits are so much in evidence adds materially to the present *malaise* among the workers.

Another cause of industrial unrest is the tendency to amalgamation and combination among capitalists and the corresponding elimination of competition. Although, as I shall show later, these tendencies are not in themselves a valid argument for nationalization, they have a disturbing effect on the mind of the workers. Even if figures and statistics show that up to the present the consumer has not suffered by these combinations, neither the workers nor the public approve of so much power passing into the hands of individuals or small groups of men as is the case in some latter-day business combinations. In so far as they become monopolies they present some of the evils of nationalization, while the profits go not to the nation but to private individuals.

One further potent cause of industrial unrest may be mentioned, viz. the increased self-consciousness of the worker. There is a growing feeling on his part that he is entitled to a greater share in the control of industry, not only in reference to wages and conditions of labour, but also in order that he may feel himself to be a free man in a free country and may acquire a greater self-respect. This feeling has been greatly stimulated by the war.

The Liberal Point of View.

Every Liberal must sympathize deeply with Labour's desire for a larger and fuller life. Equally, everyone who accepts the fundamental principles of Liberalism is bound to investigate whether any particular change recommended would promote freedom in its widest sense, and whether it would be in the interests of the community as a whole and not merely in the interests of a particular class. It is true that the Liberal conception of freedom has grown with the lapse of time and that complete *laissez-faire* as a cure for industrial evils has lost its attraction, but that fact only makes it more necessary to make sure that the

main principle of freedom is kept steadily in view in any programme to which Liberals are asked to assent. It is not sufficient for a Liberal to accept nationalization as a cure for difficulties which have arisen in a particular industry under State control (State control being in itself, except as an emergency measure, antipathetic to Liberalism) simply because that solution appears to give a greater interest to the worker in management. He is bound first to inquire what the implications involved in nationalization of industry are, whether they tend to freedom in the long run, and whether they are consistent with the interests of the nation as a whole.

Nationalization of All Industry means Tyranny.

Nationalization is advocated at the present time in particular for the coal-mining industry, for railways and for the ownership of land. The most insistent demand is for the early nationalization of the coal-mining industry on the lines of the Sankey Report, involving the complete ownership, control and management of the coal-mines of the country; but the representatives of the miners accept this scheme merely as an instalment of their own plan, which would give a still greater measure of control to the workers on the governing body as compared with the State and the consumers. It must also be noted that those who are the real driving force in this movement openly claim that the nationalization of the coal-mining industry is only a first step on the road towards the complete nationalization of all industry, and it is in this light, as well as on the merits of their immediate proposal, that their demand must be considered.

It is impossible for anyone who has any regard for freedom—political, civil or economic freedom—and least of all is it possible for a Liberal, to accept as a desirable aim a condition of affairs in which all our industries would be nationalized. The inevitable result of a complete

nationalization of industry would be an abnegation of all freedom. Everyone's working life from the cradle to the grave must, in such conditions, be marked out for him and controlled at every stage by bureaucrats. No choice of occupation could be permitted to anyone. The Press would, by the direction of the State, stifle all individual expression of opinion, and neither a man's soul nor body could be called his own. Conscription of labour would be the first result, as unsettled and chaotic Russia has already shown. The claim made by the advocates of nationalization that the employee, however humble, should have a voice in saying whether his life is to be spent in circumstances which may lead to its deterioration, would be meaningless nonsense in a State where everyone would be told by bureaucrats what he was to do and imprisoned or shot if he failed to comply. That is the logical result and inevitable outcome of the complete nationalization of industry, and it is in itself a strong reason for exercising the utmost care in examining the arguments on which the claim to the nationalization of any particular industry is founded.

The claim made by the coal-miners that they are no longer willing to work for private coal-owners and shareholders, and their demand for nationalization of their industry, cannot be considered by itself. How far the claim represents a deep-seated conviction on the part of the great majority of miners, or how far it is the result of skilful propaganda and the real motive is a belief that conditions of work will be more favourable for the workers under State management amenable to constant political pressure, it is not possible for an outsider to judge. The claim is, in effect, a moral one. It rests upon the view put forward by Socialists that profit payable to individual capitalists is an anti-social and even immoral concept. Such a claim cannot be, and is not, confined to the coal-mining industry. If the contention is valid, it applies to all industries. If it is not valid, it applies to none. In

any event, the only change proposed is the complete ownership, control and management of the industry by the State, and this change is demanded in the name of freedom. There can be no question that the result of applying this change to all industries would be a universal and grinding tyranny, and all freedom of the subject would disappear under it. The answer to the moral claim in regard to nationalization of the coal-mining industry is, therefore, that it is wholly invalid. The grounds of the claim apply equally to all industries. The only remedy proposed would have an effect precisely the opposite to that desired.

The Ethics of Profits under Private Enterprise.

As an answer to the moral basis of the claim for nationalization, the reply given above seems sufficient; but before passing on to the examination of the economic advantages claimed for nationalization, it seems necessary to examine a little more closely the serious attack that is being made on the morality of the present distribution of the profits of industry. *Autres temps, autres mœurs,* and we must not take it for granted that the ethical system of industrial organization and finance accepted without demur by our fathers and grandfathers is unchallengeable at the present time. In any case the system is challenged, and the defenders of the old system of private enterprise, and the advocates of the view that profit is immoral, both claim with conviction that they have right on their side. To many old-fashioned people it must seem a crazy idea that the whole scheme of profit-earning, as it has existed for centuries in business carried on by private enterprise, should be condemned as immoral and anti-social by any respectable portion of the community. Such people would regard as a pose the pious horror expressed by Mr. Sidney Webb at the Coal Commission when asked whether he had any experience of the manage-

ment of business (on which he dogmatizes so freely), and his repudiation of the suggestion as almost a stain on his character. The business man indignantly asks if anyone outside Bedlam can propose that he is not to receive reasonable remuneration for his time, his ability, his risk and his self-denial in building up a prosperous industry, and if it is seriously contended that he is to be satisfied with bare interest on his capital such as he would receive for lending it to the Government. On the other hand, the working man asks why he should work hard for idle shareholders who take no interest in the business beyond drawing dividends on their shares. It will be noticed that the two questions apply to different aspects of the case and have no relation to each other. They both represent different sides of our present complicated industrial system and both show a case sufficiently good on the surface to attract sympathy.

The following interesting passage taken from Mr. Keynes' remarkable book on the *Economic Consequences of the Peace* discusses the matter under consideration with a somewhat detached impartiality. He writes:

> The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the chief justification of the Capitalist System. . . . The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half-century before the war could never have come about in a society where wealth was divided equitably. . . . On the one hand, the labouring classes accepted from ignorance or powerlessness, or were compelled, persuaded or cajoled by custom, convention, authority, and the well-established order of society into accepting a situation in which they could call their own very little of the cake that they and Nature and the capitalists were co-operating to produce. And on the other hand, the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. . . .

Saving was for old age or for your children; but this was only in theory—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

In other words, Mr. Keynes, describing the condition of things before the war, states that the distribution of the proceeds of industry was inequitable in itself, but that the very inequality inured to the benefit of mankind, because the recipients of the larger share saved a considerable part of their portion, which would have been spent had the proceeds been divided more equitably. On this there is one observation to be made. The "larger share" was not larger absolutely, but larger merely *per caput*, for the total wages paid to workers in most businesses is and always has been far larger than the amount of profit earned.

If a new orientation as to profits is required, it can only be obtained equitably after an analysis of the elements of which profit is composed. Profit really consists of four elements: (1) interest on capital; (2) reward of ability; (3) remuneration for risk, and (4) exceptional circumstances affecting either the commodities dealt in or the general course of prices.

It is obvious that the division of profits in these various categories raises questions both of policy and equity, and it is necessary, in order to decide on a line of equitable division for the future, to deal, in more detail than is attempted in Mr. Keynes' summary, with the conditions under which capital has been accumulated in the past, and to consider how far accumulation of the capital necessary for progress is likely to be attained under a system of nationalization of industry. The view of those who advocate nationalization is that all capital should be held by the State. Capital is the result of saving. Whoever heard of a State, as such, saving, even before the war? It was difficult enough then for every State to make ends meet financially, and it is ten times more

difficult now, when nearly all are groaning under an immense burden of debt.

Importance of Saving.

The real question is, whether the conditions under which capital was accumulated before the war are likely to subsist after the war in industries that are nationalized. Before the war the United Kingdom was saving approximately £400,000,000 a year. One half of this sum, roughly, was expended at home in extending the coal-mining, shipping, manufacturing and other industries. The other half was invested abroad largely in the form of the export of machinery and other materials, the proceeds of the manufactures of this country. In its turn the interest and profits on the exported capital went to pay for our imports of food and of the raw material necessary for our manufactures. Without this saving the United Kingdom would have been economically unprogressive and stagnant. With it we were, up to the time of the war, the greatest commercial nation of the world.

This saving was derived from people who lived well within their income and invested the surplus. Almost entirely it came from the income-tax paying class, but by no means entirely from wealthy men. The rising young business man who was successful and, instead of spending his income, invested most of it in increasing his business, was one of the chief factors in the commercial and industrial progress of Great Britain under the system of private enterprise. The socialization of all industries would remove the powerful incentive of personal gain which has served such a useful purpose in the past. It may be argued with much truth that commercial success is not the highest form of ambition, but the people who would do away with it altogether at present found their propaganda on a gospel of envy, rather than on Christian ethics, or the motive of co-operation for the common good. And any socialistic experiments brought about as

a result of preaching a gospel of envy against those who have benefited themselves and the rest of the community by thrift and business ability would simply result in engendering slackness and quickly bring ruin and bankruptcy to everyone.

It is hardly realized how the position of Great Britain as the greatest commercial nation of the world before the war was due to the rise of a succession of poor men who from small beginnings raised themselves to wealth or affluence by their own energy and ability. The profits they made were largely the reward of ability to which I have alluded. To them was due chiefly the industrial and commercial progress of the country. They made fortunes for themselves, but each one was also the cause of relative prosperity to hundreds or thousands of others. They started for the most part with no advantages and made good. The common subject of denunciation on Labour platforms of a rich and idle class fattening on the labour of the poor is largely a myth. A large number of the "idle" shareholders are people who have invested a few hundred pounds of hard-earned savings, accumulated by them or inherited from relatives. Without the men who have made commercial Great Britain during the last century, we should have had a country with half the present population living in a state of squalor and misery. Capital has not made itself. It has been accumulated by thrift, energy and ability, and the men who have made the accumulation have, in the main, risen from the ranks, where, in early life, they had no greater chances than thousands of others who did not possess the same qualities of skill and determination, and so failed to rise out of their status of employees.

Let anyone look round the business men whom he knows to-day and inquire how few of them had wealthy grandfathers, how very few had wealthy great-grandfathers, to whom their present fortunes are due. In Lancashire, in Yorkshire, in Glasgow, in Birmingham,

even in the City of London, the result of such an inquiry would surprise many who have not considered the question.

Incidentally this fact seems to prove the unfairness of railing against private wealth as such, but that is not the purpose of the present argument. The real point is that saving is absolutely essential to provide the capital which is necessary in order to find employment for an increasing population in a progressive commercial State. If particular industries are to be nationalized they will cease to do the share of saving which the owners of those industries have effected in the past. If all industries are nationalized it seems hopeless to expect any saving at all.

Conclusion of Analysis.

Many of the considerations with which I have been dealing in the last few paragraphs are matters of policy rather than of equity, but the two are almost inextricably mixed when such a vast change as the nationalization of industry is in question. Certainly both enter into the answers that must be given to the proposals for a different division of profits under the four categories of: (1) interest on capital, (2) reward of ability, (3) remuneration for risk, and (4) exceptional circumstances.

