

THE ORIGINS OF NATIONALIZATION IN BRITAIN (I)

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Part I

I *Introduction*

1 The Subject of This Study

The development of nationalization in Britain can be divided into the following three periods.

- (1) Period of formation of the idea—birth and growth of thought

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on nationalization to 1945.

(2) Period of experiment—experiment in nationalization of several basic industries and services under the third Labour Government of 1945-51.

(3) Period of reconsideration—reconsideration of traditional principles of nationalization under the harsh criticism on its experiments, and groping for new forms of public ownership after 1951.

This thesis is concerned with the first period, namely, examining the forces that advocated the public ownership of the means of production, or the public administration of nationalized industries and services, and the theories of the thinkers who supported the movement for public ownership or public administration.

The important characteristics of the British socialist thought on public ownership can be made clear by comparing it with the Marxist one. There are the following differences between them. Firstly, the British thought on public ownership is plural including many doctrines, while the Marxist materialism has only a single doctrine. So the experiment in nationalization in Britain can not be understood as a reflection of a single doctrine. Secondly, the British thought is empirical, not ideological and dogmatic. It is empirical in character and even religious rather than economic. Thirdly, it is gradual, not radical. It advocates the realization of public ownership by the process of parliamentary democracy, not by revolution, and accepts a mixed economy in which the basic nationalized industries and privately owned enterprises co-operate for the same social objects. In a nutshell, the British socialist thought on public ownership is plural, religious and gradual in contrast to the Marxist one, which is single, materialistic and radical.

In the development of this plural British thought on public ownership, we can distinguish six main political and economic factors with their theoretical background.¹⁾

(1) The rise of Consumers' Co-operative movement, with its limitations, in the mid-nineteenth century, and its theory.

(2) The birth and rise of the Labour Party after 1900, and Sidney

1) In this classification, the writer owes much to L. J. Tivey's *Nationalization in British Industry* of 1966. But the writer's selection of elements and emphasizing of them are not the same as his. For example, the writer attaches great importance to the theories of S. and B. Webb and H. Morrison, giving much space to them, but L. J. Tivey refers to them very little.

and Beatrice Webb's theory of nationalization.

(3) The movement for workers' control in Guild Socialism, which flourished around the First World War, and G. D. H. Cole's theory of workers' control.

(4) The transfer of the London passenger transport to public ownership in the inter-war period, and H. Morrison's theory of the modern Public Corporation.

(5) The need for national economic planning in the inter-war period, and J. M. Keynes' theory of economic planning.

(6) Non-socialist advocacy for public ownership, and their theory of monopoly.

The first five are listed in a very rough chronological order of origin but the influence of all still persists. The first three are examined in Part I as the development before the 1920's and the second three in Part II as that between the 1930's and the first half of the 1940's.

2 Approaching Method to the Subject

Prior to entering into our main question, our approach to it must be explained.

Firstly, we attach importance to the problem of administration as well as that of ownership. R. H. Tawney writes in his book of 1921 criticizing capitalism, "Properly used, it (=nationalization) means merely ownership by a body representing the nation. But it has come in practice to be used as equivalent to a particular method of administration, under which officials employed by the State step into the position of the present directors of industry, and exercise all the power which they exercised."¹⁾ "Nationalization, then, is not an end, but a means to an end, and when the question of ownership has been settled the question of administration remains for solution."²⁾ These statements mean the practical problem of administration is as important as the abstract problem of ownership in nationalization or public ownership. So national or public administration must be weighed as much as nationalization or public ownership. In reality, nationalization in Britain has developed, both in theory and practice, in connection with the concrete and practical problem of administration. Thus the movement has not been

1) R. H. Tawney, *The Acquisitive Society*, 1920, p. 114.

2) *Ibid.*, p. 117.

the mere abstract and ideological advocacy of public ownership.

Secondly, this thesis is divided into two parts: Part I, dealing with the development of thought on nationalization before the 1920's, and Part II, dealing with the development after the 1930's. This is not because of the expediency of dividing the above-mentioned six factors equally into two but because of the important changes that took place in the thought on nationalization before and after 1930. One of the changes is the converging on nationalization of the various forms of advocacy of public ownership, due to the Great Depression and the need of national planning to meet it. The other is that the argument for public administration grew more concrete, precise and practicable, quite capable of bearing the test of actual practice, in the 1930's. The result is the establishment of the modern system of Public Corporation in the 1930's, and it became an important model for nationalization after the Second World War. Because of these two changes in the development of public ownership and administration, the period of the 1930's and the first half of the 1940's played an important role to bridge between the thought on nationalization before that time and the experiment in nationalization after the Second World War.

