

Steel Nationalisation and Political Power

JOHN HUGHES

STEEL AND POWER

Part 1. THE STRUGGLE OVER STEEL

Introductory

Nationalisation of steel contrasts sharply with the nationalisation of other major industries by the Labour government. Understanding some of the elements of this contrast helps to clarify the nature of the struggle over steel nationalisation.

- (1) The other subjects of nationalisation were either 'public utilities' or ill-organised and characterised by small-scale competitive firms lacking co-ordinated industrial services (e.g. coal, road; transport). Only in the case of steel did the Labour government in proposing nationalisation confront large-scale industrial combines recognisable as typical of 'monopoly capitalism'.
- (2) In other cases, national ownership followed earlier detailed investigations which had made clear, the need for industrial re-organisation, co-ordination, the development of central services. Nationalisation in these cases was acceptable as the means of securing the full advantages of re-organisation into large-scale units. In the case of steel, such industrial organisation already existed under the aegis of the British Iron and Steel Federation, no recent investigation had been made into the industry, and no proposals for an alternative to the existing organisational structure of the industry were being canvassed.
- (3) The other industries nationalised were largely self-contained. In contrast, the steel combines were not examples of 'vertical integration', not merely reaching back to control raw materials, but pushing forward into many sectors of engineering. The firms chosen for nationalisation had 200,000 workers in the iron and steel production proper, and 100,000 workers in other industries. Steel nationalisation therefore pushed a state sector into engineering.

That business interests generally were united in opposing steel nationalisation can therefore be readily understood. It could not in their eyes appear tolerable for the practical reasons, need for co-ordination, for improved organisation, for modernisation, which influenced their attitude to coal or electricity nationalisation. It appeared rather as the harbinger of the socialisation of heavy industries generally; it provided the necessary industrial base for the extension of public ownership in manufacturing industry. More-

over, the steel industry had in the shape of the **B.I.S.F.** what the other industries nationalised lacked, a ready-made organisation with the industrial and political power necessary for determined opposition to the proposed nationalisation.

The other nationalisation measures fit into the pattern of a "mixed economy" in which the private sector and its interests predominates. The nationalised sector provides basic services (such as transport and power) at cost of production or less for private industry; it is used, along with housing, as a stabiliser "offsetting" fluctuations of private industrial activity; it copies the organisation of labour relations policies of large-scale private firms. It is difficult to fit nationalisation of steel into this pattern and retain still the unchallenged predominance of private industry. Steel nationalisation can be made to involve a shift of industrial power more decisive than the other nationalisation measures put together.

The importance of analysing the Labour government's handling of steel nationalisation is consequently many sided.

Firstly, it is a necessary subject of study for the Labour movement because Conservative de-nationalisation is not the end of the story. The Labour movement is still committed to nationalise steel. The earlier attempt can be used, if only through a study of its mistakes, to illuminate the strategy and organisational forms required if a future attempt is made.

Secondly, steel nationalisation raises sharply the problem of the resistance by entrenched industrial power groups to measures which directly challenge their power and threaten to put it in the hands of bodies responsible to the community. The hidden premise of much Labour Party thought on the matter has been that such groups will acquiesce in, their loss of power when confronted by a government with an electoral mandate for change. Now, although Labour leaders condemn as unconstitutional any industrial action **by workers** directed against government policies*, it is by no means clear what will be their reaction when confronted with such action by a business power group. Apart from the formal, constitutional, issues raised by such action, steel nationalisation is very revealing for understanding the political power of monopoly capitalism, and for the light it throws on the reaction of a Labour administration to such a challenge.

The third reason for studying steel nationalisation is to recognise and evaluate the conflicts and disunity that occur within the Labour movement when the question on the agenda is that of a significant shift of industrial power, of a measure which provides

*For instance, in February, 1952, when coalminers in some areas ceased to work the voluntary Saturday shift to express their disapproval of 'economy' measures by the Conservative government, the National Council of Labour condemned the movement as "a direct challenge to the supremacy of our established democratic institutions."

the industrial basis for a further transition to socialism. There is the sharpest possible contrast between the unity, persistence, and resolution of the opponents of steel nationalisation, and the delays, half-heartedness, and repeated retreats and compromises which were the product of the deep division within the Labour government over whether, when, and how, to nationalise steel.

The inclusion of steel nationalisation in the 1945 programme was not so much a matter of socialist conviction as a product of the slump conditions of the early 1930s. In the slump the very conservative Trade Unions in the steel industry adopted nationalisation as a means of salvaging their industry. In 1934, the T.U.C. produced a "Plan of Socialisation" of iron and steel.— With the revival of the later 1930s, within the framework of protection and the cartel system of the B.I.S.F., agitation for national ownership receded among the Unions in steel, but remained formally part of their policy and of the general programme of the Labour movement. To this 'anti-slump' approach to nationalisation the post-war discussion added little except the suggestion that the B.I.S.F. was too restrictive in outlook to be trusted with the development of the industry. But did the reasons which, in 1932-34, led the Trade Unions to adopt steel nationalisation remain sufficiently relevant in the changed context of the post war years? The Labour movement never resolved that doubt, those who had to take decisions were divided and hesitant from the start.

Thus, the relative strengths of the opposition to and the supporters of steel nationalisation was very different from that in the case of the other nationalisation measures. Possession of a Parliamentary majority was to prove to be, in such a situation, not by itself decisive. To complete the picture of the opposed forces, some account of the organisation of the B.I.S.F. is needed, since it was the B.I.S.F. that directed the strategy of the opposition to steel nationalisation, and that held — and retains — the decisive power in the industry.

The large integrated industrial combines typical of the heavy steel industry are linked together in a number of ways. There is a good deal of interlocking of directorships among them, and with finance, especially the big banks, and heavy engineering firms. But in addition there is a comprehensive organisation into industrial cartels. Even before the B.I.S.F. was formed in 1934, on the basis of monopoly control of the home markets through high tariffs, the steel industry had been organised into cartels based on particular steel products. The B.I.S.F. is a federation of these cartels which were absorbed in the new organisation and appear within it as "Product Groups". Alongside these, the Federation systematically extended its range of centralised services and controls, controlling imports of raw materials, exports, the elaboration of industrial policy (not forgetting labour relations and public rela-

tions), and maintaining research and other service departments. It has developed too an extensive system of levies and rebates (the "Industry Fund") which amounts to a comprehensive system of cost, and therefore profit, "pooling and largely obscures the real cost of production of different processes. The B.I.S.F. has some 500 member firms, but power, particularly on matters of general policy is largely concentrated in the hands of the Executive Committee.