(1) On grounds of equity as well as policy *reasonable interest* ought to be paid for capital required in industry. (2) *Reward of ability*—there is nothing inequitable in paying remuneration to anyone of exceptional ability. In some form or other this must be done, whatever the organization of industry is. Russian experience proves this. (3) *Remuneration for risk* is certainly equitable. The man who runs a risk and is unsuccessful loses both capital and interest. No one except a wealthy man with a hobby would conceivably run a risk in business unless there were a chance of some extra financial reward. As a matter of policy it seems better that the individual, rather than the State, with its millions of critics who would carp at unsuccessful

experiments, should take risks, and, if he does, he should have a chance of adequate financial reward. (4) *Exceptional circumstances affecting either the commodity dealt in or the general course of prices.* In regard to this category, there is no doubt that public opinion is prepared for a change, and we all know that a great change took place during the war, under which the greater part of the profits made in industry over a certain pre-war standard were taken by the State. Exceptionally high profits still continue, and an excess profits duty at the rate of 60 per cent. is proposed in the 1920 budget. It is most desirable that these exceptional profits in an exceptional time should be equitably dealt with. But it is to normal times, rather than to these abnormal ones, that attention should be directed. It would be very short-sighted to make drastic changes in industrial legislation in present circumstances, unless those changes are skilfully devised to apply to times of bad trade as well as to a period of high prices and unusually large demand.

The Chancellor of the Exchequer has from time to time foreshadowed some scheme for dealing with exceptional profits in a manner not open to the objections raised to the excess profits duty. If this scheme is satisfactory and equitable, so much the better, but if the present boom in trade is succeeded by stagnation similar to that which has followed other great wars, the point to aim at will be, not the curtailment of exceptionally large profits, but how to carry on businesses in which profit is exiguous or even non-existent. Whether times are good or bad, a scheme is needed which will induce all those interested in industrial production to do their best. The natural inducement which presents itself is to combine a plan for profit-sharing between Capital and Labour with a share in the management on the part of Labour. Hitherto Trade Unions have been opposed to profit-sharing schemes. The difficulties are admitted to be serious, but I still believe that, with good will on both

sides, and particularly if a share in management can be given to representatives of the workers, such schemes could be worked out with advantage to employers and employed alike. I shall deal with this suggestion more fully at a later stage.

The final result of this analysis of the factors of which profit is composed shows that, judged by present ethical standards, there is nothing inequitable and a fortiori nothing against public policy in Capital receiving a return for interest, for reward of ability, and for exceptional risk. In regard to profit arising from exceptional circumstances affecting either the commodity dealt in or the general course of prices, there is nothing inequitable in imposing a tax on exceptional profits due to such a change in prices as has recently occurred, or to any other adventitious circumstances which lie beyond the control of the individual entrepreneur. In normal times a scheme of profit-sharing accompanied by a representation of Labour in the control of industry is a solution sound in itself and eminently worth consideration.

If this analysis is correct it cannot be argued that there is any moral ground for objecting altogether to profits as such, and there appears to be no valid reason for advocating a complete change in our whole industrial system in order to eliminate profit from it. This being so, the so-called moral claim for nationalization on the ground that the present system of profit is anti-social falls to the ground, and the question may be judged on the ground of expediency.

Before dealing with the claim that economic advantages would accrue under a system of nationalization of industry, there are three preliminary considerations that must be mentioned.

1. Nationalization Unsuited to Export Trade.

In the first place the advocates of nationalization have never contended that production, or manufacture for

export, in which competition arises with the rest of the world, is a promising field for their efforts; they prefer monopolies in the home market, where no comparison with private enterprise at home or abroad can be instituted after the change is made. It is therefore plain that Great Britain, whose prosperity depends to a greater extent than is the case in any other great country in the world on export trade in manufactured goods, is the least suitable field for a huge experiment in nationalization. Even as regards the coal trade, the export of coal from this country is vital in connection with providing outward-bound cargoes for our merchant shipping. If we find ourselves unable to export coal on something like the pre-war scale, a fatal blow will be struck at our shipping ascendancy, with results of a most serious character to the safety of this island in case we are involved in another world-wide war.

2. Demoralizing Effect on Political Life.

In the second place it is impossible to contemplate with equanimity the profound change involved by any far-reaching schemes of nationalization of industry in our political life. Both parochialization of political controversy and demoralization of political manners are certain in that event. The questions before the electorate at a general election would tend to be confined to questions of wages and conditions of labour in the industries owned and managed by the State. Electors, in the heat of controversy on purely internal matters in trades for whose control the Government had become responsible—matters hitherto outside the purview of the State—would forget the enormous responsibilities of this country as the centre of a great Empire, both in regard to foreign affairs and our vast colonial interests. The importance of these questions is greatly enhanced by the world-wide chaos, welter and confusion which the Great War has left behind. Years of patient statesmanship of the highest order are required to resettle the world on a permanent basis of peace,

contentment and prosperity. In that resettlement Great Britain ought to take a foremost and beneficent part, and it is impossible that she should, if her whole attention is centred on internal industrial questions of wages and conditions of labour at home. Even more important than this narrowing of political perspective is the demoralization of our political life which the nationalization of industry on a wide scale would inevitably induce. It has been difficult enough in the past for a conscientious and honourable candidate to withstand the pressure often put upon him by his political agent and principal advisers to make promises on some matter of local interest or prejudice which appears to them to bulk large in the eyes of the electorate at the moment. If nationalization of industry were introduced on a large scale, all elections in which the constituencies contained many voters employed by the State would resemble those of which certain dockyard constituencies have already given us an example. The general interests of the nation and of the Empire, as a whole, would be subordinated to questions of local wages, employment and conditions of labour. The local demagogue who promised to make the interests of his constituents his chief concern, and offered to act as their delegate in pressing their claims, would be a frequent phenomenon. In such circumstances the whole tone of political life would be lowered. Men of wider outlook, with an honourable determination not to subordinate the real interests of the nation to local prejudices, would not be chosen as candidates by the local political officials. The more scrupulous would soon cease to desire to stand as candidates where log-rolling would become a fine art and dignity and self-respect would be difficult to maintain. It is difficult to understand what Lord Haldane means in saying that Labour has "captured the heights," when the fact is that the inevitable effect of Labour's chief contribution to practical politics is a proposal to reorganize industry on a plan that entails a narrowing effect on

political thought and a demoralizing effect on political controversy.

3. Insuperable Financial Difficulties at Present.

In the third place, the present is the most unsuitable time that could be chosen to add to the National Debt by paying off present proprietors of industries now carried on by private enterprise with money borrowed on the security of the State. The amount required to expropriate present owners of land and buildings, railways and coal-mines, even at pre-war values, is approximately £7,000,000,000. The light-hearted manner in which advocates of nationalization suggest that such a transaction is a mere exchange of bits of paper shows how little they understand the issues involved. Even if it were generally agreed that nationalization of industry is sound in principle, which is certainly not the case at present, the present moment is the worst that could be chosen for adding to our national liabilities in regard to questions which are not of urgent and immediate necessity. We are staggering under the weight of the enormous debt accumulated in the last six years, and are not yet convinced either that our exports are paying for our imports or that Government revenue is meeting Government expenditure. The urgent and immediate necessity of the times is (1) to regulate our national finances, to bring Government spending within Government income, and allocate a surplus of revenue as a sinking fund to reduce the National Debt; (2) to see that our exports, visible and invisible, are paying for our imports; and (3) to make sure of a reasonable margin of national saving to provide for employment for the normal increase of population. Until these things are secured, it would be folly to add recklessly to our capital liabilities for schemes whose financial effect is at least doubtful. Additions to the deadweight of national debt at the present time would jeopardize the chances of ultimate recovery.

If I believed in nationalization of industry and desired to see a large experiment carried out under favourable conditions, present financial circumstances are such that I should urge postponement until our position was regularized. Labour does not apparently understand the insecure basis of current prices and profits. To a country like ours, dependent to so great an extent on export trade, the prospects in a few years' time are, to say the least, doubtful. Europe east of the Rhine is plunging deeper into distress. The hoped-for indemnities from our conquered foes are postponed, and the immediate need seems to be to lend them more money in order to help to produce the economic equilibrium that is necessary if any indemnities are ever to be paid. "France has so far made no attempt to arrest by taxation the inflation of her currency and her growing indebtedness. Italy is in a very similar case. In Austria famine is almost universal. . . . The new States created by the Paris Conference have little political and no economic organization, and can only be regarded as clinging very precariously to independent life. And all this dislocation and turmoil is setting a deeper and deeper mark, not only on the generation that fought the war, but on the men and women of the future that had no part in it. Children are dying in terrible numbers, and those that survive will have famine and disorders in their systems for the whole term of their lives" (*Round Table*, March, 1920).

We are living in a fools' paradise if we have regard only to the present demand for goods and shut our eyes to the inevitable results of such a condition of affairs as is described in the above quotation. The poverty and economic chaos of Europe must react on us by depriving us of those who were customers for our exports in the past, but have now no means of paying for them. Labour in this country looks too much at present prices and profits, while financial experts, looking farther afield, dread what the future may bring forth. It is with no

lack of sympathy for the claims of the workers that I would urge Labour, even for its own sake, not to attempt to add to our financial liabilities by schemes of nationalization which must increase our difficulties at a time when they already give cause for serious anxiety.

No Reliable Statistics Available.

Turning from these preliminary considerations to an examination of the economic advantages that are claimed for nationalization of industry, one would have expected that, after years of trial, some statistical proof of an authoritative kind as to the relative financial success or failure of State industries, as compared with those under private enterprise, would have been available. Unfortunately, so far as I can discover, no reliable comparative figures are in existence. Statements on both sides abound. Opponents of nationalization point to the loss on telegrams, and to the fact that Government management of telephones has not been a financial success. In regard to schemes which, although gigantic in themselves, still fall far short of nationalization of a great industry, such as the transfers to public bodies of the water supply of London and of the London tramways, they point out that the hopes, either of cheaper management or profit, entertained at the time the transfers were made have not been justified. Some investigators have indeed produced figures on one side of the controversy or the other, but the facts are so complicated, and the fairness of the comparisons made so doubtful, that it is impossible to found any reliable conclusion upon them. I am inclined to agree with the following extract from the Fabian Research Department's essay on "State and Municipal Enterprise," published in the *New Statesman* of May 8, 1915:

> No set of contrasted examples yet adduced, from tramways to gasworks, from dockyards to railways, whether in different

countries, in different cities of the same country, or at different periods in the same city, are so exactly comparable as to permit their statistical results, even when these can be authoritatively obtained, to carry conviction either way to the unprejudiced observer.

It is true the Fabian Research Department claim, as an exception to this general statement, the result of an examination of the costs and charges in regard to electricity supply in this country. They maintain that the figures tell in favour of municipal enterprise. Even if the figures are correct, it is impossible to found any argument upon them, (1) because, outside London, the most favourable areas are all in the hands of municipalities, and in London, where they are in the hands of companies, the expenses of production are much higher than elsewhere; and (2) because municipal enterprise is not a safe guide to nationalization of industry, as I shall presently show.

There is a certain amount of evidence of a general character from some of the States of Australia. Sir Charles Wade, late Agent-General for New South Wales in this country, in an article in the *Fortnightly Review* for September, 1919, stated that nationalization tended towards the destruction of the efficiency and manhood of the individual worker. He showed also that concessions have been frequently promised to railway and other State employees at election times. More significant still was his statement that experience had shown that the only method of obtaining a reasonable amount of work, and reasonable economic results, from State-employed working men, was to remove them from the direct control of a Minister responsible to Parliament and place them under independent Boards composed of men free from political pressure, and appointed for a considerable term of years at adequate salaries. One other relevant consideration is also mentioned by Sir Charles Wade. It is, that in the numerous experiments in the partial nationalization of industry, other than railways, which have been made

in Australia, in no case where competition existed with similar industries privately owned and managed has there been any tendency for the State industry to drive out the private entrepreneur. The evidence, such as it is, in reference to the State management of coal-mines and railways will be dealt with in its proper place.