II *The Consumers' Co-operative Movement and Its Theory*

1 **The Origin and the Significance of the Consumers' Co-operative Movement**

The Consumers' Co-operative movement, which began in the mid-nineteenth century, must be paid attention to as the first and clear large-scale breakaway from capitalist organization. Because of this, it is regarded as of important meaning, though it did not advocate the nationalization or public ownership of the means of production positively. Making much of it in the movement for social reorganization, S. and B. Webb wrote in 1921, "To us the social and political significance of the Co-operative Movement lies in the fact that it provides a means by which, in substitution for the Capitalist System, the operations of industry may be (and are increasingly being) carried on under democratic control without the incentive of profitmaking, or the stimulus of pecuniary gain".¹⁾

This Co-operative movement was originally started by the Co-operators inspired with the spirit of Robert Owen's Co-operation. Robert Owen,

1) Sidney and Beatrice Webb, *The Consumers' Co-operative Movement*, 1921, p. vi (*Consumers'* for short in the following).

according to Beatrice Potter (later Mrs Sidney Webb), is the father of English Socialism—"not the Socialism of foreign manufacture which cries for a Utopia of anarchy to be brought about by a murderous revolution, but the distinctively *English* Socialism, the Socialism which discovers itself in works and not in words."¹ Owen was convinced that human character was determined by economic circumstances and that no good character would be formed so far as the economic system was competitive.² He looked upon the competitive pursuit for private profit in competitive capitalism as a fundamental evil, and advocated substituting the *Co-operative Society* built on the principle of "mutual aid" for *Capitalism* whose principle is "competition." So the central idea in his Co-operative system of industry was the elimination of profit, and the extinction of the profit-maker. He regarded profit upon cost price as the very origin of all evil. "Profit on price," he contended, was realized by selling one commodity at above the cost of production, or buying another commodity at below the cost of production, a fraudulent appropriation of the possessions of the consumer, on the one hand, or a fraudulent withholding of the earnings of the producer on the other.

This idea of the Co-operative system exerted a great influence on the development of British socialism. Not only the Consumers' Co-operative movement that developed rapidly after 1840 but also the labour movement that progressed rapidly after the 1830's was led by Owen's idea of Co-operation.

2 The Principles and Development of the Consumers' Co-operation

The Union Shop movement of 1828-32 was the first genuine attempt of the British working-class to embody Robert Owen's view in a practical form. But this first Co-operative movement failed partly because the society organized had no legal qualification and was thrown into lawless disorder, and partly because the members had no loyalty to the society and became avaricious for profit. But the second Co-operative movement was successful and led to the rise and prosperity of the Consumers' Co-operation. This began with the Rochdale pioneers in 1844. Twenty-eight flannel weavers of Rochdale, driven out of their workshop because of a newly developed, modern woolen fabrics factory, put their pence together to buy and divide among themselves the commodities that they required. The modern system

1) Beatrice Potter, *The Co-operative Movement in Great Britain*, 1891, 4th ed., 1899, p. 16.

2) Cf. Robert Owen, *A New View of Society, or Essays on the Principle of the Formation of the Human Character, and the Application of the Principle to Practice*, 1813.

of the Rochdale Co-operation is called the Rochdale principles, which distinguished Consumers' Co-operation from the vague Co-operative Society.

The Rochdale principles will be summarized as follows :

- (1) free joining and free withdrawal (namely, voluntary society), and the restriction of bargaining to the members,
- (2) the one-man-one-vote principle,
- (3) the denial of non-members' investment and the limitation on members' investment,
- (4) the limitation on dividend payment for investment, and
- (5) the distribution of profit according to purchases.

According to these principles, it is clear that this modern Co-operative Society was a very democratic system. Capitalist undertakings were controlled by the owners of the capital, but the Co-operative Society was controlled by the consumer-members. The consumers had only a small share of the capital, but had rights over the management of their society by reason of the fact that they held membership. Any person might join, and each member had one vote. This one vote could not be multiplied either by the increase of investment or purchases. The dividend paid on purchases had an economic and social result, on the one hand, working as an attraction that caused increase in membership and thus promoting the Consumers' Co-operative movement. On the other hand, it had an effect on the constitution of the Co-operative Society. It had, in practice, (a) provided machinery for the most complete democracy of ownership and control ; (b) ensured that this democracy would remain open to new-comers on equal terms for ever ; (c) given every one an equal motive for desiring its perpetual expansion, and (d) erected a permanent barrier against the dominion of capitalist trusts or other monopolies so far as the Co-operative movement extends.¹⁾ Without the device of "dividend on purchases" it is unlikely that these results would have been attained.

As this system was democratic and the "dividend on purchases" appealed much to housewives, the Consumers' Co-operation made a remarkable progress after that. The aggregate membership and the sales of separate societies increased substantially year by year. The yearly total of Co-operative membership, which had been a hundred thousand in 1863, became a million by 1891, two millions by 1904, three millions by 1914, and four millions by

1) The Webbs, *Consumers'*, pp. 6-11.

1919. The aggregate sales were less than two thousand pounds in 1885, more than five thousand pounds in 1900, ten thousand pounds in 1915, fifteen thousand pounds in 1918, and nearly twenty thousand pounds in 1919. The next two tables, for the period of 1883 to 1919, show the number of societies known to exist each year, with their aggregate membership, share and loan capital, and sales.