The Executive Committee itself is dominated by the most powerful of the big combines. For instance the 1955 Executive Committee of 40 members included seven who were linked with the Richard Thomas and Baldwin group, five from the Vickers group, and seven who were directors of United Steel. The Board of United Steel is in essence a power group linking four big combines, United Steel, John Summers, Stewart and Lloyd, and Guest, Keen, Nettlefold—these combines taken together had twelve representatives on the Executive of the Federation. It is difficult to think of any concentration of industrial power in British business comparable to that of the British Iron and Steel Federation.

During the period of the Labour government, the Ministry of Supply exercised important control functions, including pricing and raw materials allocation. These controls, however, did not represent any significant reduction in the B.I.S.F.'s power over the steel industry. The wartime steel control had been simply the B.I.S.F. itself with a different name-plate over the door, and the B.I.S.F. had experience from the 1930s onwards of handling pricing and development policy in conjunction with government agencies. Here was a most formidable antagonist for a government embarking on nationalisation.

In analysing the record of the handling of steel nationalisation it is useful to keep in mind three phases. Each prepared the conditions for, and largely determined the character for the next phase. Missed opportunities in the early stages were to impose serious limitations on the handling of subsequent struggles. The three stages were :

- (i) Preparation, 1945-48.
- (ii) Parliamentary, 1948-49.
- (iii) Implementation, 1950-51.

Preparation

The B.I.S.F., faced with the election of a Labour government committed to the nationalisation of steel, had to develop a political policy to meet the situation. This they lost no time in doing. Their two main appeals to public opinion were cleverly chosen.

They met the demand for public Ownership with an apparent willingness to accept public control. Sir Andrew Duncan, the B.I.S.F. Chairman, used the main Parliamentary debate on the subject in 1946 to plead :

"If the Government would consult with all sections of the industry they would satisfy themselves beyond doubt that a system of control could be established which would safeguard every public interest."

The devil was sick, the devil a saint would be . . .

This was calculated to provide a strong argument for the opposition; if you appear to concede public control, public ownership can be treated as an irrelevant and doctrinaire demand. It also helped to divide the Labour movement. Even at the time, "Man and Metal" the journal of the Iron and Steel Trades Confederation (the main Trade Union in steel) commented that Duncan's was the one speech that showed "a thorough grasp of the industry's structure and position."

The Federation's other tactic was to parade their long term Development Plan, and continually to emphasise the rise in steel output. The Development Plan published in 1946, replacing an earlier draft which had been more restrictive and had been withdrawn, represented a victory over the most restrictive minded of the steel industrialists, a victory based on political as well as economical necessity. The assumptions of the Plan were still unduly restrictive, and some of the major projects in it were not carried out at all (e.g. a new integrated steel plant on the home ore field) or dangerously delayed (the blast furnace programme) with consequences which we shall note later. However, it served to suggest progress, and it is important to note that it was accepted by the Labour government, and that subsequent failure to implement important sections of it does not appear to have been criticised by any government department.

Thus the B.I.S.F. appeared before the public parading its acceptance of public control, and denying the innuendo of restrictiveness by a programme of expansion. The Labour government, in contrast, had not proceeded beyond a mere statement of intention, except to devise, in 1946, the idea of a Control Board. This Board was envisaged as tripartite in composition (independents, B.I.S.F., Trade Unions), as the agency for supervising development and administering the direct controls, and assisting the government to formulate the organisational proposals which would be the basis of the Bill to nationalise steel. The Board was to be the means chosen to prepare the ground for nationalisation.

At this point the Labour government was prevailed upon to give up the most important part of their proposals. The B.I.S.F. refused to join the control board unless the government withdrew its proposal to use the Board to prepare the way for nationalisation. The deadlock was broken on the Federation's terms—the government announced that it would not be 'part of the functions of the Board or of those members of the Board who are drawn from the steel industry to advise the government in connection with plans for

public ownership". There was now no organisation in a position to make any detailed investigation of the industry or preparations for nationalisation. This could not but affect the subsequent nationalisation Bill; the work of studying the organisation of the industry had; still to be done after the formal vesting day.

What happened after the setting up of the Steel Board in 1946 to cause a two year delay in drafting a nationalisation measure? Sir Ellis Hunter, who was President of the B.I.S.F. from 1945 to 1953, has stated that there were negotiations with the B.I.S.F. leading to an understanding which appears to have involved abandonment, or at least postponement of nationalisation. What the status of these negotiations was, we cannot tell, but his statement (made at the Dorman Long company meeting in 1955) is worth quoting since it passed almost unnoticed at the time, as the London newspapers were not appearing due to a strike. The Manchester Guardian of 30th March, 1955, quoted him as saying:

"It is quite widely known that the steel industry had negotiated an understanding with the Socialist Party in 1947 which would have become law but for one of those misunderstandings which trouble the Labour party from time to time. Had it been carried through it provided for the practical supervision of the industry much on the lines of the act passed by the Conservative government."

Was this an informal understanding with some members of the government who were exploring how far the Federation would go in accepting a control system, or were the negotiations undertaken with the knowledge of the Cabinet? In either event, the incident illustrates not only the disunity in the government, but the fact that the B.I.S.F. must have been well aware of the extent to which divided councils prevailed. Perhaps this explains the sharpness of their reaction when late in 1948 the government brought itself to the point of tabling the nationalisation Bill.

If in 1947 the Federation thought they had reached an understanding on public control, why did the government after a delay proceed with nationalisation? Future memoirs may fill in the picture, but some aspects seem more than speculation. At both the 1947 and the 1948 Trades Union Congress, left wing Unions, particularly the Foundry workers, pressed for urgent attention to be given to steel nationalisation. Their resolutions—the 1948 one demanded "immediate emergency measures"—were defeated. But would they have been so if there had been an announcement of the shelving of nationalisation? The General Council in 1947 were forced to produce a government assurance at the 1947 Congress to the effect that proposals would be put forward in the lifetime of the present government. Continued delay would have led to a critical situation within the Trades Union Congress. Inside the Cabinet there was obviously a struggle over the issue.