In the absence of any reliable statistical evidence of the comparative financial efficiency of State-managed industry as compared with industry under private enterprise, it seems desirable to examine how far the economic advantages claimed for nationalization are sound in theory, then to proceed to an inquiry as to how a nationalized industry would be worked, and finally to investigate the particular cases of coal-mines, railways and land.

Definition of Nationalization.

In order to make clear the subject of examination, it is necessary in the first place to define the kind of nationalization which I have in mind. Nationalization is capable of many connotations, from varying forms of control of prices or profits to complete ownership, control and management by the State. It is the latter form that I shall deal with. Its essence, as I understand it, is that there shall be a Minister responsible to Parliament at the head of the nationalized industry, advised by State officials who belong to the permanent Civil Service, and that the whole industry shall be owned by the State and all the staff and workers be State employees. The organization may differ in detail from that of the Post Office, or from that recommended for the coal-mining industry in the Sankey Report, but the cardinal points of similarity to them will be complete ownership, control and management by the State, and a Minister at the head responsible to Parliament. In the sense of that definition of nationalization I proceed to examine the economic advantages claimed by the advocates of the change.

Economic Advantages claimed for the Nationalization of Industry.

The economic advantages claimed for the nationalization of industry rest theoretically on the claim that savings will be made by the amalgamation of businesses which have hitherto competed with one another, and practically on the increasing tendency to form combinations and trusts. The advantages of combination into organizations of a sufficiently large size to achieve the greatest economy in manufacture are manifest. Management expenses are, or may be, reduced. Greater business skill in the heads of the concern can be procured by the ability to offer large salaries to specially gifted men. Buying on a large scale can be effected with financial advantage, and very often a higher price may be procured for the sale of the manufactured commodity when the combination is in a position to deliver large quantities of a guaranteed quality, and to give delivery at the time desired by the buyer.

On the other hand, as the Federation of British Industries have pointed out in a recent report on the *Control of Industry*, "it must be remembered that the administration of large centralized concerns is still in an experimental stage, and only experience can discover how best to eliminate the inherent difficulties." Trusts and combinations have been generally built up by individual business geniuses, and it is not at all certain that their successors will manage these immense concerns with as much ability as their founders. The tendency to amalgamation in business is a potent fact, and shows no present sign of slackening; but there is probably a certain economic unit of varying size representing maximum efficiency in different businesses, and by going beyond that unit of size no economic advantage is likely to be secured. This is precisely the point that remains to be discovered. Just as there is a limit to the size of an army that a particular general can use to the greatest advantage,

so there is a limit to the size of business organization that can be controlled economically and successfully by one man or group of men. In the case of none of the greatest military strategists whom the world has known, Alexander, Julius Cæsar, Oliver Cromwell, Frederick the Great and Napoleon, did their mantle fall on any successor of parts comparable with their own. In the same way there seems no certainty that the mantle of some of the great business strategists of recent years will fall on men of equal ability, particularly having regard to the ever-shifting political kaleidoscope, which may at any time produce profound differences in the conditions in which their combinations were built up. And if that be the case, it may be found that some existing combinations are too large for permanence, and that a limit will eventually be set to the movements towards amalgamation.

The recent history of the cotton trade is worthy of examination in this connection. In that industry, as in others, there has been a tendency to amalgamation in recent years. The Fine Spinners, the Bleachers' Combine and the Calico Printers' Association are examples. Even in finer counts there are, however, many large firms which stand outside the Fine Spinners. In the spinning of medium and coarser counts there has been little tendency to combine until quite recently. The same set of promoters have been responsible for many promotions of new spinning mills, but each mill has been formed into a separate company working as a separate unit. Apparently it was considered that the ordinary size of a modern spinning mill with 100,000 or 120,000 spindles was an economic unit which could not be bettered. Certainly, if pre-war expenses of management had continued, it is difficult to see how costs of production could have been reduced by amalgamations. The recent transfers of spinning mills at greatly enhanced prices represent a new phenomenon, and I should be sorry to predict what the ultimate result

of this wave of speculation is likely to be. Another feature of interest in the cotton business is that there are fewer combined spinning and weaving concerns to-day than existed forty or fifty years ago. Instead of a tendency to amalgamate the spinning and weaving of cotton by the same firm, the tendency has been all the other way. These facts appear to indicate that there are limits to combination in one of the most highly developed trades of the country, and probably the same thing may be said of other textile and non-textile industries in the country.

Whatever may be the eventual course of events in this respect in privately owned undertakings, and however strongly may run for the present the current towards combination, a very different situation arises if the tendency to amalgamation in privately owned businesses is to be used as an argument for State ownership and management of industry. The success of certain combines and trusts up to the present time has been achieved under private management by gradual steps which have been tested by results as they proceeded. These steps were worked out by practical men who were masters of their craft and ready to accept responsibility for them, who stood to gain both financially and socially by their success, and who would have lost most of their money and all their reputation had they failed. There was no question in most cases of absorbing the whole of an industry, some concerns profitable and progressive, others uneconomic and decadent. Each amalgamation was in itself a concrete proposition of a manageable size in which the promoters believed they saw a financial gain, and for which they were ready to run risks. The scale of the combination was limited to the proportions desired by the promoters, and the amalgamated organization was in their opinion of a size which they could satisfactorily control. In many recent combinations the actual steps taken have been an interchange of shares and pooling of interests, control and management being left untouched. In others, where

the whole or the majority of shares have been bought, the old directorate and staff have been left almost unaltered, and the business goes on precisely as before.

The nationalization of a whole industry by law and the expropriation of the present owners on terms laid down by Parliament are an entirely different matter. The change would be made under political pressure exercised by people not masters of business-craft, and after a bitter political struggle. The question whether the industry was of a size lending itself to economic working under one control would go by the board. The most capable managers of the largest firms in the industry would probably not take service under the State, as they are precisely the people most opposed to Government management of business. In contrast with the privately made amalgamations already described, in which the promoters staked their financial future on the success of the enterprise, there would be a new set of men under the State who had no financial stake in the success of the newly socialized industry. They would be under a Minister whose major interest would be political and his capacity for management unknown, and the Minister would be advised by Civil Servants.

Even if our financial position permitted of the addition to the National Debt involved, an experiment of this kind would be a leap in the dark and might have most deplorable results. It is significant that the people of this country who argue most strongly that State ownership and management would be more economical than private enterprise are the least anxious for experiments to be tried under competitive conditions. It is the private entrepreneur who would like to see such experiments, because he thinks they would fail. It is the Socialist who shrinks from them.

It is also significant that those who promise benefits from nationalization have had no practical experience in the management of great business undertakings which

interference in wages is a less evil than the existence of sweated labour, which deprives the worker of any reasonable chance of obtaining the fuller life to which he is entitled. It is an entirely different matter for the State to say to the private employer, "You must, for the sake of the well-being of the State as a whole, pay a certain minimum wage to your employees," from saying, "You can no longer be allowed to own, manage or control the industries you have brought into existence and nursed through their earlier stages. The State will now take them over from you." The former plan is consistent with greater real freedom to live a full life on the part of the mass of the community. The latter, if my argument is sound, would lead to the destruction of freedom to every individual as regards choice and conditions of work. It is essential for Liberals to bear this distinction in mind in the examination to which I now turn of how a nationalized industry would work. The analysis which follows is chiefly devoted to the question of efficiency, but I beg readers who have the patience to follow the course of the argument to note the increase of bureaucracy and diminution of freedom which are inevitable in the nationalization of industry.

How the Nationalization of Industry would Work.

The factors of personnel in a nationalized industry such as I am imagining are (1) the Minister; (2) the permanent Civil Servants who advise the Minister; (3) the rest of the staff; and (4) the manual workers.

1. The Minister.

The head of a State-owned and managed industry would be a Minister appointed for political services with a highly uncertain tenure of office. During the war an attempt was made to appoint business men to business posts. The success of the experiment was not such as to create a desire for its continuance. At the demand

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of the country we have already returned to Cabinet government. Although the present Government represents a Coalition, we shall soon return to Party government. It is practically true to-day, and it must be the case under Party government, that Ministers are chosen on general political grounds and not for technical qualifications. The future of a Minister under Party government depends not so much on his success in his Department as on the success of his party as a whole. The considerations that operate with him are, therefore, firstly political, and only secondarily departmental. To state this is to cast no reflection on him. It is of the essence of the case. The question arises, therefore, whether a Minister politically appointed, with an uncertain tenure of office, averaging in any particular post not more than two or three years, and in most cases having little or no knowledge of the work of the Department he is called on to control, can work an industrial organization of perhaps unwieldy size successfully, in comparison with tried business men who have grown up in organizations of more manageable dimensions, and who have been appointed to their responsible positions solely on account of special fitness by Boards of Directors having large financial interests in the concern. So far as salary is concerned, the £5,000 a year paid to a superior Minister, and terminating with his tenure of office, is no inducement to the best type of business man, who is often paid a far higher salary for a long term of years because he is worth more to the firm that employs him. The traditional £5,000 is not a business payment calculated on the value of the services rendered, but an honorarium paid alike to rich and poor without any element of competition in it. So far as experience in business goes, the Minister, appointed as he would be in the political conditions described, would be a child compared to the managing directors of most of our great industrial undertakings. What reason is there to expect superior efficiency from such a Minister ?

What reason also to suppose that his opinion would outweigh that of the permanent bureaucrats who would advise him ?

The case is made far stronger if proper regard is paid to the considerations which would primarily affect a Minister controlling an industry, when compared with those that govern the heads of private industrial enterprises at present. The head of a private industrial enterprise which is not a complete monopoly (and there are few complete monopolies in which no competition present or in the future is to be feared) is judged by results. He has achieved his position by a process of competitive selection ; he knows he has to justify it. The quality of goods he supplies, the volume of business done, the good or bad feeling among the workpeople, the success or failure of the new experiments he makes, his capacity for organization, are matters known to the Board of Directors who appointed him, and the dividends earned are known to the whole world and commented on by the public Press. His whole future depends on results which can be easily tested. In the case of a Minister at the head of a Department managing an industry there can be no such easily measurable tests of success or failure. He is head of a monopoly. If the goods supplied are indifferent in quality and customers complain, he tells them to take them or leave them. It does not matter to him if the volume of business contracts. The public purse is behind him, and he is not affected in his own pocket. If complaints of his management are made, it is only the Prime Minister who can bring him to book, and the resources of his Department are at his disposal to help him to put forward the best explanation of apparent deficiencies and to conceal real mistakes. It is much more difficult for the Prime Minister to find out the truth about the laches of a Minister than for a Board of Directors, with comparative figures and facts before them, to judge of the suitability of a managing director, or manager, in

a private enterprise. There is also this further difference. In a Government Department managing an industry the failure of the Minister in charge has a political aspect. It may reflect on the Government and Prime Minister. If the fault or deficiency is glaring, it is possible for the Prime Minister to demand resignation. But, in nine cases out of ten, the faults would not be glaring. They would consist in slackness, inattention, bad judgment, or lack of tact in trivial labour troubles. Only when the cumulative effect of these had become apparent would action be taken to replace the Minister, probably by transferring him to a post where he would do less mischief. The nominal control of Parliament, busy with many other questions, would for practical purposes be little better than a farce.

In the case of a Labour Government, the Minister would, if Australia is to be taken as a precedent, be the nominee of the Caucus of the Labour Party, and be accountable to them for his actions. How Labour disputes would be dealt with in such a case must be left to the imagination.