Table 1 The Number and Size of Co-operative Societies (1)

| Year | No. of Societies making Returns | No. of Members in Societies making Returns | Capital | | Amount of Sales |
|------|---------------------------------|--|------------|-----------|-----------------|
| | | | Share | Loan | |
| | | | £ | £ | £ |
| 1883 | 1051 | 627,625 | 6,398,744 | 736,605 | 18,540,004 |
| 1884 | 1128 | 696,282 | 6,652,390 | 840,571 | 19,569,940 |
| 1885 | 1148 | 746,772 | 7,508,900 | 833,416 | 19,872,343 |
| 1886 | 1148 | 774,408 | 7,916,650 | 956,293 | 20,496,433 |
| 1887 | 1153 | 828,073 | 8,561,098 | 908,998 | 21,358,207 |
| 1888 | 1204 | 867,223 | 8,906,662 | 1,031,823 | 23,987,206 |
| 1889 | 1297 | 932,000 | 9,521,108 | 1,006,587 | 25,887,240 |
| 1890 | 1240 | 961,616 | 10,310,743 | 1,132,585 | 26,887,638 |
| 1891 | 1307 | 1,044,675 | 11,312,806 | 1,194,753 | 30,599,401 |
| 1892 | 1420 | 1,126,880 | 12,208,677 | 1,327,444 | 32,344,534 |
| 1893 | 1421 | 1,169,094 | 12,529,359 | 1,388,876 | 31,925,896 |
| 1894 | 1421 | 1,212,945 | 13,183,868 | 1,350,152 | 32,242,394 |
| 1895 | 1417 | 1,274,994 | 14,123,685 | 1,654,344 | 33,900,674 |
| 1896 | 1428 | 1,355,946 | 15,386,295 | 1,515,773 | 36,673,858 |
| 1897 | 1442 | 1,465,538 | 16,318,718 | 2,035,004 | 40,128,559 |
| 1898 | 1436 | 1,535,575 | 17,426,410 | 2,252,987 | 42,581,503 |
| 1899 | 1446 | 1,613,461 | 18,934,023 | 2,519,519 | 45,047,446 |
| 1900 | 1439 | 1,707,011 | 20,566,287 | 3,019,998 | 50,053,567 |
| 1901 | 1438 | 1,793,167 | 21,965,994 | 3,326,591 | 52,761,171 |
| 1902 | 1454 | 1,892,987 | 23,167,244 | 3,541,580 | 55,319,262 |

Source : S. and B. Webb, *The Consumers' Co-operative Movement*, 1921, p.17.

Note : The figures of this table are taken from *Industrial Co-operation*, by Catherine Webb, 1904, p.244.

Sidney and Beatrice Webb, looking at this prosperity of the Consumers' Co-operative Society, set a high value on it, saying, "Those who doubt or deny the possibility of there being any practicable substitute for capitalist profitmaking will find it instructive to consider to what extent, by what means, and with what results, democratic associations of consumers have

Table 2 The Number and Size of Co-operative Societies (2)

| Year | Number | Membership | Share Capital | Loan Capital | Sales |
|------|--------|------------|---------------|--------------|-------------|
| | | | £ | £ | £ |
| 1901 | 1462 | 1,793,770 | 21,966,628 | 3,326,591 | 52,761,175 |
| 1902 | 1476 | 1,893,176 | 23,167,619 | 3,541,580 | 55,319,262 |
| 1903 | 1481 | 1,987,768 | 24,217,134 | 3,764,563 | 57,512,917 |
| 1904 | 1469 | 2,078,178 | 25,139,504 | 3,971,231 | 59,311,934 |
| 1905 | 1457 | 2,153,185 | 26,077,174 | 4,170,020 | 61,086,991 |
| 1906 | 1448 | 2,222,417 | 27,350,588 | 4,317,526 | 63,353,772 |
| 1907 | 1443 | 2,323,378 | 29,038,649 | 4,345,644 | 68,147,529 |
| 1908 | 1428 | 2,404,595 | 30,037,352 | 4,558,021 | 69,783,278 |
| 1909 | 1430 | 2,469,039 | 30,804,246 | 4,779,848 | 70,315,078 |
| 1910 | 1428 | 2,542,532 | 31,614,559 | 4,851,753 | 71,861,383 |
| 1911 | 1407 | 2,640,091 | 33,253,757 | 4,935,164 | 74,802,469 |
| 1912 | 1399 | 2,750,633 | 34,742,691 | 5,070,376 | 78,856,098 |
| 1913 | 1387 | 2,878,648 | 37,275,057 | 5,326,708 | 83,615,175 |
| 1914 | 1391 | 3,054,297 | 39,573,049 | 5,744,894 | 87,964,229 |
| 1915 | 1375 | 3,265,011 | 43,141,970 | 5,706,626 | 102,557,779 |
| 1916 | 1362 | 3,520,227 | 47,153,203 | 6,169,149 | 121,688,550 |
| 1917 | 1366 | 3,788,490 | 48,574,049 | 6,362,444 | 142,003,612 |
| 1918 | 1364 | 3,846,531 | 54,039,225 | 7,355,483 | 155,161,963 |
| 1919 | 1357 | 4,131,477 | 65,644,968 | 8,766,338 | 198,930,437 |

Source : The Webbs, *The Consumers' Co-operative Movement*, 1921, p.18.

Note : This table has been prepared from the annual reports of the Co-operative Union since 1901. Figures for 1901 and 1902 do not exactly correspond with those in Table 1 owing chiefly to the different dates up to which belated returns are included.

achieved their success."¹ We must value the success of the Consumers' Co-operation, from the historical point of view, as a convincing demonstration of the viability of an enterprise that has broken away from the capitalist system.