A. Edwards, then M.P. for Middlesborough, in resigning the Labour whip over the issue, alleged that it was due to Mr. Bevan's threat to resign that nationalisation was proceeded with.

Parliamentary

A decision to introduce a steel nationalisation Bill into Parliament was unlikely to mark the end of divided opinions within the Labour government, and it certainly did not presage the end of opposition from the B.I.S.F. The government were proceeding with the measure in the last years of their span of office, precisely when the delaying powers of the House of Lords were most significant. It is important to stress the serious political implications of postponing the measure until the 1949 session of Parliament.

One of the main arguments used by government spokesmen had been the assertion that for the steel Development Plan to be implemented it needed to be carried out under national ownership rather than private. This argument could not be taken very seriously if a long delay followed without a nationalisation measure. Secondly, in 1945 the government could claim that it had a clear mandate for its programme. By 1949 the House of Lords' majority were seeking to justify their delay of steel nationalisation by arguing that public opinion was against the measure and that final decision upon it should await the outcome of the next election. However unjustified the Lord's use of the "second mandate" argument, their use of their delaying powers meant that the late introduction of the Bill had turned steel nationalisation from the accepted programme of one election to the contested issue of the next. Thirdly, powerful entrenched opposition from the steel industrialists still had to be overcome if nationalisation was to be made a reality. For this time was needed, and delay was dangerous.

A study of the House of Lords' role in further delaying steel nationalisation is to be recommended to those who think the old radical cry for the abolition of the Lords is an outworn demand. The Opposition in the Lords — i.e. the majority there — had announced the policy of not rejecting any measure included in the 1945 election programme. Lord Salisbury, after calling the nationalisation Bill "not evolutionary but revolutionary", saved his conscience by recommending not the outright rejection of the Bill but amendments which would have delayed vesting date by longer than the Lords' delaying powers even if they had rejected the measure outright! By this piece of sophistry the noble Lords contended that they were not departing from their earlier promise—they were not rejecting the measure. If the government had rejected the Lords' amendments and used the procedure of the new Parliament Act which gave retrospective powers to meet this contingency, they could have carried the Bill though all its Parliamentary

stages by the beginning of 1950. The Bill actually provided for vesting day to be "on 1st May, 1950, or some date thereafter not later than 18 months after the passing of the Act." Hence, there would have been no need to alter the wording of the Bill, or indeed to have postponed vesting day, since in contrast to the other nationalisation measures no new organisation of the firms in the steel industry was being created. The only step required prior to vesting day was the appointment of a Board for the Corporation set up to administer the firms nationalised.

Yet the government retreated and negotiated with the opposition in the House of Lords a postponement of the operation of the Act; no appointments were to be made to the Corporation until after October 1st, 1950, and vesting date was postponed until January 1st, 1951, or thereafter. The reason for this arrangement must have been that the government were unwilling to have Parliament the scene of repeated debates on steel on the very eve of a general election. They may also have wanted to leave themselves as much flexibility as possible in their choice of timing for the general election. Did that outweigh the dangers of a further *delay* in taking over steel? It so happened that by the time vesting day came along the steel industry faced serious production difficulties, which might not have taken the form they did if public ownership had been established in May of 1950. However, the character of the nationalisation measure adopted was a greater obstacle to turning national ownership into a real system of control than the delay of vesting day by a few months.

The failure to use the three years before the nationalisation Bill was first introduced to prepare the way for nationalisation imposed serious limitations on the form of nationalisation chosen. For instance, there was not the necessary basis of investigation of the structure of the industry which might have made a re-organisation to improve efficiency possible. Instead, as the Minister of Supply emphasised in the Second Reading debate, "the only difference after vesting date" would be "that ownership of securities would have changed hands." Strauss, indeed, argued against contemplating any change in the industrial structure—"We should avoid destroying widely varying units with international reputations." Such a limited conception of the purpose of steel nationalisation encouraged those who asked 'whether the change was necessary after all.

The nationalisation Bill, and the subsequent Act, had ether weaknesses which were particularly important as they gave the B.I.S.F. the opportunity to maintain control of the industry after vesting day. Essentially these weaknesses sprang from the fact that the Bill ignored the existence of the B.I.S.F. and of its central services, although this was the most important nucleus of power in the whole industry. The Iron and Steel Corporation was to take

over the assets of nearly a hundred of the major companies in the industry, but it was given no powers vis-a-vis the Federation. What was the Corporation supposed to do? Was it to disrupt the wide range of industrial services run by the Federation and to create its own instead (and thereby a divided industry)? Or was it to allow the B.I.S.F. to remain as the controlling body? Moreover, the Bill made no provision for the firms not nationalised. These had previously been subject to some measure of public control from the Iron and Steel Board, but after nationalisation they appeared to be left without any public control body to supervise them. Since the Corporation did not cover the entire industry, who was going to co-ordinate the industry as a whole?

Implementation of the Act, therefore bristled with difficulties. The most important of these was, nevertheless, the continued opposition of the B.I.S.F., and the attempt at implementation can best be described in terms of the successive acts of opposition by the Federation. Their constitutional significance we leave to the political theorists to consider. Here we are mainly concerned with demonstrating how a power group could successfully challenge a government in office for six years.

The Government Proposes, the Federation Disposes

The point has been made that in 1946 the B.I.S.F. agreed to nominate members for the Iron and Steel Board on the understanding that the Board would not prepare the way for nationalisation. Nevertheless, in October 1948 not only the B.I.S.F. nominees but also the "independent" members resigned from the Board, thus destroying it as a supervisory body. This action, apart from its character as a political demonstration following publication of the nationalisation Bill, may have been intended to push the burden of routine supervision of the industry back to the Ministry of Supply and thereby hamper its preparation for nationalisation.