It may be suggested that business monopolies owned by the State should, on the analogy of the Road Board and the Port of London Authority, be managed by an Independent Board appointed, but not controlled, by the Government. This is what has happened in regard to some of the State railways in Australia, as the result of bitter experiences of the inefficiency of a system of nationalization with a Minister directly amenable to political influence at the head. Such a scheme is directly opposed to that put forward by the advocates of nationalization in this country, and is not even suggested in the plan outlined by Mr. Justice Sankey for the coal-mines. For the present, therefore, it may be dismissed.

It is clear that, as regards relative efficiency, the Minister in charge of a nationalized industry must compare very unfavourably with present industrial leaders under a régime of private enterprise.

2. The Civil Servants who Advise the Minister.

The principal advisers of the Minister, and the *de facto* controllers of a nationalized industry, would be, presumably, Civil Servants with headquarters in London. I have had a good many years' experience of Government offices, and have never rated the zeal and efficiency of the higher class of Civil Servants one whit lower than the zeal and efficiency of the best business men. The ability of the higher Civil Servants is certainly as great as that of the heads of any other profession or trade in the country. Yet it is generally acknowledged, and by no one has it been more emphatically stated than by Lord Askwith and other retired Civil Servants, that the present higher Civil Servant is quite unsuited to control business or industrial enterprises. If, then, any great industries are to be nationalized, who are to be the permanent officials to control them and advise the Minister? They must be the old style of Civil Servants or a new class specially qualified for the work, presumably the latter.

To make a success of the nationalization of industry, the aim should be to devise a scheme under which natural leaders would rise to positions of control, as they have done by a process of competitive selection under the régime of private enterprise. The qualities that make the great industrial leader and business man are something of a mystery. They are not easy to define, and the nearer one comes to a definition, the more improbable does it seem that these qualities could be discovered under any other system than the process of competitive natural selection, which is an essential part of the system of private enterprise. My own conviction, after a good deal of study and reflection, is that the particular qualities needed are inborn, and that they cannot be produced in their higher forms by any system of State-made training.

Lord Haldane's solution of the question is to educate a special body of men for the work, and Lord Haldane

is an advocate of clear thinking. Has he ever clearly thought out the real problems involved in reference to this question? His contention is, I presume, that by education it would be possible to produce a body of men who could manage nationalized industries approximately as efficiently as private enterprise has managed them in the past. Leaving on one side the important consideration that any such system of education does not exist to-day, that it would take years to organize, and that yet more years would be occupied in turning out the finished graduate, the fundamental problem remains unaffected; and the fundamental problem is that business aptitude of the highest quality is inborn and not produced by education. If anyone will look round the world to-day, select the greatest business men and controllers of industry, and inquire how many of them owe their success to education in the academic meaning of the word, he will undoubtedly come to the conclusion, first, that few of them were educated up to the standard of an Honours Degree at a University, and, second, that those few owe their success more to innate qualities than to superior education. So far as education has improved their natural aptitude, it has been principally the rough practical education of the world of business, not that of a University. It has been the capacity to predict the course of markets, the power to see farther ahead than others, the vision which has enabled them to organize and work out combinations, the will-power which has triumphed over obstacles, above all, the courage to take great risks on their own initiative, which has made them what they are. Education is good, of course. The more technical skill a man has in connection with his own business, the better he is. More important is the effect of education in broadening his mind, and in teaching him precision of thought and concentration on the subject in hand. But the essential point in business, as it has been conducted under a system of private enterprise, is the possession

of the qualities described above, and these cannot be acquired by training.

It is important to remember also that every man has the defect of his qualities. First: great business men are often late in developing the qualities that make them great as business men. They only find out for themselves what they are by beginning to take risks on their own initiative. They learn by actual experiment to rely on their own judgment, and to take great responsibilities in regard to the affairs under their control. In any system of education of Civil Servants for the control of nationalized industries, it is impossible to predict any reasonable chance of selecting for education those who have special natural aptitude as men of business and industrial leaders. The particular qualities can, apparently, only be developed in a competitive *milieu*. Second: the very capacity which makes a great business man rely on his own judgment makes him also very impatient of interference on the part of either Government or politicians. The whole story of the Slough Committee is an illustration of the impatience of a business man with what appeared to him to be the slowness and endless impediments of Government control. There is also in the evidence given to the Committee by Sir C. Harris, Assistant Financial Secretary of the War Office, an incisive statement from an official's point of view on the change in status of an independent business man who becomes part of a Government machine:

> [A great business man] "comes into a Government Department, and he finds that when he has given a decision, his plan is referred to another Department, where some quite subordinate person begins to take it up and criticize it afresh from another point of view. He finds that, at a later stage, he may be called upon to justify his decision and his conclusions before this body and that body. . . . After a little of this he gets bored, and is liable to make use of picturesque expressions about red-tape and about being torpedoed at every turn, and that sort of thing. The real fact is that he has failed to adjust his mental focus to the change in his own position.

He is no longer a general manager, but he is a branch manager, or something even less than that. . . . The suggestion that I want to make to the Committee is that what we have here is the story of the fly-wheel that became a cog-wheel, and that, without attributing a double dose of original sin to either the official or the business man, it is perfectly natural that the business man shall have those views, and it is nevertheless perfectly true that they are ill-founded."[11]

Anyone who will read, mark and inwardly digest the bearing of recent disclosures on the conduct of business by Government during the war must come to the conclusion that those who have, in the actual battle of life under a system of competitive private enterprise, forged to the front as great business men would never submit to the necessary limitations and interference of Government management of their businesses, and would at all risks, so long as that was possible, find for themselves other fields of work outside the borders of State control.

There is a great deal of loose thinking about the question of unnecessary red-tape in Government offices. It is true that statements are often made public which appear to convict Government Departments of stupidity amounting almost to imbecility. It is also true that if such statements were made as regards private businesses, firms convicted of them would so suffer in reputation that, unless they drastically amended their methods, they would lose their trade and become bankrupt. The Government Department once formed is, on the other hand, regarded as a permanent necessity and cannot go into liquidation and cease to exist. So much must be acknowledged; but it is quite wrong to suppose that Government Departments can be conducted in the same way as private businesses, and that needless red-tape is the chief cause of mistakes and stupidities. There is an essential difference between Government and private work, and that essential difference renders much of what is called red-tape necessary. In the first place, Government Departments are so large that all ordinary correspondence must go through a

general registry. A good registry is the foundation of accuracy in all such departments, and the only means of preventing the loss of necessary records. Some delay is caused by the necessity to register all except a very few secret documents; but much more delay, and indeed inextricable confusion, would be caused if there were no system organized for keeping all the correspondence ready for use and reference. In the second place, documentary evidence must be kept of the reasons for all official action. At any moment an inquisitive Member of Parliament may ask questions on any conceivable subject, and it is necessary that records should be available for a full and correct answer. It is quite impossible to trust to memory, as anyone who has knowledge of the complicated nature of official work must know. The Minister is to sit in and be responsible to Parliament. It is obvious he could not do much of the actual business himself. It is too vast for one man to deal with. But he must be able to answer questions, and to explain every detail to Members of Parliament and a watchful public. Therefore he must have at his command documentary evidence of every transaction in buying or selling, in working, in wages, in organization. Apart from Parliamentary questions, which would often be on very trivial matters, only matters of principle would come directly before him. All the other thousands of questions would be settled by the staff. It would be a matter of organization to decide which official should finally settle any particular question. Papers on questions requiring attention would be collected and arranged by a clerk low down in the official hierarchy, and, unless the matter were trivial, the clerk would have to submit it to his immediate superior, who, in turn, might have to send it on to some one above him. The usual plan in Government offices is for each official to minute his opinion to his superior. Such a course often saves time in the long run. If any other course were adopted, he would have

to interview the superior, who might not be in his office at the time, or, being in his office, find himself too busy to attend to it at the moment. More time would be wasted in many cases in finding the superior and getting the matter settled without minuting, than in minuting and sending the papers by a messenger. In any event, whoever settled the question must record his decision and must give reasons. Otherwise it would be impossible, months after the event, to answer a Parliamentary question suggested by some interested person who sought to criticize the decision taken, or to ensure Parliamentary responsibility, which, in the case of a nationalized industry, is analogous to responsibility to the shareholders of a joint-stock company. The moment an industry passes under the control of a State Department the old freedom of private enterprise must disappear. New factors foreign to purely business considerations arise in deciding whether a particular course of procedure will bring the Department into disrepute, and delay is caused in arriving at decisions which are simple enough as business matters to a private firm, but are immensely complicated when Parliament and the public may have to pass judgment upon them.

The question of the Civil Servants at the head of any Government Department actually managing an industry is crucial. Even if men of the greatest natural aptitude were selected, and this seems impossible for the reasons stated above, they would not have scope, under the rigid rules which are inseparable from Government control in immense organizations, to gain the particular experience and self-reliance which are an indispensable part of competition and cannot exist in a State-owned monopoly. This part of the problem has not received adequate attention from the supporters of nationalization.

It is also necessary to point out once again that these Civil Servants at the head of a nationalized industry would, rather than the Minister, be the virtual controllers,

and they could not fail to become bureaucrats. Their instinct must inevitably be to attempt to hoodwink inquisitive Members of Parliament. In actual working, freedom would disappear, for the organization would be so vast as to make genuine democratic control absolutely impossible.

3. The Rest of the Staff.

The next factor in personnel in State-managed industry would be the staff, other than the Minister and higher officials. As regards the coal-mining industry, Mr. Justice Sankey suggests that managing directors and the bulk of the present officials should be offered an opportunity of remaining at their present salaries. But would not the result be that many of the best would go and all the medium and worst remain ? Would not the outlook of those who remained tend far less to efficiency than under the régime of private enterprise ? In many of the voluntary amalgamations which have been made, a great deal of heart-burning and unrest has been caused in the staffs of the firms combining. It is probable that a much greater amount of unrest would be caused if the whole of an industry passed under Government ownership, control and management. Such a step could only take place as the outcome of a bitter political controversy, and the staffs of the firms taken over would want to know who was to be their real master in the future. Would they be able to carry out the desires of official superiors who believed discipline to be essential, or would their real masters be the workers, who dislike discipline and want their own way ? In the latter event, efficiency would certainly go by the board. In the former, they would inevitably find decisions on important questions greatly delayed in comparison with conditions under private enterprise, and delay in business matters is synonymous with a lack of efficiency.

Another unwelcome situation would arise if the staff

found themselves made the subject of public controversy and the target of electioneering demagogues. The fear of this would affect the action of many of the more sensitive or less scrupulous.

One further effect of nationalization must be mentioned. There would be rigidity in scales of salaries for all sections of the staff, and exceptions would not be made for specially able officials. This may be controverted. It may be said that the field of Government employment is so wide that posts could be found for exceptionally able men who had not sufficient scope in their then sphere of employment. Unfortunately, that is not how matters really work. Government Departments tend to run in water-tight compartments, and departmental quarrels and jealousies occupy a great deal of public time and waste a great deal of public money. An official may be tempted from one Department to another, but only if his superiors are willing that the transfer should take place. Each Department tries to keep its abler men, for very obvious reasons.

In these circumstances it seems impossible to expect in a nationalized industry anything like the freedom of private enterprise, so far as the staff is concerned. And if there was less freedom, it is certain there would be less efficiency.

4. The Manual Workers.

The fourth factor in personnel is the manual worker. If, as I have shown, there is a strong probability of less efficiency in the management of a nationalized industry by a Minister responsible to Parliament, the Civil Servants at the head and the managers and staff appointed by and subordinate to them, what are the probabilities as regards the general body of workers?

The experience of the war is no guide. During the war the whole country knew that its existence was at stake, and nobly responded to the appeal for a prolonged

that strikes would disappear if the State were the direct employer of labour.

Actions speak louder than words, and, with every desire to do justice to the legitimate claims of Labour, it is impossible to obtain from the action of Labour since the armistice any confirmation of the claim that the workers are ready to work harder for the State. The very fact that some sections of miners have attempted a revolt against the payment of income tax on any less income than £250 a year also throws grave doubts on their professions that the State has superior claims on them.