3 The Limitations of the Consumers' Co-operation

With the beginning of the twentieth century, however, the limitations of the Consumers' Co-operation became apparent. The limitations are summarized by Mr. Tivey as follows :

- (1) It was based on retailing : consumer control over manufacturing was remote and confined to lines to be traded in the shops.

1) *Ibid.*, pp. vi-vii.

(2) Many great industries sell little to the individual consumer but trade mainly with other firms, so the system could make no impact on the basic industries or on the risky expanding manufacturing businesses.

(3) It offered little to advocates of workers' control.

(4) It did not provide convincingly the guarantees of dynamic management that were thought necessary.¹⁾

Thus, in the twentieth century, the Consumers' Co-operation was thought not to be suitable to manufacturing industries, and it seemed difficult to hope for further application of the Consumer Co-operative principle, while municipal enterprises, which were prosperous as a main channel of public enterprise at that time, proved to be unable to catch up with technical innovations. The impracticability of Owenism became clear. Then there were movements started for public ownership of the means of production on the one hand, and for workers' control on the other. So we must go on to S. and B. Webb, and G. D. H. Cole.

4 Basic Literature

The basic books concerning the theory of the Consumers' Co-operative movement are as follows:

Holyoake, George Jacob. *The History of the Rochdale Pioneers*. London: George Allen & Unwin, 1893.

Owen, Robert. *A New View of Society: or, Essays on the Principle of the Formation of the Human Character, and the Application of the Principle to Practice*. The First Essay and the Second Essay, London, Cadell and Davies, 1813, 2nd ed. of the complete work (four essays), London: Longman, 1816.²⁾

———. *The Life of Robert Owen, written by himself*. 2 vols., London: Effingham Wilson, 1857-58, London: Bell & Sons, 1920.

Potter, Beatrice. *The Co-operative Movement in Great Britain*. London: George Allen & Unwin, 1891, 4th ed., 1899.

Webb, Sidney and Beatrice. *The Consumers' Co-operative Movement*. London: Longmans, Green, 1921.

1) L. J. Tivey, *Nationalisation in British Industry*, 1966, p.19.

2) This is the first complete publication of the four essays, since the Third Essay and the Fourth Essay were not published.

III *The Birth and Growth of the Labour Party, and the Theory of S. and B. Webb*

1 **The Birth of the Labour Party and the Early Theory of Public Ownership**

The idea of the public ownership of the means of production began a real and positive development both theoretically and politically after the First World War. In the political aspect we must mention the birth and growth of the Labour Party and its programmes reflecting its policy, and in the theoretical aspect, S. and B. Webb's theory of public ownership or nationalization of industry, which was an intellectual basis of the policy-making of the Labour Party. Let us begin with the former.

The Labour Representation Committee, the predecessor of the Labour Party, was born in 1900 as an independent political system, not belonging to the Conservative or the Liberal Party, and was renamed "the Labour Party" in 1906. It consisted of the following three socialist bodies :

- (1) the Independent Labour Party, which consisted mainly of trade unions and whose leader was Keir Hardy,
- (2) the Fabian Society, whose leaders were George Bernard Shaw and Sidney Webb, and
- (3) the Social Democratic Federation, which consisted of Henry M. Hyndman and other Marxists.

It was the Fabian Society that had the greatest influence on the Labour Party. The Society was organized on January 4, 1884 by the young men and women who gathered for the study of social problems. The Society adopted the name Fabian after Fabius Cunctator, the Roman general who won a victory by a dilatory tactics. Frank Podmore, one of the founding members of the society, defines the tactics which they undertook to imitate as follows :

"For the right moment you must wait, as Fabius did most patiently when warring against Hannibal, though many censured his delays ; but when the time comes you must strike hard, as Fabius did, or your waiting will be in vain, and fruitless."¹⁾

1) Max Beer, *A History of British Socialism*, 2 vols., 1921, Vol. II, p.274. By Max Beer, Owenite socialism is idyllic and the key of Owenism is the doctrine of circumstances in relation to the formation of human character. Marxist socialism is revolutionary and theoretical, and the philosophy of Marxism consists of the labour-value theory with class warfare as the dynamic force. Fabian socialism is everyday politics for social regeneration and the socialism of Webb is based on the extension of the theory of rent and on the growth of the social conscience of the nation (*Ibid.*, p.281).

As this name shows, it is a socialistic group advocating gradual social reform. Its leader in theory was Sidney Webb, who wrote a great many books, and the propagandist was George Bernard Shaw, who was a dramatist under the pen name of Fabius. To these two members the Fabian Society owes its importance in the history of British socialist thought.¹⁾

The Labour Party, however, did not advocate the public ownership of industry from the start. It took eighteen years before the Labour Party adopted a socialist programme centering around the public ownership of the means of production. The reasons for this delay are as follows. (a) There were unconquerable differences of opinion among these three socialist groups and it was impossible for them to agree on principles. (b) Having failed to compel the other two to accept the class theory, the Social Democratic Federation dropped out in 1901. But if the Independent Labour Party and the Fabian Society agreed on a socialistic line, trade unions, which were superior in number, would not have admitted it. (c) The Labour Party was contented to be affiliated to the Liberal Party till 1918 and had not a strong will to attain political power.