This was followed, in November, by the setting up of an "Iron and Steel Act Joint Policy Committee" by the Federation, which brought into it the Joint Iron Council and the National Council of Associated Iron Ore Producers. Naturally, the Joint Policy Committee did not publicise its activities, but the B.I.S.F.'s Report for 1950 speaks of one of its major activities as "the submission to the Ministry of Supply of schemes for the segregation and consequent removal from nationalisation of those assets of companies liable to public ownership which are beyond the field of iron and steel production proper." Since one-third of the workers in the firms to be taken over were in such subsidiaries, this attempt was not unimportant. In the absence of any indication by the Labour government as to its policy towards the subsidiaries taken over, the Federation may have hoped to limit nationalisation to "iron and steel production proper."

The B.I.S.F. then gave its support to the House of Lords' amendments postponing vesting day, and the "second mandate" argument. In support of these arguments for delay the Executive Committee of the Federation gave the undertaking, prior to the 1950 election, that "in the event of the Government obtaining a clear majority at the General Election, they would co-operate with them in the establishment of the new Corporation so as to ensure that nationalisation damaged industry as little as possible" (Annual Report *SOT* 1950, B.I.S.F.) The subsequent return of a Labour government Avith a clear—albeit slender—(majority showed the value of such a promise. The undertaking was ignored, and a policy of unremitting hostility and non-co-operation pursued.

In July of 1950, the Minister of Supply met the leaders of the Federation and asked them to nominate individuals "who would be acceptable to their fellow industrialists" (!) to serve on the Board of the new Corporation to be set up by nationalisation. Strauss envisaged a Board of 11 members, two of them drawn from, the B.I.S.F., and two from the Trade Unions in the Steel industry. Sir Ellis Hunter and Sir Andrew Duncan, on behalf of the Federation, not only refused to put forward a list of nominees, but went further. According to the agreed minutes (published on September 21, 1950), Strauss, after asking whether it was the Federation's claim that a socialist government had to obtain victory at three successive elections before it could carry out the policy put before the electorate, enquired what would be the Federation's attitude if a member of the steel industry whom, he might invite to serve on the Corporation consulted the Federation.

The reply was that : "they would tell him he would be most unwise to join the corporation at this stage because of the uncertainties of the political situation and that by so doing he would forfeit the respect of the industry."

It is not difficult to understand the significance of such advice.

How did the Labour Government react to this "political strike" on the part of the Federation? At the meeting Strauss committed himself to make no immediate statement and to informing the Federation before he did! This seems a strangely humble reaction to what the Minister himself characterised (in the Commons debate in September, 1950) as "a political strike . . . concerted action . . . for the specific purpose of sabotaging an Act of Parliament . . . action so irresponsible and shocking that it deprives those who have taken it of any right to own and control this great industry."

This seems an apt enough judgement, particularly as Strauss stressed in his speech that the B.I.S.F. leaders had warned him that deprived of steel industrialists the Corporation would be unable successfully to plan the industry. Clearly, this was the motive of the Federation.

Yet, we have the strange situation that Strauss remained silent about this "irresponsible and shocking" action for two months, and when he did make his statement it was because Conservative members complained that he was not appointing to the Corporation members drawn from the industry. Indeed, he prefaced his statement with the words, "I was reluctant to enter into this aspect of the question." Is this, then; the way for a Labour government to meet a "political strike" of industrialists? The sequel is even more illuminating, though it seems to have gone unnoticed.

It has been said that Strauss envisaged a Board with four people on it representative of the industry, two industrialists, two Trade Unionists. One of the seats was offered to the General Secretary of B.I.S.A.K.T.A., Lincoln Evans, who refused it. Thereafter, Strauss did not offer a seat to any other Trade Union nominee from the steel industry, although the Executive Committee of B.I.S.A.K.T.A. passed a resolution in which it "regretted that the Minister had apparently made no effort to find a suitable person from within the principal trade unions in the industry" and expressed "its apprehension at the effect that this omission would be likely to have on the minds of our members." The Union Executive would have been far more regretful and the membership even more apprehensive if they had known what was happening to the seats on the Board that had so often been said to be reserved for Trade Union nominees.

In November, 1950, Mr. Hardie, the Chairman of the Corporation, asked the B.I.S.F. for nominations to fill four seats on the Board. Four! This presumably was the reward for action "so shocking and irresponsible that it deprives those who have taken it of any right to own and control this great industry." The Federation's Annual Report for 1950 states: "In discussions which started in November with representatives of the Federation. Mr. Hardie asked for assistance in finding four steelmakers who might join the Corporation by 15th February.

As recently as 14th September, 1950, the Federation had boasted in a public statement that it had "never deviated from its united opposition to the nationalisation of iron and steel."¹ It did not falter, even when tempted by all the advantages of placing four industrialists hostile to nationalisation on the Board. It rejected the sacrificial offering of what were once Trade Union seats. It refused again to co-operate in finding members for the Corporation. It merely offered—here it had everything to gain and nothing to lose—"to place at the disposal of the Corporation in a consultative capacity the President and three leading ?teelm?kers."

By vesting day, February 15th, 1951, the steel industry faced a critical shortage of raw materials. Consequently, while output had been rising until vesting day, it subsequently fell sharply and did not recover the February 1951 output until September 1952.

The situation merits more detailed treatment than there is space for here, but many steelworkers will remember how rapidly scrapyards were being emptied (sometimes without the scrap being graded) on the eve of nationalisation and some explanation is required.

By September 1950, if not earlier, the B.I.S.F. knew that an acute shortage of scrap was impending due to a sharp decline in scrap exports from Germany. German scrap had been coming in at the rate of 2 million tons a year, and it was mainly this that had sustained rising levels of steel output. In September 1950 a bilateral agreement with Germany limited German scrap export to 600,000 tons per year. This meant cutting back British steel output, for the scrap could not be replaced from home sources, and there were no additional supplies of iron available as the blast furnace programme in the Development Plan had not been carried out. Even by 1952, the "Economist" reported that only four out of the eleven blast projects "planned" had been completed. The "Economist" (February 23, 1952) in attributing this delay to the abundance of cheap scrap in 1949-50, was thereby by implication accusing the steel industrialists of appalling shortsightedness. Even had more blast furnace capacity been available, the B.I.S.F.'s failure to develop output of ore from the home ore fields would have led to another shortage, for in the post-Korea scramble for raw materials it was difficult to secure additional supplies of imported iron ore. Such were the fruits of the Federation's boasted "achievement" of the Development Plan.