It is difficult, indeed, to see why workers should work harder for the State. If industries were nationalized, the great mass of individual workers would be inconsiderable units in a vast organization. It is true they would be part proprietors of the organization, but their immediate interest in results to be obtained from efficiency would be so infinitesimal when compared with their interest in their weekly wage, that efficiency would be relegated to an inferior position in their minds. Furthermore, they would believe that the supposititiously bottomless purse of the taxpayer was behind them, and the moral obligation to efficient work would really be less, rather than greater, when compared with private enterprise. In firms of a reasonable size under present conditions the worker often feels a personal interest in the success of the firm he works for. This would tend to disappear in huge State-managed monopolies.

The Prime Minister, in his interview with the Trades Union Congress Parliamentary Committee and the Executive of the Miners' Federation of Great Britain, on October 10, 1919, said:

> I do not think you can point to a single case where it can be said that the workmen working for the commune, either the local commune or the national one, work more heartily or increase the output in comparison with their fellows who are working for a syndicate.

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This statement was challenged on the national issue by the mention of war experience, but I have already shown that war experience is no guide. The challenge is ineffectual, and it would be folly to plunge into vast schemes of nationalization on the strength of mere statements that the workers would produce more if they were working for the State.

The result of the general examination of how the nationalization of industry would work is that a serious lack of efficiency, as compared with private enterprise, would be the inevitable result. As regards the Minister, the Civil Servants at the head and the rest of the staff, this is certain, and the promise of better results from the workers is not borne out by proofs which carry any real conviction to the mind even of the credulous. Human nature being what it is, the well-known phrase "Government stroke," indicating that Labour works less hard for the State, seems rather to represent actual facts.

The Case of Particular Industries.

There remain to be considered the particular claims made in regard to the nationalization of the coal-mining industry, the railways and the land. It is argued by some people that, while manufacturing industry in general, and particularly manufacture for export, may reasonably remain for a long time, or even permanently, in the field of private enterprise, there are certain natural resources, not provided by man and incapable of material extension by him, and certain other creations of his own in universal use, which are designed for the service of the nation as a whole, and that these ought to be owned and managed by the nation, and not by private individuals. For instance, the land on which man lives and which produces the food necessary for his existence; the coal in the bowels of the earth, the outcome of geological development through long æons of time for which he has no responsibility;

the railways made by individuals under Parliamentary regulation, but a universal necessity of modern civilization, are, by their nature, monopolies of which the nation, as a whole, has the right of user, and which ought, therefore, to belong to the nation, and not to selected individuals in it.

It is true that if one imagined a new and empty world to which millions of the inhabitants of this planet could migrate and, in the light of experience of modern civilization, set up a new State, it is conceivable that the land system adopted would be different from that of any of our older civilizations, that the minerals would be retained as the property of the State, whatever the conditions of working them might be, and that the State might build and possibly work the railways required.

The essential difference lies in the fact that this is not a new State, that we are face to face with the effects of a long political and economic development which sets limits to practicable changes in the immediate future. To change the ownership of natural monopolies in a civilized State, where private ownership is, and has been, the settled rule for centuries, can only be accomplished by confiscation or by purchase. Confiscation is not recommended for Great Britain except by a few wild extremists. Purchase at an equitable price is the only alternative, and the practicability of purchase, at a time such as this, involves huge additions to a National Debt already unduly large ; it means the drying up of reservoirs of saving hitherto available for the provision of capital for the employment of an increasing population ; it raises the general question, to which so much space has already been devoted, whether efficiency of production can be secured by nationalization of industry. The question, therefore, as applied to the nationalization of the coal-mining industry, of railways and of land, is a matter of practical politics rather than of theory. Is it advisable in present financial conditions in Great Britain to-day,

and in the existing state of mind of the people as a whole, to nationalize any one, any two, or all three of them?

It will be found in the examination of the proposals regarding coal-mines, railways and land that the case against nationalization varies greatly in regard to each of them, but that there is one feature in common to them all which should give pause to the "thus far" or partial nationalizers. None of them are self-contained entities. In the case of land it is obvious that land is necessary for all industries, and the question immediately arises to whom buildings required for industry would belong if land were nationalized. Again, coal-mining and railways are not industries working in watertight compartments. Independent of the difficulties of separating the surface of land from the coal underneath it, a great many coal-mines are owned and worked by iron and steel companies as part of their undertakings. Mr. Justice Sankey suggests in his Report that owners of these composite undertakings should have a right to compel the State to purchase them, and that the State should equally have a right to compel the owner to sell the whole undertaking, if the mines cannot be economically or commercially severed from the rest. If these composite undertakings are purchased by the State, either voluntarily or at the request of owners, the State will be launched on a new sphere of enterprise, quite outside coal-mining proper, and in competition with manufacturers of various kinds, working under private enterprise. If, on the other hand, the State does not acquire them, the coal-mining industry will not be completely nationalized. In other words, something considerably less or considerably more than the coal-mining industry must be nationalized.

As regards railways, the discussions on the Bill creating the Ministry of Transport showed that railways are only one means of transport; and that docks, canals, coastal traffic, tramways, omnibuses and motors are so closely allied in function, or present such competing methods of

moving goods and persons, that the Minister would have liked powers to control them all. Again, if railways were nationalized, the State would acquire many work-shops producing engines and rolling-stock. The Minister would probably soon find himself pressed to acquire all other firms making the same commodities. By the same methods of argument as are now used by advocates of nationalization of mines and railways, he would soon be pressed to take over the foundries which produce the rails, the timber-yards which produce the sleepers, the shops where the goods-wagons are built, and other ancillary enterprises.

This is no fancy picture. In the present extraordinarily complicated conditions of industrial production there are few trades which are self-contained, and anyone who lends himself to the cry of nationalization of any particular industry on the ground that it is a natural monopoly, while opposed to nationalization of industry as a whole, will find he has taken a step down a very slippery slope, and that it is difficult to discover a halting-place short of the quagmire of complete socialization.

One further analogous consideration must also be borne in mind. In any scheme of industrial nationalization the State will become possessed, at heavy cost, of an asset which may, in a few years, be largely superseded by new inventions or new sources of supply. The danger is especially great as regards coal and railways. It is not an impossibility that, if the community acquired the coal-mines, it might find, within a generation, that oil was taking the place of coal for power, heat and illumination. To take an actual instance affecting transport directly, and the demand for coal incidentally, the London County Council acquired the tramways immediately before the arrival of the motor-omnibus, which has made them partially obsolete. An immense quantity of goods traffic is also now being carried by motor-lorries which formerly went by rail. This factor in the situation is, even if it

stood alone, a very formidable objection to the nationalization either of the coal-mining industry or of railways.

The Coal-mining Industry.

A concrete scheme has been put forward in the Sankey Report for the nationalization of this industry. It differs from the plan of the Miners' Federation in that it is a more moderate and reasonable proposal, and therefore better worth examination.

In itself the purchase of royalties, amounting to £6,000,000 a year, recommended by Mr. Justice Sankey, is not a great undertaking. The proposal has the unanimous support of the Commission over which he presided (except that of the miners' representatives, who ask for confiscation), and it is difficult to refuse a claim so put forward. Whether the Commission really convinced themselves that it was practicable for the surface and minerals to be separately owned, a plan condemned by a previous Royal Commission of which Mr. Smillie was a member, I do not know. Neither do I understand why a special Court of Appeal could not have been appointed to adjust differences between colliery-owners and landowners and so dispense with the necessity of purchase. But there is no insurmountable objection on financial grounds to purchase at a fair price. I can see no financial gain to the State in the process, seeing that approximately half the annual proceeds of this wasting asset are already taken in taxation; but there are political advantages.

The more important proposals are those for the expropriation of the present colliery-owners by State purchase, and for the management by a Mines Department with a Minister responsible to Parliament, in other words a politician, at the head.

The change is recommended on the ground that:

> The relationship between the masters and workers in most of the coalfields in the United Kingdom is, unfortunately, of such

a character that it seems impossible to better it under the present system of ownership.

That is Mr. Justice Sankey's conclusion as stated in paragraph 30 of his Report. The Report signed by Mr. Arthur Balfour of Sheffield, Mr. R. W. Cooper, Sir Adam Nimmo, Sir Allan Smith and Mr. Evan Williams states, on the other hand, in paragraph 20 of their findings:

It is regrettable that during the whole of the proceedings emphasis has been laid on a state of antagonism which is alleged to exist between the employers and the workpeople in the coal industry. To such an extent is this feeling alleged to exist that it is stated that the only means of overcoming it is to nationalize the industry and to substitute the State for private enterprise.

From the evidence submitted, which is confirmed by our own knowledge, no foundation exists for such an assertion.

There is thus a direct conflict of opinion between Mr. Justice Sankey, who accepts the views of the miners' representatives on the Commission, and the coal-owners' representatives, who are in constant touch with the miners themselves.

It seems necessary, in these circumstances, to try to understand what is the point of view of those miners' representatives who have induced Mr. Justice Sankey to adopt their opinions. They are given in Mr. Frank Hodges' interesting book on *Nationalization of the Mines*, which has been recently published. Mr. Hodges writes as if he were under the impression that private ownership as at present in vogue connotes a body of shareholders divorced from all interest in the mines and the workers in the mines, except that of obtaining the utmost possible profit out of them. In a desperate attempt to prove that improvements in methods of production are opposed by shareholders, because they would diminish profits, he commits himself to the following remarkable statement (p. 116):

If output is to increase under the present system, it must increase because of slight improvements which may take place here and there in the various mines, where the influence of the shareholders is subordinated to the will of the strong men engaged in the technique of production, who are consequently given greater scope for self-expression than in other mines.

Anything more grotesquely untrue could not be imagined. It is the shareholders who would benefit, as well as the miners, by such improvements. Why then should they dream of opposing them? Furthermore, if the shareholders in question are the "idle" shareholders of whom we hear so much, they would know nothing about them, and would have no say one way or the other. If, on the other hand, the shareholders whom Mr. Hodges desires to castigate are the large shareholders who are directors and can exercise some influence over the management, their first motive must be to increase production, and they would be the last people to desire to oppose any "self-expression" which would benefit, at one and the same time, the miners, the other shareholders and themselves. It is really a pity that arguments so futile should be put forward.

There are idle and selfish shareholders whose ethical standard as regards the workers is to be deplored, just as there are idle, selfish and callous men among the workers themselves; but the main body of employers of labour who are brought into managerial relations with labour, and who are mainly responsible for working conditions, are sufficiently humane and broad-minded to desire the prosperity and contentment of the worker both for the worker's sake and for the sake of the shareholder. Indeed, in most cases the strongest spur to the managing-director is not actual profit so much as relative success in comparison with other competitive organizations. He knows this is best secured by the co-operation of all concerned. At a time when he has learned this lesson thoroughly, it is a little disheartening to find Labour leaders so grossly misrepresenting his motives.

The real state of the case, as it appears to me, is that certain Labour leaders honestly believe nationalization to be practicable and desirable, and that the wilder spirits, who desire revolution, tell the workers that if they will refuse to work under a system of private enterprise, or, while working, will insist on day-wages and not work hard, employers must capitulate and agree to nationalization. Mr. Hodges in several passages betrays uneasiness about the suggestion that the desire for a change of status "is to some extent artificial; that it is only felt by a few select spirits among the vast numbers engaged in the industry" (p. 115), and that "the average worker is only interested in drawing wages, and that he is not concerned about the output or the general conditions of industry" (p. 130). He attempts to rebut the first suggestion by stating that the majority of the schemes for future control of the industry have emanated from the miners themselves, and that the Sankey Scheme and the Bill of the Miners' Federation have found their keenest critics among the miners. But these makers of schemes and critics are probably the "select spirits" alluded to, and a small minority of the whole. The second suggestion he confesses and avoids by arguing (*vide* p. 131) that, under nationalization, time and experience will have an educative effect and will produce an interest which does not, on his own admission, exist at the present moment in the minds of the great mass of the workers.