The Independent Labour Party, however, had demanded "the common ownership of the means of all production, distribution and exchange" since it was organized in 1893. The Fabian Society had also advocated "the common ownership of the means of production" since its formation in 1884. Especially, the latter had turned its attention to the details of public ownership from the first. As its doctrine was described as "Municipal Socialism" by Webb and ironically called "Gas and Water Socialism" by others, it found the means to public ownership in the municipality and the object of public ownership in gas and water, contending that only nation-wide industries such as transportation services must be nationalized. This is obviously a very slow and gradual approach to the public ownership of industry. It had its meaning

1) About the Fabian Society the following books are to be referred to.

- ① Edward R. Pease, *The History of the Fabian Society*, 1918, 3rd ed., 1963 (about the formation of the Fabian Society).
- ② A. M. McBriar, *Fabian Socialism and English Politics 1884-1918*, 1962 (about its influence on the Labour Party).
- ③ "The Basis of the Fabian Society (until 1919)," 1889, quoted in Pease, *op. cit.*, p. 284 (about the leading principle of the society centering around Webb's thought).
- ④ G. B. Shaw, S. Webb, and others, *Fabian Essays in Socialism*, 1889, 6th ed., 1962 (a famous book about its enlightenment movement).
- ⑤ R. H. S. Crossman (ed.), *New Fabian Essays*, 1952 (a collection of new essays).
- ⑥ Margaret Cole, *The Story of Fabian Socialism*, 1961 (a complete history from 1883 to 1960).

as long as the object of public service of the municipality was limited to the inhabitants within its proper administrative area. But with the expansion of economic control by Government in and after the First World War, nationalization was to take the place of municipalization as an important instrument.

2 The Labour Party's Programme

It was after the First World War that the Labour Party began to pay close attention to nationalization. The First World War gave a great impetus to the British socialist thought. It also changed the attitude of the Labour Party to nationalization or public ownership of industry. The State gained power over the economy on a scale never contemplated before and discovered ways and means of regulating industry and services which had never been suspected. Moreover, the State control or administration of railways and coal by the Lloyd George Coalition Government became an important test case of public ownership.

The trade union leaders, who had not admitted socialism in the prewar period, were more and more influenced by socialistic ideas as the State's political power over the economy increased and a labour movement for participation in the management gained ground. As a result, they admitted Fabian socialism at last though they did not change the line of anti-Independent Labour Party. The Labour Party, having advocated the nationalization of such individual industries as railways and coal "fragmentarily", decided in 1918 to demand the public ownership of industry "principally." Early in that year, Arthur Henderson, the party leader, prepared a new draft of the party constitution with Sidney Webb. It was adopted at the party conference in February and the Labour Party had a new foundation for its policy aiming at the public ownership of industry.

The Labour Party constitution of 1918 stated in the Celebrated Clause Four of the 'Party Object' as follows :

To secure for the producers by hand and by brain the full fruits of their industry, and the most equitable distribution thereof that may be possible, upon the basis of the common ownership of the means of production and the best obtainable system of popular administration and control of each industry and service.

Here the word "socialism" is carefully avoided with due regard to the conservative trade union. But the claim for the common ownership of the

means of production is Fabian, and a concession to Guild Socialism is seen in the claim for the popular administration and control of each industry and service. So it now took on a strong socialist coloring. Thus the public ownership of industry became a formal policy of the party and the Labour Party established itself as an socialist party.

S. Webb's draft of *Labour and the New Social Order* was officially adopted with only slight modifications by the Labour Party at its conference, the first one under the new Constitution, held in June, 1918. It was an important basis for the home policies in the party's subsequent programmes. In fact it underlay the policy of *Let Us Face the Future* in 1945. It can be said to have set the "original point" of the development of thought on nationalization of industry and service. In this sense it must be valued as of very important meaning.

This revised *Labour and the New Social Order* demanded in principle the socialization of industry, and included wide proposals of public ownership. Specifically, it proposed "the Common Ownership of the nation's land, to be applied as suitable opportunities occur," and "the immediate Nationalisation of Railways, Mines, and the production of Electrical Power." It also demanded, but without the same immediacy, the public ownership of canals, harbours and steamships—the public ownership of roads and the posts and telegraphs being referred to as an accomplished fact. In these cases it was laid down that there was to be "a steadily increasing participation of the organized workers in the management." The remaining nationalization or municipalization proposal dealt with "the service of insurance" and "the entire manufacture and retailing of alcoholic drink." The scope and the method of nationalization were not clear in the party constitution of 1918, but they were in a concrete form in the *Labour and the New Social Order*.

It became usual after that for the Labour Party to build its programmes on the plan for public ownership. The Great Depression in the inter-war period increased its dissatisfaction with capitalist ownership and confirmed its determination to carry out public ownership. *Labour and the Nation* of 1928 and *For Socialism and Peace* of 1935 also contained specific and far-ranging proposals for nationalization of basic industries. Thus in repeating proposals for nationalization in its programmes, the Labour Party firmly established its industrial policy that gave priority to nationalization before the Second World War.