The Federation, however, in this period seems to have concentrated on maximum steel output in the short run; prior to nationalisation. Considerable publicity was given to the achievement of production records in 1950 which rested on the shaky basis of depleted stocks of raw materials. Stocks of scrap, pig iron, and iron ore were run down by one million tons by vesting day. Thereafter, with stocks so heavily depleted, and scrap imports heavily reduced, production fell sharply.

Was the timing of the break in the level of production merely a coincidence? Was this just short-sighted management of a situation in which adjustment to a lower level of production was, from September 1950, known to be necessary? Was there no connection with the publicity given to the record steel output achieved by "private enterprise" in the late autumn of 1950? There is this much to be said to the credit of the Federation—or perhaps to the discredit of the Ministry of Supply—that there is no evidence of any criticism of this handling of the situation from the Ministry responsible for relations with the steel industry.

As to the control over the industry after vesting day, the comment of the "Economist" on the first report of the Iron and Steel Corporation is apt enough:—

"The Corporation, during its bare eight months of unfettered

operation, never succeeded in getting any practical control over the industry it owned, for it faced the adroit rearguard action conducted by the B.I.S.F.; and on November 13th (1951, J.H.) it was formally directed by the Minister of Supply to 'hold the position'."

A rearguard action which could be prolonged until the October election is worth examination. The Federation's strength sprang from the failure of the nationalisation Act to provide for the Corporation's relations with the Federation and its agencies. The Corporation's first report explains :

"In the absence of any provision in the Act denning the future scope of the Federation and in the political situation which existed throughout the period it was inevitable that negotiations for settling the relationship of the two bodies should be difficult and protracted. It became clear to the Corporation that until the political uncertainties were removed it would not be possible to settle the long term relations with the Federation." The Report goes on to explain that the Federation argued that "the individuals elected by the (Product) Conferences to the Council of the Federation, and nominated by the Council to the Executive Committee, are representatives of their own companies." Consequently, "the Federation felt unable to accept the claim that the Corporation should be represented at all meetings of the Executive Committee."

Strange that the architects of the Act had not foreseen these difficulties! The Corporation was ham-strung; its attempts to obtain representation on the Federation's Executive were rejected by people who were themselves directors of companies "owned" by the Corporation! The Corporation could only retreat. It could not embark on the dangerous policy of breaking the nationalised companies away from the Federation. Cabinet backing would not have been forthcoming for such an experiment; in any case the Corporation with its small staff was in no position to develop central services in competition with the Federation.

"The Corporation instructed the companies to maintain their participation in the Federation and to continue to facilitate the Federation's work. The Corporation did not seek to control the Federation."

In truth, the Corporation had no choice. Its defeat was total.

Conclusions

The history of the Federation's opposition has now been traced over a period of six years. The Chairman of United Steel at the 1948 company meeting had promised his Board would fight nationalisation "with all the means in its power." Whatever other promises were broken, that one was certainly kept by the steel industrialists. Were the actions we have described "unconstitutional" If so, then one would expect political leaders of both parties, and

constitutional "authorities" to condemn many of the actions described. Yet no voice was raised. If, however, a sectional business interest is entitled to use its industrial power to prevent the operation of legislation it dislikes, could not the same argument be used to justify industrial action by workers against political measures they oppose? Where then is the sovereignty of Parliament.?

Many socialists in the past, particularly Marxists, have argued that disputes over "the property question" would test the common assumption of our ability in this country to handle social change peacefully. Is this a case in point? The history of steel nationalisation seems to suggest that we cannot glibly dismiss the doubts of those who believe that British industrialists might use their industrial power and political influence to prevent the loss of that power. Nevertheless, such an argument can be over-stressed. We should not neglect the fact that the greatest source of strength the B.I.S.F. had was the disunity and weakness that marked the Labour government's handling of steel nationalisation. If the matter had been tackled resolutely and at the right time, the Federation's opposition might have had little more influence on events than that of the Mining Association faced with coal nationalisation.

Thus for the Labour movement it is important to study the weakness displayed by a Labour administration in tackling such a major power group. From 1946 on, when the government capitulated on a matter of major policy to the B.I.S.F., the strategy adopted was to seek to compromise with, to reach some measure of agreement with, precisely those forces most hostile to nationalisation. Naturally, the Federation was increasingly emboldened by such tactics. One is forced to ask whether the failure of the Nationalisation Act to mention the Federation, or to give the Corporation any powers in relation to it, is connected with this compromising spirit?

It may be argued that this approach on the part of the government was partly to be explained by the difficulty of working caused by the coldness of the leaders of the main steel Trade Unions towards nationalisation. The lack of enthusiasm was indeed remarkable. For instance, "Man and Metal," the I.S.T.C. journal, greeted vesting day in its industry with resounding silence. Not by one word anywhere in the journal did the editor indicate that the major part of the industry had been nationalised. The same lack of comment or even of any information on the subject is to be found in the issues of the journal for months preceding, and for months following, vesting day. In contrast de-nationalisation was greeted with an editorial:—

"We may dislike but we cannot resent the Government's decision to go ahead "with their proposals. To resent such a result would be to resent the operation of our democratic processes."

It would not, however, be true to argue that steelworkers

generally shared the coolness found among some of the leaders. Nationalisation was (and is) an accepted part of Union policy, and the leadership had in their official capacity to keep within the bounds this imposed. If the general but vague support for steel nationalisation among the members did not take any coherent shape this was in part due to the limited opportunities the constitution of a Union like B.I.S.A.K.T.A. affords to its members to express their views. Even more, limited understanding as to what was happening over steel nationalisation was the product of the general avoidance of either information or comment by Union journal and Union officials.

But we have seen that although such leadership was not repudiated, the Executive Committee of B.I.S.A.K.T.A. had been anxious to have people drawn from the unions in steel on the Board of the Corporation, and in this they certainly reflected the general sentiment among the workers. It was the Minister of Supply who held back, although this question really had a symbolic importance to the workers in the industry. Why should we expect trade unionists to display great enthusiasm when there is no change in management, no ejection of the old power groups, no improvement in the status of the workers, no attempt to involve the trade unions in the development of the industry? The fact that the steelworkers had not reached the stage of putting forward definite demands on these matters did not prevent their being disappointed when they found—no change.