The most interesting passages in Mr. Hodges' book deal with the grounds on which the claim for a change of status on the part of the miners is based. These passages give a plain statement of the demands being made, and they show also a curious medley of prophecy, threat, misrepresentation and moral appeal. Mr. Hodges recognizes, quite rightly, that a moral or quasi-philosophical support must be provided for the claim to nationalization. The following extracts will give a fair example. The first is a plain statement:

It is because of the growth of education amongst the workers, both manual and technical, that we have arrived at a point of view which demands greater scope for individuality, and for self-expression on the work in which they are engaged. And for this the wage contract no longer suffices (p. 109).

It is impossible not to sympathize with such a desire, but I shall show later that there are other and better means than nationalization of accomplishing it.

Men now demand status in industry, and nothing can resist such a demand (p. 109).

That is a prophecy, or threat, according as it is interpreted.

They [the workers] have arrived at the stage when they say, "We want to be . . . vested with such power in proportion to our place in industry as will enable each of us to feel that he, as a unit, is personally responsible for the conduct of industry. . . . At present we occupy the status of wage-slaves, but we desire to occupy the status of free men."[11]

During the era of modern capitalism the miners have enjoyed the status enjoyed by other workers, precisely the same status as that enjoyed by inanimate raw material or by horses and asses engaged in production (pp. 109 and 110).

I hope the misrepresentation is unconscious, for anything more remote from actual facts than that miners, who demand interviews with the Prime Minister at any time they choose, are treated like four-footed animals or inanimate raw material, it would be impossible to conceive. The rest of the passage has been already answered. Mr. Hodges commits himself on p. 130 to the view that nationalization of the mines is only a first step towards the nationalization of all industries. If all industries are nationalized the status of freemen will disappear. There can be no freedom in such circumstances, for, as has been pointed out before, no one will be able to choose the kind or conditions of work, but will have to do exactly what the State bureaucrats ordain. The vote which may be left to him at election times will only remind him of his

powerlessness as an insignificant unit in face of a gigantic tyranny.

As an example of moral appeal the following passage may be cited, viz. :

> The labourer, besides having labour power to sell, is also possessed of a human soul which is feeling the urge of strong aspirations. He seeks to be something different in the future, and to use his personality to influence and direct the processes in which his physical and manual energies are engaged. He wants a greater share in the direction of industry. The miner wants to be in his job as a complete human being (p. 110).

When one considers that the men for whom Mr. Hodges speaks follow a hard and dangerous calling, often in conditions of great discomfort, and are also in many districts the most intelligent of the working class, one must feel the force of such an appeal. The more substance there is in it, however, the more important is it that any remedy to be applied should be on sound lines and not of a kind which must lead to disappointment, disillusion and possibly to disaster.

That disillusion must come if the scheme of the Sankey Report is adopted is, I think, beyond question. Mr. Hodges himself lays the greatest emphasis on the intense desire to keep the industry out of the domain of bureaucratic influence (p. 117), and out of the hands of politicians or those nominated by them (p. 105). Mr. Justice Sankey in paragraph 76 of his Report writes :

> It being of vital importance that the Mines Department should be managed with the freedom of a private business, the present Civil Service system of selection and promotion by length of service, of grades of servants, of minuting opinions and reports from one servant to another, and of salaries and pensions, shall not apply to the servants attached to the Mines Department.

The precise meaning of the paragraph is far from clear, but the general drift is unmistakable. Both Mr. Justice Sankey and Mr. Hodges agree that nationalization can only work satisfactorily if there is freedom from the restraints

which have hitherto existed in Government control and management of nationalized services. Yet the Sankey Scheme depends on a Minister who is to sit in and be responsible to Parliament. At the risk of traversing again ground already covered, it must be pointed out that by our established traditions and practice he will be a politician, and he must have control of his Department. It is inconceivable that he should be responsible for decisions made by the National Mining Council of which he does not approve. He, and not the Council, is responsible to Parliament. He must therefore have power to appoint and change his chief officials; he is by the scheme to appoint the chairman and vice-chairman of the District Mining Councils; he is given a power of veto on resolutions of the Local and District Mining Councils, and, as the receipts of money in the industry are to be free from Treasury control, he is to account to Parliament for them. No Minister could accept such responsibilities without exercising effective control. The universal tradition of our Government is that the Minister accepts responsibility for everything done in his department. He can only exercise that control through permanent officials on whom he can rely, and these permanent officials must become bureaucrats.

In such a vast organization as the nationalized coal-mining industry would be, the freedom of a private business is impossible, as I have shown earlier, under the heading "The Civil Servants who advise the Minister."

Mr. Justice Sankey has himself shown in paragraph 88 that the freedom of private enterprise is not to be allowed to the Mines Department in one important respect. The paragraph in question reads as follows:

> The State shall not make or give any undue or unreasonable preference or advantage to, or in favour of, any particular persons desirous of purchasing coal for export, nor shall the State subject any particular person desirous of purchasing coal for export to any undue or unreasonable prejudice or disadvantage whatsoever.

How he reconciled this paragraph with the perfectly general statement at the beginning of paragraph 76, that it is of vital importance that the Mines Department should be managed with the freedom of a private business, it is for him to explain. In any event it is perfectly plain that, in any sale for export, very elaborate documentary proof, all of which was quite unnecessary in a privately managed colliery or firm before control was set up, would have to be kept, in order to show (*a*) that no undue or unreasonable preference or advantage in favour of any particular person had been given, and (*b*) that such a person had not been subjected to any unreasonable prejudice or disadvantage whatever. What an interesting crop of law cases is suggested by such words—lawsuits which could not occur under a system of private enterprise!

Mark further how the regulation would work in actual practice. It is certain that there will be bad trade in the future as there has been in the past. Suppose such a time arrived after the Mines Department had made a forecast of the results of its business for the Budget, and contracts at arranged prices with railway companies and many large manufacturers. The general falling off in trade would lead to a decrease of demand for coal and the accumulation of stocks. Suppose in these circumstances that an exporter offers a price for coal suitable for export, that the price in question was apparently below the relative level of the contracts already arranged, and yet was the utmost he could afford in competition with America or India, or Belgium or Germany. It would obviously be to the interest of the Mines Department to accept such an offer, the alternative being the stopping of mines or a further slump in the price of coal. What is the Mines Department to do in such a case? The easier course would be to refuse, because it is so easy to find a reason for refusing a price. The right course would be to accept the offer. But then comes the difficulty. Are prices to

be lowered for all coal, or only for the export coal? The coal in question would very probably not be of precisely the same quality as had been sold to the railways and manufacturers. If the price is reduced only for the particular quality used for export, what a real sense of grievance the home consumer would have! In the other event, if the price of all coal were reduced, what would happen to the Budget? Whatever was done in such a case, until the Courts of Law finally interpreted the meaning of the words "undue or unreasonable preference or advantage," and "undue or unreasonable prejudice or disadvantage," export business would be subject to the greatest of all trade handicaps, uncertainty, and much valuable trade would be lost to this country that would have been retained under the present system of private enterprise. That is the sort of case upon which Mr. Justice Sankey would ask Civil Servants to advise their chief. Its decision would involve a market forecast of an international kind, a heavy loss or fear of loss in the national revenue, a chance of expensive lawsuits, a practical certainty of an attack in Parliament. The business man under the old system settles such a question in half a minute, or half an hour, or half a day, as the case may be, and no loss of national revenue (except indirect and infinitesimal), no lawsuit, and no Parliamentary attack are involved in the affair at all. And the Mines Department is to be managed with the freedom of private enterprise! *O sancta simplicitas!*

It is true that the problem of the Civil Servants at the head of the suggested Mines Department is more directly dealt with by Mr. Justice Sankey in paragraphs 41, 42 and 43 of his Report; but those paragraphs are based on the hypothesis that the experience of the war has shown that the British nation was able "to provide a class of administrative officers who combine the strongest sense of public duty with the greatest energy and capacity of initiative," and that men are ready to re-enter the

service of the State in peace-time and pass under the control of a Labour Government, if such a Government should come into power. Nothing is further from the truth. Most of the men referred to have already returned to their private avocations, and so far from being enamoured of Government control, even of the relaxed kind current during the war, are only too glad to have "done their bit" and be free.

Incidentally it may be asked of Mr. Justice Sankey why in paragraph 39 of his Report he suggested that the coke and by-product industry, "which is at present only in its infancy," should be allowed to remain in private ownership. Can the men (*vide* paragraph 41), "who are just as keen to serve the State as they are to serve a private employer, and who have been shown to possess the qualities of courage in taking the initiative necessary for the running of an industry," not be trusted to run an industry in its infancy? If not, why not? Is the private entrepreneur the only person fit to run infantile industries? This paragraph 39 shows how much weight Mr. Justice Sankey really attaches to "the capacity for initiative" which in paragraph 43 is stated to be at the disposition of the British nation for a State-managed industry.

Enough has been said to show (1) that the scheme of Mr. Justice Sankey depends on a Minister who is a politician, appointed by a Prime Minister who is a politician, and that the real control must be in the Minister's hands or the hands of those nominated by him (the very plan deprecated by Mr. Hodges), and (2) that it is perfectly impossible to work it with the freedom of private enterprise.

There remains to be considered the plea, almost pathetic in its unconscious unreality, that the scheme adopted by Mr. Justice Sankey does not involve bureaucratism, and is even antagonistic to bureaucratic control. A man who is going to jump into the sea may declare that he does not mean to get wet, but his declaration

does not affect the inevitable result of the plunge. In the same way Labour may pretend that Mr. Justice Sankey's scheme is not bureaucratic. That does not alter the fact that it would lead to bureaucratism.

The advocates of nationalization treat Parliamentary control as if it were the opposite of bureaucracy. So far from that being the case, a Department managing a vast industry, for which a Minister is responsible to Parliament, must quickly lead to rigid bureaucratic control being exercised. Parliament cannot itself control detail in such a Department, but members can ask awkward questions and raise troublesome debates. Those who have been inside a Government office and concerned in drafting answers to Parliamentary questions, or in taking part in debate in defence of Government action, can best understand the effect produced in the Department itself by the questions or a threatened debate. If, as is frequently the case, some question is raised in which the action taken is not easy to justify to Parliament, the heads of the Department take steps to secure that such a complaint shall not again arise. The Minister issues instructions accordingly, and these generally take the form of rules diminishing local discretion and increasing centralized control. So, without any desire to increase bureaucratic control, the necessities of the case force him in that direction.

It may be urged that Mr. Justice Sankey's scheme involves dividing Great Britain into fourteen districts, and removes the fear of bureaucracy by decentralizing control. I cannot agree with this view. Each District Mining Council is to be composed of a chairman and vice-chairman appointed by the Minister of Mines, and twelve other members, four to be appointed by ballot of the workers, and the remaining eight, representing consumers, technicians and the commercial side, to be appointed by the National Mining Council. It may be noted in passing that the National Mining Council, which

is to appoint these eight members, is itself to be appointed by the District Mining Council; but I cannot find which of these two august bodies gets itself into being first, or how either can be got into being until the other one is in existence.

The District Mining Council is to conform to certain orders made by officials (paragraph 55) and, "subject to the direction of the Minister of Mines," is to manage coal extraction, the control of prices and the distribution of coal. The members are to be appointed for three years and paid a salary. They are to meet at least monthly, and oftener if need be. They are to appoint all mine managers, and commercial mine managers, also a commercial committee and commercial manager whose duty it shall be to buy stores and dispose of the output of coal.