Here we must naturally go on to the examination of the Webbs' theory

of nationalization, which was the theoretical basis for the Labour Party's programmes, especially that of 1918.

3 The Webbs' Theory of Nationalization

As already mentioned, the First World War gave a great influence on the Labour Party, and also on socialist thought. Sidney and Beatrice Webb could not stand aloof from this influence, and were obliged to revise their idea on public ownership in the light of their experience during the War. The War changed their idea in two respects. First, the increase of workers' power made them revise their view of trade unions. They had made too little of the managerial ability of the worker to believe in the realization of socialism by the working class. But they changed their basic attitude of "making much of intellectual representatives and not believing in workers", and approved the participation of workers in the management. Second, the substantial increase in the government regulation of the economy made them expand the scale of public ownership from the local to the national, that is, from municipalization in "Gas and Water Socialism" to nationalization on a nation-wide scale.

The Webbs wrote many books in their life time. Among them, the next three may be called a trilogy about a social system to be substituted for the capitalist system (specifically about the trade union, the municipality and the consumers' co-operation): *Industrial Democracy* of 1897, *A Constitution for the Socialist Commonwealth of Great Britain* of 1920, and *The Consumers' Co-operative Movement* of 1921. The first is a study of the theory of labour movement; the second contains, as explained in its preface, experimental and constructive proposals for a future Socialist Commonwealth; and the third deals with the development of the consumers' co-operation. The change in their view of the trade union is apparent between *Industrial Democracy* and the next two books. Participation of the trade union in the management is denied in the former but is approved in the latter. We will base our examination of their theory of public ownership and nationalization on the last two.

A characteristic of their theory is that "democratic administration" is stressed as well as "public ownership." Let us examine their idea about the two.

(1) The Speed and the Scope of Public Ownership

Firstly, their proposed process for public ownership is progressive. The

Webbs write, "... , with Socialists, it is not a question of 'socializing', at one blow or in any one way, the whole of industry, and all services, but of providing the most advantageous form of administration for each industry or service, as, one after another, in the course of industrial and social evolution, each passes from capitalistic to public ownership and control."¹⁾

Secondly, the scope of public ownership is partial. They emphasize this, saying, "Nor need it be imagined that this progressive 'socialization', which has already been going on for some time, will ever become so universally complete, even in any one country, that there will be no 'unsocialized' enterprise. It may even be predicted with confidence that there will always be a toleration of unsocialized industries and services."²⁾ From the above mentioned two, the socialization which they were advocating can be called "progressive and partial socialization."

(2) Forms of Public Ownership

In their attempt to provide the forms of administration most suitable for individual industries and services, they distinguish three different forms of organization.

(i) National organization

A form of national administration for those great industries and services, probably fewer than a dozen, which require to be dealt with primarily on a national basis.

(ii) Municipalities and other forms of Local Government

The much larger number of enterprises which will be more advantageously conducted by municipalities and other forms of local government.

(iii) Consumers' Co-operatives and federal organizations of like character

Enterprises dealing with the production and distribution of the great mass of commodities intended directly for household consumption or use.

Possibly, they supposed, only half a dozen or so of industries and services would need to be organized and directed nationally, in view of the expanding spheres of Local Government and the progress of the Consumers' Co-operative Movement. They mentioned the railways and canals, the mining industry

1) Sidney and Beatrice Webb, *A Constitution for the Socialist Commonwealth of Great Britain*, 1920, p. 147 (*Constitution* for short in the following).

2) *Ibid.*

(including the oil industry), and afforestation for immediate nationalization. They suggested that insurance and the bank service of current and deposit accounts were no less ripe for nationalization. The smelting of metals from the ore, and the conduct of the main lines of passenger steamers would be promoted from profit-making enterprises to public services in the near future. Between these industries and services and those that supply numerous kinds of household consumption goods was a wide sphere for Municipalities. As much as one-half of the whole of the industries and services of the country, they thought, would fall within the sphere of Local Government.

The following two points must be noticed about what has been said above. First, nationalization, the national form of organization, was introduced with emphasis over and above the two prewar forms of organization, that is, Consumers' Co-operations in the Consumers' Co-operative Movement and local public ownership in the Gas and Water Socialism. It is thought that the increase of the State control due to the First World War caused the Webbs' theory of public ownership to be expanded from the local to the national scale. And this, as mentioned in the last section, gained a practical significance in the programme of the Labour Party. Second, the scope of nationalization in the Webbs' theory was rather limited. This is because they anticipated the expansion of the spheres of municipalities and Consumers' Co-operatives. All things considered, the forms of public ownership in the Webbs' theory is various and flexible.

(3) The Aims of Nationalization

As they extended their conception of public ownership to the national level, the Webbs got a clear idea of the merits of nationalization. R. Kelf-Cohen summarizes the aims or merits of nationalization in the Webbs' theory into the following four¹⁾:

- (i) centralization and improvement of services,
- (ii) the fullest participation in management by workers,
- (iii) the most effective safeguarding of consumers' interest, and
- (iv) the permanent welfare of the community as a whole.