It is useful at this stage to draw the threads together by listing the main weaknesses involved in the steel nationalisation Act and the way in which the government handled it. These weaknesses are not inherent in nationalisation, but they have to be recognised and overcome if steel nationalisation is to succeed in the future. The main weaknesses we have noticed were:—

- (a) There was serious delay in the parliamentary stages of steel nationalisation, and subsequently of vesting day. This was particularly important since a reforming government is weaker in the latter part of its life, since considerable and entrenched opposition had to be overcome among the power groups in the industry, and since delay weakened the arguments being used to justify nationalisation.
- (b) Nationalisation was not based on previous thorough investigation of (the structure and working of) the industry. This could have been done through the 1946 Steel Board, but not doing it was the price (too high!) paid for B.I.S.F. participation in the Board.
- (c) The nationalisation Act ignored the real centre of power in the industry altogether—the B.I.S.F.—and left it intact, despite the fact that this greatly strengthened the

bargaining position of what was the main centre of opposition, and indeed prevented the transfer of power to the Corporation taking place.

- (d) The Company structure was left untouched and largely uncontrolled—a small office was to "control" the operation of firms employing 300,000 workers. This left unimpaired the pull of the higher management—strenuously opposed to nationalisation—over the operational management.
- (e) Nationalisation did not envisage, and in the form adopted positively hindered, re-organisation and the improvement of efficiency. In particular it left the co-ordination of the industry, and the running of all central services, and the Industry Fund, in the hands of the B.I.S.F. To challenge this would have involved a disruption of these central services.
- (f) The firms in iron and steel which were not nationalised had no provision made for public control over them, although earlier they had come under the supervision of the Iron and Steel Board.
- (g) No policy was developed as to the future of the many subsidiary plants and companies taken over by the nationalisation Act but operating in trades other than iron and steel making.
- (h) The (nationalisation Act left unaltered the status of the workers both within the companies and in the industry as a whole. There was no attempt to involve them in what should have been a major shift of industrial power; there was no development of a progressive policy on conditions, security, consultation, etc.

Clearly it is not enough for the Labour movement merely to demand the re-nationalisation of steel. We have to make clearer what is to be done in the future, and why we advocate it.

Part II. THE FUTURE

The Case for Nationalisation

Is there, in the economy of the 1960s, a case for nationalising the steel industry? The arguments used in the immediate post-war period were still dominated by interwar conditions, by the violent instability the industry had shown in the past. What has been post-war experience of private ownership of British steel?

The British steel industry should be criticised for its failure in the post war years to handle economic growth effectively. Private ownership in steel as a limiting factor standing in the way of more rapid growth of the economy. It represents too a highly un-

desirable concentration of power in the hands of people and organisations not adequately responsible to the community.

To take up the question of power first. We have already described the organisation of the giant steel combines, and the concentration of power in the higher committees of the B.I.S.F. The Boards of many of these combines are not dominated by industrial managers, plant managers, technicians, but by a power elite. To take United Steel as an example. Although controlling over a dozen major plants, the Board is not mainly composed of people involved in the operational management of these plants. It includes the chairmen of three other steel combines as big as United Steel, two other chairmen of very large companies, and between them the directors hold scores of other major directorships, including four Bank directorships. Not only are seven of the directors on the Federation's Executive, but two of them are part-time members of the Statutory Iron and Steel Board set up by the Conservative government to "supervise" the industry and to promote "competitive conditions."!

Only through nationalisation can a decisive shift of power in the industry be secured. What is needed is not just an alliance of these power groups with one or other government department, but a radical breaking up of such groups. Major questions of policy, which in the case of steel are going to affect the well-being of the whole community, need to be decided by people responsible to the whole community. Direction of companies needs to be changed from concentration on power objectives to concern with operational management. The workers in the industry, who are at the moment without influence on its conduct or future, at best the subjects of a paternal management, need to be involved in the discussion of industrial policy and of company development. In nationalising steel we should seek to democratise decision taking in the industry.

The post-war years have demonstrated the conflict between public interest and the interest of the steel industrialists in the handling of economic growth. An accelerated growth of steel is needed to match the needs of our large industrial investment programmes—particularly those of the fuel and power industries, to meet the expanding demand of other metal using industries, and to contribute to our export trade. What is needed is long-term planning of output capacity to match community needs, modernisation and the replacement of old high-cost plant, and some reserve of capacity to handle the possibility of growth in industrial demands more rapid than that expected. As a community, too, we face a similar problem to that in the case of fuel and power, of seeking to increase the supply coming from our own national resources to check the growth of our import bill. Such long-term programmes can only be adequately handled if they are a community respon-

sibility, if vested interests are not allowed to stand in the way.

The B.I.S.F.'s development policies have been extremely damaging to the economy. Their failure to carry through the whole of the first Development Plan has already been described, together with its serious effects in 1951-52. In that first post-war period, the achievement of higher steel production owed a good deal to the acceptance of a continuous working week by the steel melters, whose action helped to make up some of the deficiencies in the investment programmes of the steel firms. When it came to discuss the second Development Plan (1953-58) the Federation again demonstrated its restrictive mentality. Originally the B.I.S.F. aimed at an increase of only 25% over 1952 by 1958, a rate of increase that finally needed to be doubled to catch up with national needs. At the same time, they argued vehemently against providing any reserve of capacity. In their article "How Much Steel-making Capacity?" (September 1953)—an example of special pleading that has to be read to be believed—they argued that a reserve of capacity was unnecessary as development could be adjusted if "demand were to show a persistent tendency to diverge from the estimates." They neglected to mention the time-lag involved before a shortage of steel is overcome:—(a) how long does it take to recognise "a persistent tendency", (b) how long does it then take to build the new capacity? The Federation would rather see persistent shortages and all their capacity, including obsolete plant that should have been retired, operating fully, than meet the national need by providing adequate capacity. It is only necessary to read recent reports of the supervisory Iron and Steel Board, sympathetic as it is to private ownership, to uncover a whole series of shortages of steel products, the result of inadequate development. If expenditure on major development schemes is examined it is found that expenditure on these has been (in constant prices) significantly lower since 1952 than in 1950-52, and reckoned per ton of current output, major development has been running since 1953 at only two-thirds of the 1950-52 level.