In each of the fourteen districts there are on the average at present over one hundred separate colliery firms. If the District Mining Council is to do the work now performed by a hundred Boards of Directors, a hundred managing directors and a hundred agents, it is evident they must give daily attendance, and would even then have to delegate much of the work to officials. If they do much of the work themselves, they, being paid Government officials, must, sooner rather than later, become bureaucrats, for it does not take long to acquire the bureaucratic mind. In so far as the work is done by other paid Government officials, subject to mere general supervision by them, it will be bureaucratically done. In either event, therefore, bureaucratism is involved in the Sankey Scheme. I do not think anyone who will work the matter out in his own mind can come to any other conclusion.

If there were any doubt left on this point it is entirely removed by the fact that the real motive forces in favour of the nationalization of the coal-mining industry are equally advocates of the nationalization of all industries. It must be pointed out, once more, that if and when all

industries are nationalized, Government officials must allocate work under a system of conscription of labour, such as exists in Russia to-day. That is the logical and inevitable end of nationalization.

Fortunately, a good deal of light is thrown both on the general question and on bureaucratism by the practical experience of New South Wales and of Germany.

In New South Wales coal-mines are in existence which are worked by the Government, as well as other mines worked by private enterprise, and there has been a persistent agitation for many years by certain sections of the Labour Party to nationalize the whole of the industry. Yet, in spite of Labour Governments having been in power there during many recent years, no proposal for nationalization has been brought forward by them. It is unnecessary to comment further on a fact so significant.

An experiment of even greater interest to Great Britain has been made on a much larger scale in Germany. Unfortunately, no figures are available which show decisively the relative efficiency and cost of coal-getting in the national mines, when compared with those privately owned. The most striking ascertained fact is that the output of the State owned and managed mines in Germany did not increase between 1881 and 1911 at as great a ratio as that of the privately owned ones.

There may be reasons which would explain this difference, but the report of the Commission appointed by the German Government in November 1918 to consider the question of socialization of industry makes such severe criticism of the conditions existing in State-owned mines that it is impossible to imagine they were managed with the same ability and success as the privately owned mines in that country. The Commission was apparently appointed in the hope that it would recommend the socialization of the whole industry. The following short extracts from the part of the Report signed by all the Commissioners are interesting and significant:

The Commission, however, is unanimously of opinion that the methods of organizing those mines which actually are State-owned do not satisfy economic conditions; these methods must be reformed throughout before public influence can be increased. . . . It is united in believing that all the methods used in the management departments, in the engagement, promotion, and salarying of the staff, in book-keeping and accounts, in short, the entire organization of a normal State-owned mine, is, on account of its bureaucratic principles, an immense obstacle in the way of the industrial exploitation of the mines. Every extension of State-ownership of industry is uneconomic and to be rejected, as long as a complete separation has not been effected between the industrial activities of the State and its political and administrative activities, as long as the industrial enterprises of the State fail to break with bureaucratic traditions.

Dealing with instances of inefficiency in the cumbrous State organism they add:

Expert officials were overburdened with detailed work; their employment changed for no practical reason; the salaries extremely low, and when compared with those offered in the non-State-owned trade, quite absurd; their initiative circumscribed; there was a wide lack of any desire to assume responsibility in financial questions, a complicated system of authority stretching up to a dependence on Parliament; years were taken to negotiate questions which are decided in a few hours in the non-State-owned trade; in short, control superimposed on control instead of confidence or incentive to independent work. . . .

The importance of these extracts lies, firstly, in the emphasis laid on the deadening hand of bureaucratic control existing in the State-owned mines in Germany, and secondly, in the principle definitely laid down that "State-ownership of industry is uneconomic and to be rejected, as long as a complete separation has not been effected between the industrial activities of the State and its political and administrative activities."

Experto crede. The psychology of Germany lends itself to successful bureaucratic organization more readily than that of Great Britain. Yet, in face of German experience of the disastrous effects of intertwining industrial with political and administrative activities,

Mr. Justice Sankey and his Labour colleagues recommend a system which has the fatal error of dependence on Parliament, so forcibly condemned by the German Commission after many years of actual experience. The whole Report, with the majority and minority schemes for avoiding the cardinal error of dependence on Parliament and of the bureaucratism which must arise where such dependence exists, is well worth study. It gives the most striking confirmation of the arguments I have attempted to bring forward against the practicability of the scheme suggested by Mr. Justice Sankey.

One word must be said in conclusion on the finance of nationalization of the coal-mining industry. Whether the sum required were £300,000,000, or somewhat less or more than that sum, it is quite clear that our national finances are not in a condition to allow additions of such magnitude to be made to the National Debt without securing some end of great political and social importance. Compared to the cost of purchasing the railways, or the land, however, the amount of money required is relatively small. At the moment it is practically impossible to raise such a sum, but the objections to the nationalization of the coal-mining industry rest rather on the impracticability of the scheme than on any permanent impossibility of financing the operation.

The Railways.

The case of railways is different in almost every respect from that of coal-mines. They have been financed in this country on different lines from those adopted in almost every other industry. Broadly speaking, the whole of the net earnings have been paid away in interest and dividends. Alterations and extensions have not been provided out of the savings made in the industry, but by new issues of capital raised in the open market.

The State could borrow the money required as easily as the companies can raise it, and a little more cheaply.

So far from nationalization of railways being the exception, it is the rule in many, if not most, of the countries of the world. Railways in any country are confined to national territory, and no question of export trade in competition with other nations arises in regard to them. All railways, whether nationalized or not, are subject to Parliamentary control, both as to the lines built, the maximum rates chargeable and many other details. Unrestricted competition is, practically, never allowed. They have never been run with the freedom hitherto enjoyed in most branches of industry and commerce. They are, admittedly, a more attractive field for State ownership and management than coal-mines.

On the other hand, no country has nationalized its railways as a result of weighing the advantages of public and private ownership. Prussia built railways in the poor provinces east of Berlin when the chance of return was inadequate to attract private enterprise, and Bismarck was actuated by military considerations, and his desire to obtain State control of the means of transport, in nationalizing the other railways of that kingdom. Belgium purchased the railways after the break with Holland in 1830, for fear of the Dutch obtaining control of them. Switzerland was also actuated by the fear of foreigners obtaining control when she took similar action in 1898. Italy inherited her railways from the States which form part of the united country to-day. About the same time (1878) when a Royal Commission in Prussia reported in favour of nationalization, an Italian Royal Commission denied that Government could manage railways more cheaply, and referred to the serious political dangers involved. In 1885 Italy leased her railways to three private companies, but assumed possession of them again in 1905, after a series of disputes with the lessees. Japan was actuated partly by military reasons and partly by

a desire to reduce rates for commercial reasons. Canada has been recently driven to buy all her railways, with the exception of the Canadian-Pacific, because they were unprofitable and yet vitally necessary to her prosperity. There was no one but the State strong enough to shoulder the burden.

Although it is particularly easy in the case of railways to show strong arguments in favour of amalgamation, I know of no facts which go to show that nationalization of railways has been more successful and economic than private ownership. Prussia is the outstanding example of relative success; but it must be remembered that the railways were acquired just before the great commercial expansion of Germany began, and that the times were thus exceptionally favourable. On the other hand, the State railways of Bavaria, Würtemberg and Baden obtained no such success as those in Prussia. It must also be remembered that the railways in England and the United States were a progressive and paying proposition under private enterprise.

In France the purchase and management of the Western Railway by the State, due to the initiative and will-power of M. Clémenceau, was so little a success that the deficit increased from 35,000,000 frs. in 1909 to 77,000,000 frs. in 1911. The disappointment caused by this failure appears to have greatly diminished France's desire for further nationalization before the war. In this country, immediately before the war, there was a distinct tendency to an increase both of earning power and dividend. In Belgium the State Railways made ends meet up to 1912, but the expenditure in recent years had been increasing faster than the receipts. In the State railways of Italy and of several of our dominions there was a similar tendency to a diminished return on capital.

There is also a good deal of evidence in the case of nationalized railways of the danger of dependence on Parliament. It has already been pointed out that in

Australia it has been found advisable to appoint commissioners at the head of the railway undertakings who are independent of politics. In the recent changes in the direction of nationalization in Canada, I understand that the majority of directors are business men appointed for their special fitness for the work, and that only a minority of Government nominees have been added to the Board to watch over Government interests. Such conditions of management are entirely different from the scheme of Mr. Justice Sankey for the coal-mining industry, with a Minister responsible to Parliament at the head.

The recent experience of this country in regard to railway control has not been happy. Just as in regard to the price of coal there have been sudden changes which have shocked and alarmed the business world, so, in regard to railways, there has been a lack of prevision which has led to a serious muddle and the need for sudden and drastic alterations in transport charges. Certain docks and harbours which have not been controlled have presented Bills to Parliament, even during the war years, and have been allowed to increase charges gradually with the growth in wages and costs. Can it be doubted that if railways could have been left under private management (I admit it was not feasible) their directors and expert managers would have induced Parliament to alter their maximum and actual charges by degrees, and would thus have tended to avoid the congestion at the docks which has been caused by the charges for goods traffic remaining unaltered during the war, while those for traffic of the same goods by sea were enormously enhanced?

If these considerations stood alone, it seems highly undesirable to attempt to nationalize British railways at the present time. A Minister of Transport has been appointed as a temporary measure to exercise control over the railways and to survey the whole situation. One of his first steps has been to take in hand the necessary increases of rates for goods traffic. When these are settled and the

Minister is able to report on them and other matters committed to his charge, it will be time enough to consider other changes.

The considerations to which I have already referred do not, however, stand alone. There is the danger, already alluded to, of railways being largely superseded by other forms of traffic. The question of finance also seems to prohibit nationalization for many years to come. I do not propose to enter on the difficult and thorny question of the basis of purchase of the railways if they are nationalized. Whether the sum required is £900,000,000, the Fabians' figure, or, as is more probable, £1,200,000,000 to £1,400,000,000, no Chancellor of the Exchequer in his senses will agree to such an addition to the National Debt until great reductions have been made in the burden the people of this country now have to carry.

The levity of the answer to this objection made by the Fabian Research Department is extraordinary. It is said, "The nation is just as much 'in debt' for its railways at present as it would be after the existing shareholders had been transformed into holders of Government stock," that "the money market would be entirely untouched," and that "what is suggested is merely the substitution of one printed document for another." Seeing that the nation is not, as a nation, in debt for one single pound's worth of railway debenture or stock, all being held by private individuals, the statement is untrue, and it is merely foolish to say the money market would not be affected by the transfer at a time when the Government is unable to face the funding of a floating debt which is somewhat similar in amount to the value of the railways.

The conclusion of the question is that while there are not the same grave objections to the nationalization of railways as there are to the nationalization of the coal-mining industry, it seems impossible to undertake such a step for many years to come on the ground of finance.

Judging also by experience, there seems little probability of making a financial success of the change, and if ever the operation is concluded the controlling organization should not be a Department, dependent on a Minister, who is in his turn dependent on Parliament.

The Land.

It hardly seems necessary to deal seriously with the proposal to nationalize land. In one sense the nationalization of land would involve the nationalization of all industries, for, strictly speaking, land cannot be separated from the buildings upon it in which the industries are carried on. If land and buildings were nationalized, the latest figure of their value which I have seen given officially, and it only included the valuations made up to some time in 1916, I think, was £5,260,000,000. Apparently the present proposals of the Land Nationalization Society fall far short of this, and at present they desire to nationalize land and farm buildings only, the value of which they reckon to be £1,400,000,000. Even the smaller figure puts the suggestion absolutely out of the range of practical politics, because it would be financially impossible at present.

It is obvious that if the larger scheme were attempted the nationalization of land would include the nationalization of the works where all the industries of the country are carried on. How the Minister of Land would quarrel with his colleagues who were Ministers of Coal Mines, of Railways, of Engineering, of Textiles and other matters in such circumstances may be left to the imagination. As regards agricultural land, nationalization is many degrees more practicable (apart from the question of finance) than the nationalization of farming, but its political and economic effects are impossible to predict.