(4) The Method of Nationalization

"The object of 'socialization' is 'socialization',—that is to say, the transformation of profit-making enterprise into public service: not the enrichment

1) R. Kelf-Cohen, *Nationalization in Britain: The End of a Dogma*, 1958, p. 8, and *Twenty Years of Nationalization: The British Experience*, 1969, p. 22.

of the community by confiscation."¹⁾ "Each owner should receive in compensation the fair market value of that of which he is compulsorily dispossessed, as between a willing seller and a willing buyer."²⁾ The Webbs advocated fair compensation through parliamentary democracy as part of the nationalization process, not confiscation by revolution. Fair compensation, they thought, would prevent the serious resistance or difficulty that might otherwise occur in the process of nationalization.

Next we must go on to the problem of the democratic administration of the nationalized industries.

(1) Control by the Social Parliament

They proposed that the National Parliament should be divided into two parts—the Political Parliament dealing with political administration and the Social Parliament dealing with economic and social administration. They emphasized that this separation of the two national assemblies was fundamental. Within the sphere of the Political Parliament there would fall foreign affairs, justice, and national defence, and to the Social Parliament would be assigned the function of exercising whatever national control might from time to time be required over the nation's economic and social activities. That is, the one would have in its sphere the function of *Verwaltung*, *autorité régalienn*e, police power, while the other would take charge of *Wirtschaft*, *gestion*, housekeeping.³⁾ So the control of industries and services was to fall within the sphere of the Social Parliament.

The reason why they advocated such division of the National Parliament must be considered. During the preceding half-century, the functions of Government had increased considerably, so that great power had fallen into the hands of Parliament, or rather of the ministers who controlled Parliament. The Webbs were conscious of the danger that with the increase of the ministers' powers the authoritative influence of the Government over the life of the individual might become tyrannical and all pervading. The following was assumed to be the advantage gained by the proposed division of Parliament's overwhelming power between two separate national assemblies. The division would (a) solve the problem of the excessive amount of business in the Parliament, (b) provide a much-needed check on

1) The Webbs, *Constitution*, pp. 334-5.

2) *Ibid.*, p. 334.

3) *Ibid.*, p. 111.

the omnipotent Parliament, and (c) create a new safeguard for personal freedom from the power of the Government. This reflects the Webbs' basic thought that the political and economic activities of the citizen must be handled by two separate bodies.¹⁾

(2) The Differentiation of Control from Administration

The Webbs maintained emphatically that it was of the greatest importance to strictly separate the control from the administration of the nationalized industries. The decision of great issues of policy should be sharply differentiated from current administration. The former is done by a standing committee responsible for advising the Social Parliament, but the latter should not be interfered in by any Parliament. This is day-to-day administration in the widest sense, including appointment and promotion, stocking and selling, the selection of methods or techniques of production, and so forth.

During the preceding half-century, the functions of the Government had increased, as already mentioned, and the ministers came to try to relieve themselves of their increased responsibility by evading the questions asked in the House. As a result, Members of Parliament became ill-instructed, the debate in Parliament usually proved futile, so that parliamentary control was now becoming an illusion. They were much afraid of this. The reasons why they proposed the control of the nationalized industries to be separated from their administration could be summarized as follows: this separation, that is to say, to differentiate current administration from the function of Parliament, would lead to (a) a much more democratic control over the nationalized industries' affairs, (b) more protection against the evils of uncontrolled bureaucracy and its spread in management, and (c) more adequate safeguards for both efficiency and improvement than can be given by "the amateur supervision of busy Members of Parliament" as in the Post Office, the only Government Department enterprise in Great Britain at that time.

The idea of dividing Parliament into two parts, the Political Parliament and the Social Parliament, could not have any effect upon the public opinion because the whole idea, including the Social Parliament, was too novel, but this idea of separating current administration from the decision of great

1) R. Kelf-Cohen writes that this is too doctrinaire and that *A Constitution for the Socialist Commonwealth of Great Britain* had little effect on public opinion as a result of this futile proposal (*Twenty Years of Nationalization*, p. 20). But the book (*Webbs' Constitution*) is very important in the history of the thought and practice of public ownership in Britain.

issues of policy was to exert a very great influence after that.¹⁾

(3) Administration by a National Board

The Social Parliament must control but not administer; it must decide great issues of policy but not interfere in management. "For the current administration of each nationalized industry or service," the Webbs state, "there should be a National Board with full power over administration in its widest sense, and subject only to such specific directions as to policy as it may from time to time receive from the Social Parliament itself".²⁾ They planned by this to secure the central control of the industry on the one hand, and, on the other, to decentralize the administration by such district organizations as the District Council and the Works Committee. They aimed at the democratic control of nationalized industries, protection against bureaucracy in the management and increase in efficiency.

The exact composition of each National Board might be different according to the nature of the industry, but characteristically, they suggested, a Board would consist of sixteen members, one being the chairman, five representing the heads of the principal branches of the administration, another five representing the employees of various vocations (manual and clerical work) the other five representing the interests of the consumers and of the community as a whole.³⁾ The District Council is also a tripartite body like the National Board. It is clear that this is a democratic and representative structure, and that it reflects the Webbs' interest in raising the position of the worker. Here we can see a change in their view of the worker.