Persistently since the war the steel industry has neglected the foreign trade and balance of payments aspect of its development plans. On the one hand, its restrictiveness and reluctance to expand capacity fast enough has meant that there has been little steel available for direct export. The steel industry must be unique in British manufacturing industry as the only industry that has never in the post war years planned to expand its exports. The plan is always the same, 3 million tons per annum, but it is seldom achieved. Year after year reports on the steel industry refer to the continuation of "voluntary restraint" on steel exports, or the imposition of licensing to restrict exports compulsorily. More fruits of inadequate growth. At the same time, the industry has been equally consistent in restraining the expansion of production on

home iron ore fields which alone can reduce the growth in our dependence on imports of raw materials for steelmaking. In the first Development Plan the Federation got as far as projecting a new steel plant on a home ore field. It was never built. The second Plan did not even try. The Plan for 1953-58 provided for an increase of steel production away from the home ore fields (i.e. based on imported ore) of 30%, but on the home ore fields an increase of only 11%. No new blast furnaces at all were projected on the country's biggest ore field, Northants. The Iron and Steel Board has been begging ever since 1953 for an increase in the output of home ore which was being deliberately restricted by the firms concerned. The Federation's system of levies has had the result over the whole period of penalising the producer of steel from home ore to help subsidise the production of steel from imported ore. (See note below).

Let us take the results of these policies in one particular year. In 1955 the steel industry's contribution to our balance of payments was a net deficit of £33 million. If there had been adequate development of steel capacity, and of the home ore fields, its contribution as an industry should have been a net export surplus of over £100 million. In one year alone, inadequate and misdirected "development" of the steel industry made our economy forego about £150 million of much needed foreign exchange. Time for a change !

Not only has steel development been inadequate it is also becoming increasingly costly to the community. The B.I.S.F. believes that the bulk of new investment should be financed by soaking the current consumer. This has the pleasant result for steel shareholders of continual expansion of the real capital without an equivalent expansion of the equity—the certainty of long-term capital gains. Since 1953 the steel industry has intimated that it would be prepared to contemplate a rather higher rate of growth than it originally wanted provided profit margins were widened sufficiently to provide the incentive. The Iron and Steel Board has had to concede to the B.I.S.F. the price policy the latter wanted. There were two reasons for this. Firstly, lacking power to insist on development it could only lead the industry in the direction of more rapid growth by the inducement of wider profit margins. Secondly, in order that the Iron and Steel Holding and Realisation Agency could sell back the equity of steel firms to private investors without making a heavy capital loss, it has had to offer considerably increased dividends. Consequently, the "Economist's" periodic analyses of company profits show that between 1953 and 1955 profits per ton of output in steel increased 40%. This was what the Iron and Steel Board called "an upward revision of the margins previously obtaining in order to bring them into line with the heavy capital investment programme."

Such is the price paid for the return to private ownership, for the "incentives" of "private enterprise."

An apt comment on the inadequacy of steel output to satisfy the demands of British industries is provided by the decision of the big engineering firm of Tube Investments to safeguard its steel supplies by becoming itself a major steel producer. It has taken the opportunity of the re-sale of steel firms to private ownership to buy up cheaply some obsolete steel plants; for £12 million, it has secured capacity of 1 million ingot tons. Even assuming this is high cost production, its steel will cost 10% less than the present inflated prices it would otherwise be charged. But let the chairman of TI speak for himself.

"TI's primary consideration in becoming steel makers was to secure adequate supplies of carbon steel billets for seamless tubes, but the very serious shortage of alloy steel billets, already involving high premium imports, would to some extent fashion the development of TI's steel activities."

"If justification were needed for TI becoming steelmakers Round Oak had supplied them during the year almost 100,000 tons of tube and structural steel for the group, which could not have been obtained from British makers, nor probably from overseas, even at high premiums." (Economist, Nov. 17, 1956).

It is to be hoped the B.I.S.F. like their new member, and his reasons for joining.

It is not proposed to devote space to considering whether the Iron and Steel Board set up by the Conservative government represents an adequate system of public control rendering nationalisation unnecessary. Apart from what has been said about it already, which should be enough to scotch the idea, the enquiring reader is invited to study the composition of the Board's membership, and (to quote the "Economist") its "considerably restricted" powers. It is worth mentioning that the Board has no power to ensure that the companies carry out the development it thinks necessary. It has power to withhold consent from development where it considers new development would "seriously prejudice" efficiency. This is of course ludicrous. Moreover there is no evidence of any need to hold steel producers back from development!

What is to be done?

The proposals that follow are not meant to be a Utopian blueprint, but a basis for discussion now. There is much to be said for ensuring adequate discussion of, and some measure of agreement in the Labour movement on, the outlines of a programme of public ownership and control of steel, before the advent of a Labour government. The Labour movement should stop being afraid to put the

question of steel nationalisation to the electorate (ever since the 1960 election it has been the subject most Labour candidates avoided), there is no need to be ashamed of seeking to curb the power of the power groups that dominate a vital industry. If we can learn anything from Conservative de-nationalisation it is the advantage of moving swiftly. The Conservatives had their de-nationalisation agency and control board functioning in less than two years from their return to office. That allows time for the flexible handling of the re-sale of the nationalised companies. But such speed of action rests upon agreement as to what to do, why it is being done, and how to do it. This agreement the Labour movement should now seek. The subject has been treated as untouchable for too long.

The suggestions listed briefly below are intended to overcome the main difficulties the earlier approach to steel nationalisation involved; to break up the main power groups in the industry; but to avoid an extreme concentration of power in the hands of the state.

- (a) Transform the B.I.S.F. into a Development Council, into an instrument of public control.

the organisation of the B.I.S.F. in the 1930s marked a major turning point in the history of British steel. It made possible the co-ordinated development of the industry as a whole; it has led to the building up of a network of services to the industry that are of great value. It is important, in destroying its monopoly character which is the real fetter on further development, to preserve all the positive advantages of its organisation.

What needs changing is the lack of accountability of this organisation to the community, to the steel workers, to steel consumers. At the same time, we should remember that the Federation has been the main organiser of political and industrial opposition to nationalisation, and would be so again. An outside control body is largely ineffective.