An Alternative Policy.

Hitherto my argument has been directed to proving that nationalization as defined is not the right remedy for any ills we are suffering from in the world of industry. It is not sufficient, however, for a Liberal to rest satisfied with a negative conclusion if the ills complained of are real, and if it is possible for him to suggest a satisfactory plan to deal with them. The real test for him to keep in mind is the pursuit of freedom. The price of liberty is eternal vigilance, and if real freedom and self-expression are still denied to great masses of the citizens owing to industrial conditions, and it is possible for a remedy to be found, it must be the desire of every person who has the root of Liberalism in him, whatever political label he adopts, to find that remedy.

The two objects to be aimed at are a greater share of control for the workers and a better basis of division of the profits of industry. The two conditions precedent to be kept in mind are the preservation of efficiency and the maintenance of an adequate incentive to ability and energy among all engaged in production. Nationalization, as defined and examined hitherto, fails in both respects. The right conception is co-operation and copartnership, the best brains being united in the effort to produce as much as possible, as cheaply as possible, with an incentive to all interested to do their best. The wrong conception is "camouflaged Syndicalism," a phrase for which I am indebted to a recent writer in *The Times*, which would really leave the dictation of conditions to one element in production, and that the least instructed.

Many spokesmen of Labour do not appear to recognize how free the abler and more thrifty workman has been in the past to improve his position and rise from the ranks. If ever there was a *carrière ouverte aux talents*, it has been in the commercial and industrial world of the last century. Lord Pirrie and Lord Leverhulme are two

conspicuous present-day examples among many of what energy, ability and courage, without any adventitious aid, can accomplish. The whole history of the growth of our modern commerce and industry, from the days of Watt and Arkwright to the present time, is a record of men who have risen from poverty to affluence by their own inventive faculty, thrift, ability or hard work. The great growth of the income tax paying classes before the war was due to men who rose from the ranks. The possibilities of the future in this direction are greatly enhanced by the spread of education, the abolition of the half-time system and the increase of continuation schools. It is absolutely essential that thrift, ability, hard work and the inventive faculty should be encouraged in the future even more than in the past. If Labour is admitted to a greater share in management, it must be on the understanding of a levelling up of Labour effort, and not of a levelling down. There are elements in Labour which desire more control, simply out of envy at the success of others, and with the intention of diminishing incentive in their more hard-working fellows. That is not the wish of the wiser and better representatives of Labour, and it represents a policy which can only end in disaster and reaction.

Labour representatives probably also exaggerate greatly the possible addition to their wages, even if the whole of the net profit payable to the wealthier classes were transferred to the worker by confiscatory legislation. Mr. Bowley, dealing with the figures of 1911, calculated that, as regards home-made income, the utmost amount transferable was £200,000,000 to £250,000,000, and that on the then prevailing scale of wages this sum would have little more than sufficed to bring the wages of adult men and women up to the minimum of 35s. 3d. weekly for a man and 20s. for a woman. That much, if not the whole, of the sum would have disappeared in the course of transfer goes without saying.

During, and since, the war the net profit paid to the recipients of large incomes, after deduction of Excess Profits Duty, income tax and super tax, has apparently not increased at all on the whole. Wages have more than doubled. The latest super tax returns show, after deducting tax, an actual diminution. The total value of incomes assessed for super tax in the year 1914–15 was £245,000,000. The similar figure for 1918–19 is given (Cmd. 502, 1920) as £340,000,000, but this includes, I presume, incomes from £2,500 a year, while in 1914–15 £3,000 was the minimum taxable. The figures for 1920 may be higher, but deducting income tax at 6s. in the £, and super tax estimated at £39,000,000 from £340,000,000 (which is too high a figure in comparison with 1914–15, as I have explained), only £199,000,000 net is left. Deducting 1s. 8d. in the £, the pre-war rate, from £245,000,000 leaves over £224,000,000, an actually larger sum. Men in receipt of large incomes to-day pay more than half of their receipts in income tax and super tax. If they have the same amount to spend or save now as they had before the war, they must have doubled their gross incomes, but this ignores the rise in prices. If the rise in the price of commodities is taken into account, they need three to four times their old incomes to be in the same position as they were before the war.

In some industries the net income received is much less than before the war. In railways, for instance, the interest and dividends paid to shareholders was £44,000,000 approximately both in 1913 and 1919. But while in 1913 the net amount received after deduction of income tax was £41,430,000, in 1919 it was only £30,800,000. In the meantime the amount paid in wages had increased from £47,000,000 to £114,000,000, subject in the latter year to a payment of perhaps £2,000,000 or £3,000,000 for income tax. If a further allowance were made for super tax it would be found that while wages had increased by 140 per cent., the net reward of capital decreased by 35 or 40 per cent.

It is clear, therefore, that the net addition that could be made to the remuneration of labour by transferring the whole of the net annual reward of capital to the wages fund (after payment of taxes and deduction of savings) would allow of a less increase proportionately than would have been the case in the year 1911, for which Mr. Bowley's calculations were made.

Practically the whole of the £400,000,000 annual savings before the war were made by the wealthier classes; similar saving is a vital necessity in the future if industrial progress is to be possible. In any rearrangement of the surplus reward of capital between Capital and Labour, the importance of the terms of transfer encouraging saving should be borne in mind.

In the circumstances, the remedy I venture to advocate is a share in control to workers and a system of profit-sharing. The proposals are not novel, and I am aware that the extreme representatives of Capital and Labour both fight shy of them. That fact constitutes no valid argument against them. There are, it is true, great difficulties to be overcome. In the coal-mining industry, for instance, the circumstances of different mines vary so greatly that it would be necessary to pool the profits available for profit-sharing over a wide area. Smaller variations in individual firms in other industries might render voluntary schemes not easy to arrange. Indeed, if the matter is to be dealt with, it is eminently a question in which the Government, in the capacity of an honest broker, should render assistance. First of all, a general willingness on the part of the more moderate representatives of Capital and Labour to work in the direction of the change needs to be created. But the advantages to be gained are so great that, in face of the unrest which has existed for so long, the attempt ought to be made.

The greater participation of the workers in control would enlighten them in regard to the difficulties of

management. To take one instance only, what do the workers know or care to-day about the finance of industrial enterprise? When a banker sends for the representatives of a firm and tells them their overdraft must be reduced, and they are faced with the necessity of selling at a loss in order to find the necessary money, it would do good in many cases if some of the workers understood the position and were able to sympathize with it. It is a false diagnosis that "there is obviously between Capital and Labour a direct antagonism of interest, fundamental, unbridgeable, unending so long as the system lasts." The words are those of a clergyman spreading the gospel according to Karl Marx, and not that of Jesus Christ.

On the contrary, there is a real identity of interest between Capital and Labour, and the need of the present time is to substitute a genuine copartnership for a condition of things in which all the risks and anxieties and all the profits go to one partner, while a stipulated wage is paid to the other, with no adequate interest in final results. An equitable division of surplus profits, over and above a reasonable agreed minimum return to capital, would make all the workers interested in securing a proper output, bring keenness in competition with others, and loyalty and devotion where suspicion and even hostility have sometimes held sway.

Another aspect of the question which appeals greatly to me is, that where there are surplus profits to divide between employers and employed, some of the profits should be payable in stock or shares to the workers. The experiment has already been made with success in certain well-known cases. It is most important from the point of view both of the workers themselves and of the country. Such a plan teaches in a practical way the benefits of saving. The stocks or shares distributed to the workers might be new capital, if such were needed, or transfers from existing holders if new capital were unnecessary. There is no reason why, in course of time,

in prosperous industries, the bulk of the capital should not be held by the workers themselves. And when the advantages of saving and the experience of management had led to a real understanding and recognition of the identity of interest between Capital and Labour, experiments in nationalization could be undertaken—if the workers still desired them—without the appalling dangers with which such experiments would be attended to-day, as part of what would really be a class war.

There is still another advantage of the utmost importance to be mentioned. An equitable profit-sharing scheme would make wages disputes almost impossible. A standard list of wages would be the foundation of such a scheme at its commencement. After wages, salaries, and the financial claims of outsiders were discharged, the first call on the surplus would be the agreed minimum reward of the capital employed, and the remainder would be divisible in agreed proportions between capital and labour. If the division were equitable, the alteration of the standard rate of wages would be a matter of far less importance in the future than it has been in the past. It might even become a matter of indifference both to Capital and Labour. I have heard of one very striking case of a profit-sharing scheme of many years' standing, with representatives of the workers on the management, where the workers' representatives objected for a time to a war-time advance of wages because of its effect in lessening the profit distribution. *O si sic omnes!*

The old objection that workers will be ready to share in profits when times are good, but will not share in losses when times are bad, is not really sound. In the long run they must suffer, as capitalists do, if trade is unprofitable. They would not, any more than now, be asked to pay losses out of their wages. The real point is that with a better understanding of the difficulties which participation in the management would give, with the standard wage secured as now, and with a reasonable chance of profit

distribution, they would have a reason for putting heart into their work which does not exist to-day.

The experiment has been tried most successfully. In the South Metropolitan Gas Company the whole relations between workers and management have been altered thereby for the better. The Copartnership Committee of the company has considerable powers and responsibilities, and in the words of the Chairman has developed into a "small-scale Parliament of Labour with business-like habits." Besides the South Metropolitan Gas Company there are over a hundred and fifty other firms with profit-sharing schemes actually in existence. The number increases year by year, and some of them, such as Messrs. Lever's and Messrs. J. and T. Taylor and Co., have already distributed hundreds of thousands of pounds among the workpeople. On the other hand, it must be acknowledged that a good many schemes have broken down after trial, the cause in many cases being an insufficiency of divisible profit to make them a success. It is true also that the policy has not made general progress over wide areas of industry. That is because the need for any change has not been sufficiently recognized until now. Conservative or reactionary employers have, naturally enough, fought against profit-sharing, while the Socialist element among the workers, misled by the teachings of Karl Marx, have followed the will-of-the-wisp of nationalization and have treated Capital as an enemy to be conquered, instead of a necessary element in production with which it was right to co-operate. Let us hope that wiser counsels may prevail in a not distant future.

So much on the general principle. A word must be said on profit-sharing in the coal-mining industry and railways. Unfortunately, the Government has been slipping into the condition of employer in both these industries, as regards wage disputes. Not only are they responsible for deficits, or the distribution of surpluses, if surpluses exist, in both these industries, but the

Prime Minister is invariably called in when any disputes occur. This is a most undesirable development. An industrial court, with a strong impartial element, would be a much better medium for settling such differences. This consideration emphasizes the undesirability of nationalization in the sense of complete ownership and management by the State. They are instances of essential industries in which profit-sharing at the expense of the public could not be permitted without restriction. In the case of the railways this restriction is safeguarded by Parliament retaining control of rates. In the case of the coal-mining industry, dependent in part on export trade, it is probable that, before many years are past, the effect of international competition will curtail any possibility of unreasonable profits. But in both cases reorganization seems necessary. The case for amalgamation in regard to railways is, as I have already stated, a strong one. In regard to coal-mines, employers themselves suggest a scheme for amalgamation in areas. The Government is proposing fresh legislation in regard to both industries at the present time,

There is only one further observation to be made. If, as I have attempted to prove, nationalization (in the sense defined) is not a cure for the industrial ills we suffer from; if it is essential to retain the incentives to ability, energy and sustained effort which private enterprise has given; if it is desirable that these incentives should be open to Labour to a greater degree than they have been; if Labour has made good its claim to a greater share in the control of industry, there is no scheme which would retain what is good in the past, and secure what is necessary in the future, so well as that of profit-sharing for the worker, coupled with a share in the management of the industry in which he is employed. In industrial matters the end of an epoch has indeed come. Shall we have wisdom to create a new and better one?

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