(4) Measurement and Publicity

In the interest of the workers in nationalized industry the Webbs provided for their participation in industrial administration, specifically in the above-mentioned National Boards and District Councils, as well as in Works Committees where the standard condition of employment was to be discussed and decided. For certain matters of industrial administration outside the sphere of National Boards, District Councils and Works Committees, they

1) Its clear influence can be found in Herbert Morrison's theory of the modern Public Corporation. This will be mentioned in Part II.

2) The Webbs, *Constitution*, p.176.

3) *Ibid.*, pp.176-7. This tripartite system was not adopted in nationalization in Britain after the Second World War, but very interestingly, it was adopted in nationalization in France. For this French example of tripartite system, see William A Robson (ed.), *Problems of Nationalized Industry*, 1952, pp.261-2, and for the revision of that system, Robson, *Nationalized Industry and Public Ownership*, 1960, 2nd ed., 1962, pp.216-7.

proposed Collective Bargaining in a Joint Board, in which representatives of management was to meet the same number of representatives of the Trade Union. The Webbs state, "No more can be shared among the producers than is produced, In fact, with an ever-growing submission to the arbitrament of public opinion in such matters, any intractable labour disputes ought to be brought to an amicable compromise, after argument, by a full use of the essential instruments of Democracy, Measurement and Publicity,¹⁾ which are cardinal doctrines in their philosophy.

They included in "measurement" not only quantitative enumeration but also the determination of kind and the valuation of quality. They understood the term "publicity" to include not merely the issue of reports and bluebooks, but every means for conveying information to citizens in general and to the persons particularly concerned, such as the consumers, the managers and the employees of nationalized industry.²⁾

They thought that the "measurement" of managerial efficiency and the "publicity" of the result in and out of the industry was now already undermining personal autocracy. As a result, they predicted, the vital question in industrial control, "Who should give orders and who should obey them," would become largely meaningless.³⁾ With the advance of democracy, consultation among all the ranks and sections concerned would play a steadily increasing role in place of decision by bureaucrats and capitalists. This democratic procedure would ensure judgements and decisions being made by common consent, obtained through the cogency of strictly ascertained and accurately reported facts and the silent persuasiveness of the public opinion of those concerned.⁴⁾ The realization of "democracy" is, in their view, far more dependent on the adoption of "measurement" and "publicity" than on any choice between one method of voting and another. Measurement and Publicity is an essential in the Webbs' philosophy that public opinion is decisive in a true democracy.

4 Problems in the Webbs' Theory and Its Evaluation

We will conclude our examination of the Webbs' theory of nationalization

1) The Webbs, *Constitution*, p.186.

2) *Ibid.*

3) In contrast with the Webbs, this question has been the key subject in the G. D. H. Cole's theory of workers' control. This will be examined in the next chapter.

4) *Ibid.*, pp.196-7.

by pointing out some problems in their theory and making clear its significance in the history of the theory of nationalization in Britain.

To begin with, there are the following problems in their theory.

(1) The conception of the Social Parliament is impracticable because it is impossible to divide the Government power, and there is a theoretical weakness in their view of citizens as functioning in two different spheres.

(2) Criticizing the neglect of consumers' interest by Guild Socialism, the Webbs not only considered assigning an important part to producers, but also proposed the Boards of tripartite structure in order to ensure the equal representation of the producer and the citizen consumer. But producers, the State and workers, would form the majority and the consumers would therefore be at a disadvantage.

(3) The Webbs completely overlooked the fact that a nationalized industry was a statutory monopoly, freed from competition and dominated, under their scheme, by the producers. In such a monopoly the producers, on the one hand, could increase their wages by raising the prices of their products. On the other hand, the managers would be tempted to seek industrial peace by taking an appeasement policy toward the workers at the expense of consumers, because the union was very strong in the nationalized industry.

(4) The Webbs had a great expectation that any reform directed towards the goal of social justice would be accompanied by desirable changes in human attitude. Once the capitalist element disappeared, the character of all persons in industry would be changed and nationalized industry would have unselfish managerial specialists and unselfish workers. But this must be said to be too optimistic. This naive optimism is not only the error into which the Webbs fell but also a characteristic mistake of many reformers, the Fabian Socialists and members of the Labour Government of 1945-51.

As mentioned above, the Webbs' theory of nationalization, based on their optimism, is in some respects divorced from realities and has some imperfections in terms of economics and industrial administration. But this is partly due to the fact that they had no practical experience of business management or industrial administration.¹⁾

1) In this connection, H. Morrison had a ripe experience of administration unlike the Webbs, so that his theory of the Public Corporation, as we shall see later, was more realistic and practicable.

Though it had some problems as stated above, the work of the Webbs was valuable. The Gas and Water Socialism and the programmes of the Labour Party had been no better than abstract argumentations, advocating the public ownership or nationalization of industry and service only in general terms. But the Webbs considered in concrete terms the form of management most suitable for each industry and service, and anticipated the problems expected to come about in and after the transference of ownership to the State and devised countermeasures to them in detail. This must be highly appreciated. The remarkable influence they had on the Labour Party's policy-making for nationalization and the development of the British thought on nationalization cannot be overestimated.

5 Basic Literature

As basic literature on the theory of nationalization of Fabian Socialism and the Webbs, the following can be listed.

Labour Party. *Labour and the New Social Order: A Report on Reconstruction*. London: L.P., 1918.

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