Therefore a Labour government should transform it at once by statute into an organ of public control, a Development Council. This would mean unseating the present Executive Committee and members of Product Groups, and replacing them by committees made up of, Ministry of Power nominees; representatives of consuming industries; representatives of the Trade Unions in steel; representatives of the publicly owned firms in steel, and representatives of the privately owned firms.

The question of the powers of the Ministry of Power over the new Development Council, and of the powers of the Council over firms in the industry, would have to be worked out, but there seems no reason why the Minister should not have the same power to give general directives on industrial

policy, particularly development and prices, that he has in relation to nationalised industries.

Such a move would solve immediately three main problems involved in the earlier attempt at steel nationalisation, namely, the use of the B.I.S.F. as the centre of opposition to nationalisation, the public control of the central services of the industry and of development, and public control of firms not nationalised. At the same time extreme centralisation of authority in the hands of the state or of a nationalised Corporation would be avoided.

- (b) Set up a Commission, to make a thorough study of the structure and methods of control in the industry.

Such a commission would have to have plenary powers to investigate the practices in the industry, on the lines of a monopolies commission. It would have the task of recommending the general lines of re-organisation of companies, and local co-ordination of plants where this would increase efficiency. Such a commission would issue an interim general report, and then a series of reports on specific questions referred to it, to assist the planned and systematic re-organisation of the industry. •

The setting up of such a Commission would assist the work of the Nationalisation Agency which is also envisaged (see (c) below) and would free it in the first period of nationalisation to concentrate on the actual administrative details involved in taking over and re-shaping firms. Later on, the Commission, could be taken over into the Agency as a specialist department investigating and improving administrative efficiency.

- (c) Set up a Nationalisation Agency with general powers of taking over the major firms in the industry.

The take over need not involve a single vesting-day as has been the practice in the past. It could be handled over a period of time to avoid "indigestion" on the part of the Agency, that is to enable it to re-organise the Companies as it brings them under its control.

The major firms in the industry should be brought into public ownership, and not merely a "sector" of them, in order to achieve a policy of planned expansion of development carried through without high profit margins.

The main "power" directors in the Companies taken over should be retired. In general the Boards of Companies should be strengthened by the addition of operational management and technical and research staff. There should then be no reason for operational management to desire a return to private ownership. At the same time there is no reason why experi-

ment should not be made with various forms of workers' representation on the Company Boards.

At the moment, the Company structure encourages inefficiency in a number of ways. Firms working on similar processes in the same neighbourhood work in isolation from one another; research is carried on competitively, and there is considerable overlapping and waste consequently; neighbouring plants do not obtain the economies that come from integration of transport systems, or of power or by-product production. Long uneconomic hauls are made between plants which are linked merely because they are in the same combine. The Nationalisation Agency would have the task of eliminating these inefficiencies, and (as we have seen) the aid of the Commission in analysing them,

- (d) Subsidiaries of steel firms should be grouped by industry.

The subsidiaries of steel firms make up a sizeable part of the total capacity of branches of engineering such as bridge building, constructional engineering. If these were grouped together by product produced they could be formed into large state-owned combines offering competition to privately owned firms in engineering. This would provide some check on efficiency and on monopoly practices in the private sector. These combines could be put under the general supervision of a government department.

It would not be easy to reverse such changes. Although firms in manufacturing would certainly not relish the proposed use of steel subsidiaries, and these might therefore be vulnerable to a return to private ownership, they would gain considerably from the organisation envisaged for the steel industry. They would find a steel industry prepared to maintain an adequate rate of expansion without charging consumers to finance this growth out of profit margins. They and the Trade Unions would certainly wish to maintain their place in the Development Council that would replace the B.I.S.F. There would be no reason for the operational and technical management in the industry to relish a return to private ownership. Perhaps, after all, there would be few to weep for the demise of the present power elite in steel. The steel barons can be isolated, and they can be defeated.

This is not to say that steel nationalisation will take place as part of a wider "transition to Socialism". The recent Labour policy statement "Industry and Society" makes it clear that the Party is not yet ready to do more in the field of public ownership than defend the status quo—albeit the status quo of 1950, one that includes steel nationalisation. The policy statement on "Public Enterprise" complements this attitude by its broad acceptance of the present organisation and functions of the nationalised industries.

As was pointed out at the beginning of this article, the nationalised industries serve as stabilisers to a predominantly privately owned economy. They serve private industry; they do not challenge it.

Yet the successful nationalisation of steel is not a matter of indifference to the Socialist. The Labour movement does not appear to be ready yet to embark on a major transformation of our economic system, on a "transition to socialism"; But nationalisation of steel is a pre-requisite for such a change. For instance, the engineering worker who reads this will see how steel nationalisation prepares the way for a "Plan for Engineering". The "mixed economy" appears at the present to be economically and politically viable in Britain. Nationalisation of steel, however, while not in itself transforming the system, can be made to involve a shift of power that will be of great benefit to the Labour movement in the struggles that lie ahead.

NOTE — The long standing reluctance of the steel industry to promote an increase in steel production based on home ore in preference to using coastal sites and imported ore may appear strange to readers as it might be thought to be in the interests even of a privately owned industry to exploit these resources of cheap iron ore. In the inter-war years the explanation lies in the rigidity imparted to the structure and location of the industry by the cartel system operating most of the time with considerable excess capacity. Apart from the rigidity of production quotas, refusal to let producers sell at prices below those fixed by the cartel limited the expansion of new producers. In the post-war years the explanation probably lies in the higher capital costs of blast furnace projects on home ore fields; since these use lean home ores, with low ferrous content, large pre-treatment, sintering, plants are needed to obtain high performance from the blast furnaces. Although the actual costs of production are lower in iron and steel plants using home ores, this is offset for the individual producer by the Industry Fund levy, and transport costs of steel products will be higher in a plant sited away from the large industrial consumers of steel. Although the national interest requires that the most rapid expansion should be on home ore field sites, the industry holds back. The rigidity of the pre-war cartel system is really carried over into the post-war years in the shape of the proportional development of all the big steel combines, mainly on existing sites, instead of the accelerated development of home ore-field sites that is needed.